CONSOLIDATED AMENDED CLASS ACTION COMPLAINT

Plaintiffs, individually and on behalf of all others similarly situated, by their undersigned attorneys, for their consolidated and amended class action complaint, allege the following, upon personal knowledge as to themselves and their own acts, and upon the investigation, as detailed in paragraph 9 below, made by and through their attorneys:

I. NATURE OF THE ACTION

1. Plaintiffs bring this action as a class action on behalf of themselves and all other persons or entities who purchased the common stock or call options of defendant CHS Electronics, Inc. ("CHS" or the "Company") during the period April 1, 1998 through March 22, 1999, inclusive (the "Class Period"), to recover damages caused to plaintiffs by defendants' violations of the federal securities laws.

2. During the Class Period, CHS, the third largest distributor of computer goods in the world, appeared to the investing public to be a company on the rise. Fueled by a dizzying trail of acquisitions and high demand for its products in Latin America and Europe, CHS reported "on track" sales of $10 billion in June of 1998 with sales of $20 billion easily
in sight. CHS's first-quarter sales in 1998 were reported as doubled and its profits tripled from the previous year.

3. On April 7, 1998, CHS moved into the number 320 spot on the Fortune 500, and was included on Fortune's list of companies with the fastest profit growth in the nation. Further evidencing CHS's assent, the Company moved its stock from the NASDAQ to the New York Stock Exchange.

4. Throughout the Class Period and despite the fact that computer industry stalwarts were complaining of a sharp slowdown throughout the computer industry, defendants bragged about the Company's financial performance, reporting dramatic increases in net sales, earnings and gross profit. The Company further forecasted tremendous short term growth. In fact, however, the Company's financial statements were falsely reported during the Class Period as a result of defendants' fraudulent scheme including the recognition of income from phantom vendor rebates, discounts, price protection and credits which defendants knew were never earned.

5. In response to defendants' false earnings reports, the price of CHS common stock traded at artificially inflated levels during the Class Period and reached its high of $19 3/4 per share on January 8, 1999.

6. On February 24, 1999, the first flaw appeared in the otherwise rosy financial portrait painted by defendants. The Company revealed that CHS had discovered so-called "discrepancies" related to the amount of vendor incentives recorded in its financial statements. The Company allayed investors' fears, however, by stating that the discrepancies may well result in higher earnings.
7. On March 22, 1999, however, CHS disclosed that its vendor rebates had, in fact, been materially overstated in the second, third, and fourth quarters of 1998 and that its financial results for these quarters would have to be restated downward significantly. Profits for 1998 were overstated by approximately 50%. The Company has admitted, after an investigation performed by its independent auditors and outside attorneys, that the overstatement of earnings was due, in significant part, to the improper recognition of rebates which were supported with "invalid documentation" and that the senior executive responsible for the fraud "resigned." CHS further disclosed that it would likely close numerous redundant warehouses and initiate a comprehensive cost cutting program including consolidations, closings and restructuring of operations. As alleged herein, defendants knew throughout the Class Period of the need for such closings and consolidations, but failed to disclose these facts to investors.

8. After the March 22, 1999 disclosures revealing the nature and magnitude of defendants' fraud, the price of CHS common stock plummeted 35% in one day of trading. Commenting on the stock's decline, Robert C. Damron, an equity analyst with Cleary Gull Reiland & McDevis downgraded the stock from a "buy" to a "hold/reduce" stating: "There was fraud, and when I see fraud I walk away."

II. PLAINTIFFS' INVESTIGATION

9. Plaintiffs' allegations set forth herein are based on a thorough investigation, conducted by and through their attorneys, of all reasonably available sources of information, including, but not limited to, publicly available relevant information, in order to obtain
information necessary to plead Plaintiffs’ claims with particularity. The nature and scope of
Plaintiffs’ efforts to obtain the information needed to plead with particularity included:

(a) Reviewing CHS’s filings with the SEC during the relevant time period, including, but not limited to, the Company’s Annual Reports on Form 10-K for fiscal years 1997 and 1998; and the Company’s Quarterly Report on Form 10-Q for the first, second and third quarters of fiscal years 1997 and 1998 (and any amendments thereto).

(b) Reviewing the Company’s press releases and other publicly disseminated statements made by the Company during the relevant time period;

(c) Reviewing reports, articles, and discussions concerning the Company and the subject matter of this Complaint contained in the print and electronic media and computer data bases;

(d) Reviewing reports of securities analysts and investor advisory services; and

(e) Conducting interviews of relevant witnesses, including former employees of the Company.

Except as alleged in this Complaint, the underlying evidence relating to defendants’ misconduct and the particulars thereof, including the investigative findings of the Company’s auditors, are not available to Plaintiffs and the public, and lie exclusively within the possession and control of defendants and insiders of CHS, thus preventing Plaintiffs from further detailing defendants’ misconduct.
III.

JURISDICTION AND VENUE

10. This action arises under Sections 10(b) and 20 of the Securities Exchange Act of 1934 (the "1934 Act"), 15 U.S.C. §§ 78j(b) and 78t, and the rules and regulations promulgated thereunder, including SEC Rule 10b-5, 17 C.F.R. 240.10b-5. Jurisdiction is based upon Section 27 of the 1934 Act, 15 U.S.C. § 78aa, and 28 U.S.C. § 1331.

11. Venue is proper in this District because certain of the defendants are residents of this District and many of the acts complained of occurred, at least in part, in this District.

12. In connection with the acts and conduct complained of, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including the mails, interstate telephone communications, and the facilities of the national securities exchanges.

IV.

THE PARTIES


14. Defendant CHS purports to be a leading international distributor of microcomputer products, including personal computers, peripherals, networking products and software. The Company is incorporated in Florida and has its principal executive offices at 2000 N.W. 84th Avenue, Miami, Florida, 33122.

15. Defendant Claudio Osorio ("Osorio") is the founder of the Company’s current business and operations, has served as the Chairman of the Board and Chief Executive
Officer of the Company since 1993. Osorio made materially false and misleading statements to the investing public during the Class Period as alleged herein.

16. Defendant Craig Toll ("Toll") has been, until recently, the Executive Vice President - Finance of the Company since August 1997 and has been the Chief Financial Officer of the Company since 1994 and its Treasurer since June 1995. Toll signed the materially false and misleading Quarterly Reports on Form 10-Q for the second and third quarters of fiscal year 1998, as alleged herein. On November 8, 1999, the Company issued a press release announcing Toll "left the company to pursue other interests."

17. Defendant Antonio Boccalandro ("Boccalandro") has been the Chief Officer of Mergers and Acquisitions since August 1997 and has been a director and the Secretary of the Company since 1997. Boccalandro signed the materially false and misleading Quarterly Reports on Form 10-Q for the second and third quarter of fiscal year 1998, as alleged herein.

18. Defendants Osorio, Toll and Boccalandro are sometimes hereinafter referred to as the "Individual Defendants."

19. Because of the Individual Defendants' positions with the Company, they had access to the adverse undisclosed information about its business, operations, financial statements, business practices, finances and business prospects via access to internal corporate documents (including the Company's operating plans, budgets and forecasts and reports of actual operations compared thereto), conversations and connections with other corporate officers and employees, attendance at management and Board of Directors meetings and committees thereof and via reports and other information provided to them in connection therewith.
20. It is appropriate to treat the Individual Defendants as a group for pleading purposes and to presume that the false, and misleading information conveyed in the Company's public filings, press releases and other publications as alleged herein are the collective actions of the narrowly defined group of individuals listed above. Each of the above officers and/or directors of CHS, by virtue of their high-level positions with the Company, directly participated in the management of the company, was directly involved in the day-to-day operations of the company at the highest levels and was privy to confidential proprietary information concerning the Company and its business, operations, financial statements, business practices, finances, and financial condition, as alleged herein. Said defendants were involved in drafting, producing, reviewing and/or disseminating the false and misleading statements and information alleged herein, were aware or in a severely reckless manner disregarded that the false and misleading statements were being issued regarding the Company and approved, ratified and/or failed to timely correct these statements, in violation of the federal securities laws.

21. As officers and/or directors and controlling persons of a publicly-held company whose common stock was, and is, registered with the SEC pursuant to the 1934 Act, trades on the New York Stock Exchange, and is governed by the provisions of the federal securities laws, the Individual Defendants each had a duty to disseminate promptly accurate and truthful information with respect to the Company's financial condition and performance, operations, business, business practices, management, earnings and business prospects, and to correct any previously-issued statements that had become materially misleading or untrue, so that the market price of the Company's publicly-traded securities would be based upon truthful and accurate information. The Individual Defendants'
misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

22. The Individual Defendants participated in drafting, preparing, and/or approving the various public, shareholder and investor reports and other communications complained of herein and were aware of or in a severely reckless manner disregarded the misstatements contained therein and omissions therefrom, and were aware of their materially false and misleading nature. Because of their Board membership and/or executive and managerial positions with CHS, each of the Individual Defendants had access to the adverse undisclosed information about CHS's business practices, prospects and financial condition and performance as particularized herein and knew or in a severely reckless manner disregarded that these adverse facts rendered the positive representations made or adopted by the defendants about the Company, materially false and misleading.

23. The Individual Defendants, because of their positions of control and authority as officers and/or directors of the Company, were able to and did control the content of the various SEC filings, press releases, and other public statements pertaining to the Company during the Class Period. Each Individual Defendant was provided with copies of the documents alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or to cause them to be corrected. Accordingly, each of the Individual Defendants is responsible for the accuracy of the public reports and releases detailed herein and is therefore primarily liable for the representations contained therein.

24. Each of the defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of CHS securities, by
disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme: (i) deceived the investing public regarding CHS's business, its finances and the intrinsic value of CHS securities; and (ii) caused plaintiffs and other members of the Class to purchase CHS securities at artificially inflated prices.

V.

CLASS ACTION ALLEGATIONS

25. Plaintiffs bring this action as a class action under Rules 23(a) and 23(b)(3) of the Federal Rules of Civil Procedure on behalf of a class consisting of plaintiffs and all other persons or entities who purchased the common stock or call options of defendant CHS during the period April 1, 1998 through March 22, 1999, inclusive. Excluded from the Class are the defendants herein, and the officers and directors of CHS and the members of their immediate families, any entity in which any of the defendants has a controlling interest or is a parent or subsidiary of or is controlled by the Company and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors and assigns of any of the excluded persons or entities (the “Class”).

26. The Class is so numerous that joinder of all members is impracticable. As of March 18, 1999, approximately 56 million shares of CHS common stock were outstanding. There are believed to be thousands of persons who purchased CHS securities during the Class Period. CHS common stock is listed and traded on the New York Stock Exchange under the symbol “HS.”

27. Plaintiffs’ claims are typical of the claims of the other members of the Class, as plaintiffs and all members of the Class sustained damages arising out of defendants’ conduct in violation of federal law as complained of herein.
28. Plaintiffs will fairly and adequately protect the interests of the members of the Class and have retained counsel competent and experienced in class action and securities litigation.

29. A class action is superior to other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual members of the Class may be relatively small, the expense and burden of individual litigation make it impossible for the members of the Class individually to redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

30. 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:

(a) whether the federal securities laws were violated by defendants’ acts as alleged herein;

(b) whether statements disseminated by defendants to the investing public and to Class members during the Class Period omitted and/or misrepresented material facts about the business, operations, prospects and financial condition of the Company;

(c) whether defendants acted willfully, knowingly, or in a severely reckless manner in omitting and/or misrepresenting such material facts;

(d) whether defendants’ non-disclosures and/or misrepresentations constituted a fraud on the market by artificially inflating the market price of CHS securities during the Class Period; and
whether the members of the Class have sustained damages and, if so, what is the proper measure of such damages.

VI.

FRAUD ON THE MARKET PRESUMPTION

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

(a) Defendants made public misrepresentations or failed to disclose material facts regarding CHS’s financial results and operations during the Class Period;

(b) The omissions and misrepresentations were material;

(c) The common stock of the Company traded on the NYSE, an efficient and open market;

(d) The misrepresentations and omissions alleged would tend to induce a reasonable investor to misjudge the value of the Company’s securities;

(e) Plaintiffs and the members of the Class purchased their CHS stock between the time defendants failed to disclose or misrepresented material facts and the time the true facts were disclosed, without knowledge of the misrepresented facts; and

(f) CHS common stock traded on the NYSE and was followed by numerous financial analysts, including, inter alia, NationsBanc Montgomery Securities, Cleary Gull, Raymond James, and Lehman Brothers. The price of CHS’s stock reflected the effect of news disseminated in the market.
32. Based on the foregoing, Plaintiffs and the members of the Class are entitled to the presumption of reliance upon the integrity of the market.

VII.

THE SAFE HARBOR PROVISION IS INAPPLICABLE

33. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this complaint. The statements alleged to be false and misleading herein all related to then-existing facts and conditions. In addition, to the extent certain of the statements alleged to be false may be characterized as forward-looking, they were not adequately identified as "forward-looking statements" when made, there were no statements made with respect to any of those representations forming the basis of the complaint that actual results "could differ materially from those projected," and there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor is intended to apply to any forward-looking statements pleaded herein, defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the particular speaker had actual knowledge that the particular forward-looking statement was materially false or misleading, and/or the forward-looking statement was authorized and/or approved by an executive officer of CHS who knew that those statements were false when made.
VIII.

SUBSTANTIVE ALLEGATIONS

A. Factual Background

34. CHS purports to be a leading international distributor of microcomputer products, including personal computers, peripherals, networking products and software. As of December 31, 1998, CHS operated in 46 countries primarily in Western Europe, Eastern Europe and Latin America, and serviced an active customer base of approximately 150,000 resellers. In 1998, approximately 80% of the products sold by CHS were manufactured by 20 equipment and software vendors, including Hewlett-Packard, IBM, Microsoft, Seagate, Compaq, Intel, Quantum, Western Digital, 3Com, Toshiba, Acer, Yakumo, Epson and Sun.

35. According to the Company, CHS operates under a decentralized structure in which managers familiar with the local customs and needs of a particular country are delegated the authority to make daily decisions necessary to satisfy the particular demands of their respective markets.

36. The Company’s business model purportedly involves focused distribution through locally managed full service facilities integrating warehousing, purchasing, sales, credit and accounting services which CHS claims provides it with certain competitive and operating advantages.

37. The Company’s explosive growth is attributable to a dizzying trail of acquisitions embarked upon by the Company between 1994 and 1998. Between 1994 and 1998, the Company’s reported net sales increased from $359 million to $8.5 billion.

38. One of the acquisitions was particularly significant. On August 8, 1997, CHS acquired Karma International S.A. for $74 million in cash and $86 million in unregistered
CHS common stock (the "Acquisition"). Karma purchases computer components from international suppliers and sells them in local markets throughout Europe and Latin America. While Karma's business was substantially similar to that of CHS, Karma had developed a highly efficient centralized purchasing system (the "CPS").

39. Under the CPS, Karma has its primary business operations in Istanbul, Turkey and a warehouse/distribution center in Holland, to which all goods are delivered and then shipped to customers. The principals at Karma's various subsidiaries were so-called "partners" with equity interests in Karma. The CPS resulted in explosive growth at Karma because of its efficiency and cost savings. At times, Karma was able to and did rotate its inventory a few times a month and had a 70% return on investment. CHS wanted to establish the CPS for all of its operations and, as a result, viewed Karma as a highly attractive acquisition target. Prior to the Acquisition, CHS conducted business on a country-by-country basis.

40. After the Acquisition, several of Karma's senior partners left, while certain directors left or were fired. Although Karma's unsophisticated systems worked well under the control of its experienced personnel, the departure of key employees after CHS took over left CHS unable to operate Karma's systems effectively. Throughout 1998, several key personnel left Karma.

41. Upon acquiring Karma and other companies, CHS knew it would need to close many redundant warehouses and thus incur significant costs. However, CHS did not disclose the need for the closures and the costs associated with them until March 22, 1999 and May 13, 1999, respectively. The May 13, 1999 press release announcing 1999 first quarter financial results revealed that 25 warehouses would be closed.
42. Ofer Magen ("Magen"), one of Karma's principal shareholders and the individual in charge of Karma's warehouse/distribution center in Amsterdam responsible for all component purchasing, wanted to keep Karma's operations separate from CHS's operations to maintain his control at Karma. This desire for control among the owners of acquired companies often required CHS to make certain concessions to owners in exchange for their agreement to sell their companies. In particular, CHS often sought to acquire companies that competed with existing CHS subsidiaries. Owners of competing businesses would be reluctant to sell their operations to CHS unless they were promised enough autonomy to continue operating their companies as they had grown accustomed. As a result, Osorio frequently made promises to business owners that CHS would keep the subsidiaries' facilities open and owners' jobs secure long after the acquisitions were complete. These "side deals" were the reason the redundant facilities were kept open so long.

B. Vendor Rebates

43. CHS has essentially three (3) types of vendor rebates: (1) corporate rebates; (2) point of sale ("POS") rebates; and special price authorization ("SPA") rebates. Rebates are given only in centralized purchasing transactions and only by U.S. suppliers.

1. Corporate Rebates

44. Corporate rebates are the most important rebates for CHS. Only five or six vendors grant corporate rebates. The corporate rebates are the most important for CHS because, in a low margin business like CHS's, the corporate rebates often represent the sole profit margin on transactions. The primary vendors granting corporate rebates to CHS are Seagate, Quantum, Maxtor and Western Digital. Seagate is the biggest source of CHS's corporate rebates. Corporate rebates to CHS are given only on so-called "component
products” such as hard disk drives, which account for a substantial portion of the Company’s business.

45. Corporate rebates are negotiated with the vendors directly on a quarterly basis by Osorio and Magen. The rebates are based on an agreed volume of purchases from vendors by CHS. If CHS meets the purchase targets, then the rebates are available. The rebates come in the form of credits against outstanding accounts payable owed to vendors and are recorded by reducing accounts payable and cost of goods sold. As a result, the effect of recording vendor rebates is to increase the Company’s gross profit.

2. **POS Rebates**

46. POS rebates are granted by vendors on a case-by-case basis. For example, a vendor reviews the inventory levels of its products at the CHS warehouse and develops a rebate incentive for CHS to sell the existing inventory, in order to make room for new product from the vendor. Vendors had current access to the inventory levels of their products at CHS and would develop the rebates as an incentive to move slow moving product.

3. **SPA Rebates**

47. SPA rebates were given exclusively by Seagate and permitted the Company to sell that vendor’s products at prices lower than previously contemplated when originally purchased (i.e., lower than the list price).

48. The primary manipulations which lead to the restatement of CHS’s financial statement occurred in the Company’s corporate rebates. CHS prepared separate P&L’s for each vendor. These P&L’s were internal company documents; they were not actually seen
by CHS's vendors. Product managers at CHS used the separate P&L's to measure the Company's performance on a vendor-by-vendor basis.

49. The financial manipulations included, at least in part, CHS simply carrying forward a favorable vendor P&L for Seagate or Quantum for the first quarter of 1998. This P&L became a benchmark, and actual results in the later three quarters were manipulated so that they would be roughly in line with the favorable first quarter results for Seagate or Quantum.

50. The scheme was not complex. Defendants would, for example, simply record a rebate higher than that actually granted by the vendor. In other words, the Company would decrease accounts payable and cost of sales by an additional amount over the rebate actually granted by the vendor. This is borne out by the Company's financial statement restatement: accounts payable and cost of goods sold were restated.

C. Pasquale Giordano

51. On March 22, 1999, in an effort to further conceal defendants' misconduct and shift the blame for the accounting irregularities, the Company issued a press release which stated, in part:

As a consequence [of the vendor rebate overstatement,] a senior executive of the Company's European headquarters office has resigned from the Company.

The "senior executive" referred to in the March 22, 1999 press release is Pasquale Giordano, executive vice president of European Operations ("Giordano"). According to the Company's 1998 Form 10-K for the year ended December 31, 1998, a substantial portion of its sales occurred in the European region. In particular, the Company recorded 53.5% of its
total sales from transactions in Western Europe alone. Thus, Giordano had substantial management and operational responsibility for the Company’s business.

52. A story on the Dow Jones Newswire on March 22, 1999 reported:

In describing the vendor problem, Toll said a decline in the company’s gross margins from its European operations was hidden from top management. The amount of rebates in question amounted to $9 million in the fourth quarter, $19 million in the third, and $17 million in the second. The rebate issue involved 15 vendors and was confined to the company’s European headquarters and operating branches, Toll said.

53. Toll’s comment to Dow Jones is entirely disingenuous. The “problem” could not have been hidden from “top management” because Giordano was undeniably part of the Company’s “top management.”

54. In any event, the Company’s public statements blaming Giordano alone for the fraud are false. Giordano was not solely responsible for the financial statement manipulations at CHS. Although Giordano was aware of the manipulations, he did not orchestrate them alone. CHS’s claim that the misstatements were made in and confined to Europe and caused by Giordano are demonstrably false based on several facts.

55. First, vendor rebates were negotiated on a quarterly basis directly by Osorio. In the case of Seagate, the largest source of corporate rebates, Osorio negotiated the rebates directly with Bernie Caballo at Seagate. In particular, Osorio personally negotiated corporate rebates during trips to the COMDEX trade show in Las Vegas and the CEBIT trade show in Hanover, Germany.

56. Second, as the name implies, the “corporate” rebates were granted directly to CHS in Miami, not the international subsidiaries. The rebates were recorded in the financial statements of CHS at the corporate level. In fact, these rebates were widely referred to
within the Company as “Claudio’s rebates” because they were recorded in Miami and subject to his control.

57. Finally, it was well-known within CHS that Giordano was Osorio’s “lapdog” and would do anything Osorio told him to do. In certain meetings, Osorio and Giordano would have to leave the room so Osorio could tell Giordano what to say.

58. Despite the image created for the public, Osorio and Giordano have continued to maintain a close personal relationship with each other since Giordano’s so-called “resignation,” and they speak to each other on a weekly basis.

D. Claudio’s Magic

59. It was well known within CHS that Osorio manipulated the financial statements at the Company. For example, for various months during 1998, CHS Portugal, Metrologie--France and Metrologie--Spain experienced significant losses. Notwithstanding these losses, once the financial statements (referred to internally as “flash reports”) from these two subsidiaries were sent to Miami, the results were manipulated so that these subsidiaries would show a profit. This practice was referred to by persons in the Company as “Claudio’s magic.”

60. In particular, during the second quarter of 1998, Bernd Karre (“Karre”), a former Karma principal who currently serves as a member of the Company’s board of directors and the Chief Operations Officer for its Karma region, ordered an investigation into how certain subsidiaries were reporting profits at the corporate level. Karre knew these financial results were impossible because he had close relationships with the CFO’s of the various subsidiaries and they verbally conveyed their actual financial results to him.
61. Karre ordered the investigation because he wanted to prove that these particular subsidiaries were actually losing money. Karre’s motive for ordering the inquiry was to uncover the accounting manipulations, which he believed would lead to an end of CHS’s acquisition strategy -- a strategy with which Karre disagreed. However, shortly after ordering the inquiry, Karre inexplicably called for an end to the investigation and, as alleged below in paragraphs 97 through 101, later sold over 100,000 shares of CHS common stock during the Class Period for proceeds of more than $1.5 million.

E. The Materially False and Misleading Statements and the Reasons Why Such Statements are Materially False and Misleading

62. Throughout the Class Period defendants acted intentionally or in a severely reckless manner by issuing a series of materially false and misleading statements concerning the Company’s financial results. Defendants’ misconduct caused the price of the Company’s securities to become and remain artificially inflated throughout the Class Period. Defendants’ materially false and misleading statements, and the reasons why such statements were materially false and misleading, are set forth below.


Our gross margin is above our target for the quarter, and operating expenses are in line with our target,” Mr. Osorio said. “We have only 28 days’ sales in inventory and receivables of only 30 days’ sales outstanding. The overall situation is quite good, and we are positive about our performance for the quarter.”

In response to the June 19, 1998 press release, the price of CHS common stock increased $2.00 per share or 13.7%.
64. The foregoing statement was materially false and misleading because the Company's gross margin was "above target" only because defendants were fraudulently inflating the amount of vendor rebates, thereby inflating the Company's gross margin. Moreover, the "overall situation" and so-called "positive performance" was enhanced when the Company recorded $17 million in false vendor rebates in the 1998 second quarter financial statements.

65. On August 5, 1998, CHS issued a press release over PR Newswire announcing its financial results for the quarter ended June 30, 1998. According to the August 5, 1998 press release, net income for the quarter was $20.3 million or $0.36 per diluted share, a 217 percent increase over net income of $6.4 million, or $0.28 per diluted share in the prior year's second quarter. In response to the August 5, 1998 press release, the price of CHS common stock rose $0.437 or 2.6%.

66. The defendants have admitted that the foregoing statement was materially false and misleading by virtue of the Company's restatement of financial results for the quarter ended June 30, 1998, as described below in paragraphs 83 through 95. The defendants knew that the financial results were materially false and misleading at the time they were made because such results were manipulated to include $17 million in false vendor rebates.

67. The financial information released on August 5, 1998 was incorporated in CHS's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, filed with the SEC on or about August 14, 1998 (the "Second Quarter 10-Q"). The Second Quarter 10-Q was signed by Toll and Boccalandro.

68. The defendants have admitted that the financial results included in the Second Quarter 10-Q were materially false and misleading by virtue of the Company's restatement of
financial results for the quarter ended June 30, 1998, as described below in paragraphs 83 through 95. The defendants knew that the financial results were materially false and misleading at the time they were made because such results were manipulated to include $17 million in false vendor rebates.

69. The Second Quarter 10-Q also contained the following materially false and misleading statement:

To reduce the risk of loss to the Company due to vendor price reductions and slow moving or obsolete inventory, the Company's contracts with its vendors generally provide price protection and stock rotation privileges, subject to certain limitations. Price protection allows the Company to offset the accounts payable owed to a particular vendor if such vendor reduces the price of products the Company has purchased within a specified period of time and which remain in inventory. Stock rotation permits the Company to return to the vendor for full credit, with an offsetting purchase order for new products, predetermined amounts of inventory purchased within a specified period of time.

70. The foregoing statement was materially false and misleading because the Company failed to disclose that vendor rebates were materially overstated by $17 million for the second quarter of 1998.

71. On September 14, 1998, the Company issued a press release over PR Newswire reflecting CHS's placement on Fortune magazine's new list of companies with the fastest profit growth. The Fortune list stated that CHS had an earnings per share annual growth rate of 74 percent over the past three years, net income of $76.1 million and revenues of $6.5 billion in the past four quarters. Touting the listing as "fresh evidence of the Company's continued strong performance" Osorio stated:

One thing that is especially noteworthy is that few of the companies on this new Fortune list are as large as CHS in terms of annual revenues. Only two of the companies that ranked higher than CHS in terms of earnings growth had
higher revenues than CHS in the past year. This demonstrates that very few companies of our size are achieving comparable increases in profits.

72. The foregoing statement was materially false and misleading because, as Osorio knew or in a severely reckless manner ignored, material amounts of the Company’s profits were artificially manufactured during the second, third and fourth quarters of fiscal year 1998 by recording $45 million in false vendor rebates which were, as CHS later admitted in the 1998 Form 10-K, supported by “invalid documentation.”


Our sales in the first half of 1998 were $3.5 billion, our earnings before interest, taxes, depreciation and amortization were $101.7 million, and our equity and book value per share were $749 million and $14.50, respectively, as of June 30. Input from CHS’s 5,000-plus employees in more than 100 locations around the world indicates clearly that our business is running smoothly, and we continue to have solid relationships with our customers and vendors.

In response to the October 8, 1999 press release, the price of CHS common stock increased $1.313 or 22%.

74. The defendants have admitted that the foregoing statement was materially false and misleading by virtue of the Company’s restatement of financial results for the quarter ended September 30, 1998, as described below in paragraphs 83 through 95. The defendants knew that the financial results were materially false and misleading at the time they were made because such results were manipulated to include $19 million in false vendor rebates.

75. To assure that the scheme would have its intended effect on CHS’s stock price, Osorio stated in the October 8, 1998 press release:
The downward pressure on CHS’s share price that we have seen recently does not reflect the strength of the company’s business, our continued sales growth or our profitability and cash flow. In my opinion our current stock price is inexplicable in light of our recent results and balance sheet position.

76. The foregoing statement was materially false and misleading because defendants failed to disclose that approximately $45 million of the Company’s profits during the second, third and fourth quarters were completely manufactured by defendants in order to artificially inflate the value of the Company’s securities.

77. On November 2, 1998, CHS issued a press release over PR Newswire announcing its financial results for the quarter ended September 30, 1998. According to the press release, the Company’s net income for the quarter was $23.2 million, or $0.41 per diluted share, or a 103 percent increase over net income of $11.4 million, or $0.26 per diluted share in the year earlier quarter. In response to the November 2, 1998 press release, the price of CHS common stock soared $3.688 or 32%.

78. The defendants have admitted that the foregoing statement was materially false and misleading by virtue of the Company’s restatement of financial results for the quarter ended September 30, 1998, as described below in paragraphs 83 through 95. This statement was materially false and misleading because the third quarter financial results included $19 million of false vendor rebates, as defendants knew or in a severely reckless manner ignored at the time the financial statements were released.

79. The financial information released on November 2, 1998 was incorporated in CHS’s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, filed with the SEC on or about November 16, 1998 (the “Third Quarter 10-Q”). The Third Quarter 10-Q was signed by Toll and Boccalandro and stated, in part:
Gross profit increased $196.3 million, or 90.2% from $217.6 million in the nine months ended September 30, 1997 to $413.9 million in the nine months ended September 30, 1998 due principally to acquisitions and, to a lesser extent, internal growth.

80. The defendants have admitted that the financial results included in the Third Quarter 10-Q were materially false and misleading by virtue of the Company's restatement of financial results for the quarter ended September 30, 1998, as described below in paragraphs 83 through 95. The statements were admittedly false and misleading because the Company's third quarter financial results included $19 million in false vendor rebates and thus, the Company's gross profit "growth" was due neither to "acquisition" nor "internal growth," but instead, as defendants knew at the time or in a severely reckless manner ignored, to the fraudulent recording of vendor rebates.

81. On February 24, 1999, CHS issued a press release on PR Newswire, announcing "preliminary" results for the fourth quarter and year ended December 31, 1998. According to the February 24, 1999 press release, preliminary net earnings for fiscal year 1998 were $90.2 million, or $1.61 per diluted share, as compared to $48.4 million, or $1.32 per diluted share in 1997, an increase of 86%. The February 24, 1999 press releases also reported that preliminary gross profit increased 50% to $193.4 million in the fourth quarter of 1998 from $129.1 million in the same quarter in 1997 and operating income rose 52% to $53.8 million, while net income was $26.2 million or $0.47 per undiluted share. The results announced on February 24, 1999 were "preliminary" because significant discrepancies in CHS's financial statements had been discovered by the Company's auditors. In an attempt to allay investors' fears, the Company stated that "earnings for 1998 may be higher than reported today." Osorio stated:
Unfortunately, these discrepancies were discovered very recently. As a result, we have taken swift and appropriate measures to resolve these issues as soon as possible. The strong revenue growth reported in the fourth quarter and year are a reflection of the strength of CHS's focused business model, operating systems, and low cost structure in Europe, Asia, and Latin America. More importantly, we were able to attain these financial results through internally generated sales and without the contribution of acquisitions in the fourth quarter of 1998.

82. The defendants have admitted that the foregoing statements were materially false and misleading by virtue of the Company's restatement of financial results for the quarter ended December 31, 1998, as described below in paragraphs 83 through 95. The statements were false because the financial results included $9 million in vendor rebates supported by invalid documentation. Thus, the "financial results" were not, in fact, "internally generated" but rather were artificially created by defendants through the recording of fictitious vendor rebates. In addition, CHS's cost structure was far from "low" as it was operating with numerous redundant, unnecessary and costly facilities.

F. CHS's False Financial Reports

83. As alleged below in paragraphs 97 through 117, defendants were highly motivated to issue false financial reports to permit insiders to reap substantial profits from sales of the Company's stock, to finance much-needed growth for the Company through acquisitions and to meet analysts' earnings expectations. In order to inflate the price of CHS's stock, defendants caused the Company to falsely report its financial results for the second, third, and fourth quarters of fiscal 1998. Defendants did this by: (a) materially overstating net income and net worth through a fraudulent underestimation of goods sold and operating expenses; and (b) fraudulently reducing accounts payable through the creation of
fictitious documents to support invalid claims of entitlement to vendor rebates, discounts, price protection, cooperative advertising and other credits.

84. These fictitious recordations on the Company's books and records, for which there was no support, were both large and unusual. Moreover, the Company has admitted that the Company deviated from its stated policy in recording vendor rebates. Accordingly, both the quantitative and qualitative aspects of the recordations served as red flags which were known to, or in a severely reckless manner disregarded by defendants.

85. The Company either knew of the pervasive pattern of false accounting entries, or acted with an utter disregard for the truth. The Company's Annual Report on Form 10-K for fiscal 1998 signed by defendants Osorio and Toll, states:

The Company currently maintains 14 internal auditors on its staff; nine for Europe and Karma, four in Latin America, and the Director of Internal Audit. The Company has two auditors that specialize in internal audits. The Company intends to expand its internal audit staff consistent with its growth. During 1998, there were 81 internal and 35 inventory audits performed with respect to the Company.

86. Defendants' representations that CHS's financial statements were prepared in accordance with GAAP were materially false and misleading. The Company's financial statements recognized income from nonexistent vendor rebates, discounts, price protection, and cooperative advertising credits which had not been earned -- a circumstance which defendants knew artificially inflated the price of the Company's securities during the Class Period. This was a serious breach of GAAP which distorted CHS's actual financial performance to the detriment of unsuspecting investors.

87. The undisclosed improper accounting practices employed by defendants misled the marketplace and investors and artificially inflated the price of CHS's stock. As noted in
the tables below, defendants materially manipulated the Company's second, third, and fourth quarter financial statements for fiscal year 1998:

**QUARTER ENDED JUNE 30, 1998**
(In Thousands, Except Share Data)

<table>
<thead>
<tr>
<th>BALANCE SHEET</th>
<th>AS ORIGINALLY REPORTED</th>
<th>AS RESTATED</th>
<th>PERCENT OVERSTATED (UNDERSTATE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS</td>
<td>$2,253,059</td>
<td>$2,253,059</td>
<td>----</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$585,812</td>
<td>$602,812</td>
<td>(2.9)%</td>
</tr>
<tr>
<td>Income Tax Payable</td>
<td>$18,097</td>
<td>$15,887</td>
<td>13.9%</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>$892,764</td>
<td>$892,764</td>
<td>----</td>
</tr>
<tr>
<td>Minority Interest</td>
<td>$6,922</td>
<td>$6,922</td>
<td>----</td>
</tr>
<tr>
<td>Common Stock /paid-in</td>
<td>$668,696</td>
<td>$668,696</td>
<td>----</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>$105,979</td>
<td>$91,189</td>
<td>16.2%</td>
</tr>
<tr>
<td>Accumulated other</td>
<td>($25,211)</td>
<td>($25,211)</td>
<td>----</td>
</tr>
<tr>
<td></td>
<td>$2,253,059</td>
<td>$2,253,059</td>
<td>----</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>STATEMENT OF</th>
<th>AS ORIGINALLY REPORTED</th>
<th>AS RESTATED</th>
<th>PERCENT OVERSTATED (UNDERSTATE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NET SALES</td>
<td>$1,769,494</td>
<td>$1,769,494</td>
<td>----</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>$1,638,570</td>
<td>$1,655,570</td>
<td>(1.0)%</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>$130,924</td>
<td>$113,924</td>
<td>14.9%</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>$89,832</td>
<td>$89,832</td>
<td>----</td>
</tr>
<tr>
<td>Operating Income</td>
<td>$41,092</td>
<td>$24,092</td>
<td>70.6%</td>
</tr>
<tr>
<td>Other (income) expense and minority interest in subsidiaries</td>
<td>$13,751</td>
<td>$13,751</td>
<td>----</td>
</tr>
<tr>
<td>Pretax</td>
<td>$27,341</td>
<td>$10,341</td>
<td>164.4%</td>
</tr>
<tr>
<td>Income taxes</td>
<td>$7,043</td>
<td>$5,508</td>
<td>45.7%</td>
</tr>
<tr>
<td>Net earnings</td>
<td>$20,298</td>
<td>$5,508</td>
<td>268.5%</td>
</tr>
<tr>
<td>Net Earnings per common share: (Basic)</td>
<td>$0.40</td>
<td>$0.11</td>
<td>263.6%</td>
</tr>
<tr>
<td></td>
<td>$0.36</td>
<td>$0.10</td>
<td>260.0%</td>
</tr>
</tbody>
</table>
88. As illustrated above, the 1998 second quarter restatement was required to correct a $17 million understatement of accounts payable and costs of goods sold, and an overstatement of gross profit and operating income in an identical amount. After decreasing income taxes by $2,210,000 to adjust for the inflated income which was originally reported for the quarter, the after-tax effect of the correction was $14,790,000.

**QUARTER ENDED SEPTEMBER 30, 1998**
(In Thousands, Except Share Data)

<table>
<thead>
<tr>
<th>BALANCE SHEET</th>
<th>AS ORIGINALLY REPORTED</th>
<th>AS RESTATED</th>
<th>PERCENT OVERSTATED (UNDERSTATE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS</td>
<td>$2,856,587</td>
<td>$2,856,587</td>
<td>----</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$988,788</td>
<td>$1,024,788</td>
<td>(3.6)%</td>
</tr>
<tr>
<td>Income Tax Payable</td>
<td>$19,219</td>
<td>$14,536</td>
<td>32.2%</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>$1,037,803</td>
<td>$1,037,803</td>
<td>----</td>
</tr>
<tr>
<td>Minority Interest</td>
<td>$8,991</td>
<td>$8,991</td>
<td>----</td>
</tr>
<tr>
<td>Common Stock/ paid-in</td>
<td>$682,418</td>
<td>$682,418</td>
<td>----</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>$129,150</td>
<td>$97,833</td>
<td>32.0%</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>($9,782)</td>
<td>($9,782)</td>
<td>----</td>
</tr>
<tr>
<td></td>
<td>$2,856,587</td>
<td>$2,856,587</td>
<td>----</td>
</tr>
</tbody>
</table>

29
<table>
<thead>
<tr>
<th>STATEMENT OF EARNINGS</th>
<th>AS ORIGINALLY REPORTED</th>
<th>AS RESTATED</th>
<th>PERCENT OVERSTATED (UNDERSTATED)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NET SALES</td>
<td>$2,166,943</td>
<td>$2,166,943</td>
<td>----</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>$2,006,607</td>
<td>$2,025,607</td>
<td>(1.0)%</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>$160,336</td>
<td>$141,336</td>
<td>13.4%</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>$112,130</td>
<td>$112,130</td>
<td>----</td>
</tr>
<tr>
<td>Operating Income</td>
<td>$48,206</td>
<td>$29,206</td>
<td>65.1%</td>
</tr>
<tr>
<td>Other (income) expense and minority interest in</td>
<td>$17,206</td>
<td>$17,206</td>
<td>----</td>
</tr>
<tr>
<td>Pretax</td>
<td>$31,000</td>
<td>$12,000</td>
<td>158.3%</td>
</tr>
<tr>
<td>Income taxes</td>
<td>$7,830</td>
<td>$5,357</td>
<td>46.1%</td>
</tr>
<tr>
<td>Net earnings</td>
<td>$23,170</td>
<td>$6,643</td>
<td>248.8%</td>
</tr>
<tr>
<td>Net Earnings per share:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Basic)</td>
<td>$0.44</td>
<td>$0.13</td>
<td>238.5%</td>
</tr>
<tr>
<td>(Diluted)</td>
<td>$0.41</td>
<td>$0.12</td>
<td>241.7%</td>
</tr>
</tbody>
</table>

89. As illustrated above, the restatement was required to correct a $36 million cumulative understatement of accounts payable. This cumulative understatement was comprised of a $17 million understatement of accounts payable for the quarter ended June 30, 1998 and a $19 million understatement of accounts payable for the quarter ended September 30, 1998. The restatement corrected the $19 million understatement of accounts payable for the quarter ended September 30, 1998 and the related understatement of cost of goods sold for that quarter which had caused a corresponding overstatement of gross profit and operating income of $19 million.

90. After decreasing income taxes by $2,473,000 to adjust for the inflated income which was originally reported for the quarter, the after-tax effect of the correction was $16,527,000 as noted above.
### BALANCE SHEET

<table>
<thead>
<tr>
<th></th>
<th>AS ORIGINALLY REPORTED</th>
<th>AS RESTATED</th>
<th>PERCENT OVERSTATED (UNDERSTATE)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$1,294,559</td>
<td>$1,345,059</td>
<td>(3.9)%</td>
</tr>
<tr>
<td>Income Tax Payable</td>
<td>$14,448</td>
<td>$13,997</td>
<td>3.2%</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>$1,364,578</td>
<td>$1,364,578</td>
<td></td>
</tr>
<tr>
<td>Minority Interest</td>
<td>$10,466</td>
<td>$10,466</td>
<td></td>
</tr>
<tr>
<td>Common Stock and paid-in capital</td>
<td>$735,670</td>
<td>$732,091</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>$155,326</td>
<td>$110,793</td>
<td>40.2%</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$3,574,182</td>
<td>$3,572,143</td>
<td></td>
</tr>
</tbody>
</table>

### STATEMENT OF EARNINGS

<table>
<thead>
<tr>
<th></th>
<th>AS ORIGINALLY REPORTED</th>
<th>AS RESTATED</th>
<th>PERCENT OVERSTATED (UNDERSTATE)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NET SALES</strong></td>
<td>$2,857,997</td>
<td>$2,857,997</td>
<td></td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>$2,664,626</td>
<td>$2,673,816</td>
<td>(0.3)%</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>$193,371</td>
<td>$184,182</td>
<td>5.0%</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>$139,583</td>
<td>$145,893</td>
<td>4.5%</td>
</tr>
<tr>
<td>Operating Income</td>
<td>$53,788</td>
<td>$38,289</td>
<td>40.5%</td>
</tr>
<tr>
<td>Other (income) expense and minority interest in pretax</td>
<td>$19,430</td>
<td>$19,430</td>
<td>----</td>
</tr>
<tr>
<td>Pretax</td>
<td>$34,358</td>
<td>$18,859</td>
<td>82.2%</td>
</tr>
<tr>
<td>Income taxes</td>
<td>$8,186</td>
<td>$5,899</td>
<td>38.8%</td>
</tr>
<tr>
<td>Net earnings</td>
<td>$26,172</td>
<td>$12,960</td>
<td>101.9%</td>
</tr>
</tbody>
</table>

#### Net Earnings per share:

- **(Basic)**: $0.49, $0.24, 104.2%
- **(Diluted)**: $0.47, $0.23, 104.4%
91. As illustrated above, the restatement was required to correct a $50.5 million cumulative understatement of accounts payable. This understatement was comprised of a $17 million understatement of accounts payable for the quarter ended June 30, 1998, a $19 million understatement of accounts payable for the quarter ended September 30, 1998, and a $14.5 million understatement of accounts payable for the quarter ended December 31, 1998.

92. The restatement corrected the $14.5 million understatement of accounts payable for the quarter ended December 31, 1998, a $9,190,000 understatement of cost of goods sold for the period, a $9,190,000 overstatement of gross profit and operating income, and a $6,310,000 understatement of operating expenses. In addition, the restatement necessitated other adjustments of approximately $1 million. After decreasing income taxes to adjust for the inflated income which was originally reported for the quarter, the after-tax effect of the correction was $13,212,000 as noted above.

93. The pervasive nature of defendants' fraudulent scheme was amplified in defendants' original financial statements. While the second and third quarter restatements involved reversals of fictitious merchandise credits (which impacted the presentation of cost of goods sold and gross profit on sales), the fourth quarter involved a reversal of fictitious merchandise credits in addition to other types of fictitious credits (e.g., cooperative advertising credits which impacted the presentation of operating expenses).

94. In the fourth quarter, rather than understating accounts payable and cost of goods sold and overstating gross profit and operating income by $17 million or $19 million as in the second and third quarters, respectively, defendants carried their financial manipulations even further. The 1998 fourth quarter restatement necessitated the following restatements:
(a) $14.5 million understatement of accounts payable (when added to the aggregated second and third quarter understatement of accounts payable, this additional $14.5 million raised the cumulative accounts payable understatement to $50.5 million).

(b) $9,190,000 understatement of cost of goods sold

(c) $9,189,000 overstatement of gross profit

(d) $6,310,000 understatement of operating expenses

(e) $15,499,000 overstatement of operating income (comprised of a $9,189,000 overstatement of gross profit on sales and a $6,310,000 understatement of operating expenses).

95. Significantly, the fourth quarter involved the attempted override of an entirely different set of internal controls (controls over operating expenses as opposed to purchased merchandise). Thus, defendants' scheme involved a pervasive pattern of false accounting entries, the creation of different types of fictitious and “invalid” documentation, and a variety of misstated accounts, as well as the factor to which defendants actually attributed the shortfall -- the improper accrual of vendor rebates.

The Defendants Acted With Scienter
Basis for Defendants' Knowledge and/or Severe Recklessness

96. Defendants acted with scienter in that they had actual knowledge that the press releases and financial statements issued by the Company during the Class were materially false and misleading or acted with severe recklessness in issuing such materially false and misleading press releases and financial statements. Defendants' scienter is demonstrated by the following facts:

(a) The Company has admitted that certain of the rebates recorded were supported by “invalid documentation” and that a senior official “resigned” as a result of the scandal. See supra ¶ 7; infra ¶¶ 119 through 120;
(b) Defendants intentionally inflated net income by recording rebates above and beyond that actually granted by its suppliers. The scheme involved carrying forward profit and loss statements from the first quarter of 1998 and manipulating results in subsequent quarters to create the appearance the Company was continuing a positive earnings trend. See supra ¶¶ 47 through 50;

(c) The Company attempted to cover up the pervasive nature of its schemes by falsely portraying Giordano as the sole individual responsible for the fraud. Osorio blamed Giordano only to deflect attention away from himself. The close personal relationship between Osorio and Giordano -- which exists to this day -- belies any claim that Giordano alone committed the fraud. See supra ¶¶ 51 through 58; and

(d) Osorio intentionally manipulated the financial results of CHS Portugal, Metrologie--France and Metrologie--Spain, changing losses into profits for various months during 1998, a practice widely referred to at the Company as “Claudio’s magic.” See supra ¶¶ 59 through 61.

Motive Allegations Relevant to Defendants’ Severe Recklessness

a. Insider Trading

97. At the time of the Acquisition, several members of Karma’s management were entitled to receive certain payments, subject to certain levels of performance. Management had elected various review periods (one or two years) which had not elapsed at the time of the Acquisition. Thus, senior management established a trust, CANTRUST (C.I.) LIMITED, (the “Trust”), whereby certain amounts of cash and CHS stock from the proceeds Karma’s owners received in the Acquisition would be placed in trust, pursuant to a Settlement Agreement dated July 30, 1997. These funds were for the benefit of junior and senior management and would be disbursed at a later date, based on the performance of the managers.

98. The senior management of Karma consisted of: Umer Serter, Alvi Mazon, Mehmet Betil, Karre, Ercan Canmutlu, Ron Golan, Magen, and Antonis Papaioannou.
During the Class Period, between August 3, 1998 and February 26, 1999 the following Karma senior management members collectively sold approximately 2 million shares of CHS common stock, for total proceeds of $26.7 million: Ercan Canmutlu, Alvi Mazon, Antonis Papaioannou, Ron Golan, Magen, Karre, Umer Serter, and Mehmet Betil (the “Karma Insiders”). The following chart depicts the details of such selling:

<table>
<thead>
<tr>
<th>Seller</th>
<th>Date</th>
<th>CHS Shares</th>
<th>Proceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ercan Canmutlu</td>
<td>26-Feb-99</td>
<td>53,086</td>
<td>$424,688</td>
</tr>
<tr>
<td></td>
<td>12-Oct-98</td>
<td>515,386</td>
<td>$3,380,932</td>
</tr>
<tr>
<td></td>
<td></td>
<td>568,472</td>
<td>$3,805,620</td>
</tr>
<tr>
<td>Alvi Mazon</td>
<td>15-Feb-99</td>
<td>70,100</td>
<td>$1,046,593</td>
</tr>
<tr>
<td></td>
<td>03-Aug-98</td>
<td>143,193</td>
<td>$2,700,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>213,293</td>
<td>$3,746,593</td>
</tr>
<tr>
<td>Antonis</td>
<td>15-Feb-99</td>
<td>23,510</td>
<td>$351,004</td>
</tr>
<tr>
<td></td>
<td>15-Feb-99</td>
<td>23,510</td>
<td>$351,004</td>
</tr>
<tr>
<td></td>
<td></td>
<td>47,020</td>
<td>$702,008</td>
</tr>
<tr>
<td>Ron Golan</td>
<td>15-Feb-99</td>
<td>23,510</td>
<td>$351,004</td>
</tr>
<tr>
<td></td>
<td>15-Feb-99</td>
<td>23,510</td>
<td>$352,004</td>
</tr>
<tr>
<td></td>
<td></td>
<td>47,020</td>
<td>$703,008</td>
</tr>
<tr>
<td>Ofer Magen</td>
<td>15-Feb-99</td>
<td>70,525</td>
<td>$1,052,938</td>
</tr>
<tr>
<td>Bernd Karre</td>
<td>15-Feb-99</td>
<td>70,100</td>
<td>$1,046,593</td>
</tr>
<tr>
<td></td>
<td>16-Dec-98</td>
<td>16,600</td>
<td>$249,830</td>
</tr>
<tr>
<td></td>
<td>15-Dec-98</td>
<td>16,600</td>
<td>$240,104</td>
</tr>
<tr>
<td></td>
<td></td>
<td>103,300</td>
<td>$1,536,527</td>
</tr>
<tr>
<td>Umer Serter</td>
<td>15-Feb-99</td>
<td>70,100</td>
<td>$1,046,593</td>
</tr>
<tr>
<td></td>
<td>03-Aug-98</td>
<td>117,244</td>
<td>$2,100,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>187,344</td>
<td>$3,146,593</td>
</tr>
<tr>
<td>Mehmet Betil</td>
<td>15-Feb-99</td>
<td>70,100</td>
<td>$1,046,593</td>
</tr>
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<td></td>
<td>15-Feb-99</td>
<td>70,100</td>
<td>$1,046,593</td>
</tr>
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According to the Company’s website, Magen is the Company’s Chief Operating Officer for the Karma Region and Karre is a director of the Company.

99. Magen knew throughout mid to late 1998 that the Company’s schemes would be discovered. Magen began telling other company insiders to sell their stock as soon as possible. Although told by others that it was illegal insider trading, Magen said he “didn’t give a fuck” and ordered the sale of the CHS stock in the Trust. Moreover, Magen threatened to fire those that controlled the trust if they refused to authorize the sale. At least one person with the authority to approve the sale refused to authorize the sale. Notwithstanding this individual’s refusal to sell the stock, the stock was sold. On February 15, 1999, just over a month before the truth was revealed, Magen sold over 70,000 shares of the Company’s common stock, reaping proceeds of over $1 million.

100. Osorio knew about this insider trading and Magen’s participation in such trading. Indeed, Osorio removed Magen from the board of directors and stripped him of his title of vice president. However, Osorio permitted Magen to continue to run Karma’s warehouse and obviously never disclosed to the investing public that the Company’s insiders were trading on the basis of inside information. Moreover, on November 6, 1998, Toll sold 20,000 shares of CHS common stock, reaping proceeds of $337,500. The stock sales

<table>
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<th>Date</th>
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<th>Proceeds</th>
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<tr>
<td></td>
<td>823,192</td>
<td>$12,483,042</td>
</tr>
</tbody>
</table>

Totals: 2,060,166 | $27,176,329
constituted 13% of Toll’s holdings and were particularly suspicious because Toll had not sold a single share of CHS common stock since March and April of 1997.

101. The timing of the sale of CHS stock by the Karma Insiders was similarly suspicious because, between the date of the Acquisition and the beginning of the Class Period, none of the Karma Insiders sold a single share of CHS stock.

102. Osorio also controls a company called Comtrad Holdings Inc. ("Comtrad"), the predecessor of CHS. According to a September 16, 1999 article in the Palm Beach Daily Business Review:

[Comtrad] bought computer distributors around the world and sold them to CHS when CHS first went public in 1996. Now, Comtrad’s only business is to hold CHS shares for its principals. The problem is that Comtrad has liabilities. It borrowed $10 million from an unidentified lender and used CHS stock as collateral.

103. According to sources in the financial community, Osorio was actually betting against CHS’s financial success. In two separate columns published a year apart, Senior Columnist Herb Greenberg of TheStreet.com wrote:

It’s official: CHS Electronics (HS:NYSE) CEO Claudio Osorio is the recipient of this column’s Chutzpah award. He sealed it yesterday when, in apparent response to this column, CHS issued the following press release: "Starting today, senior executives of CHS Electronics Inc., a leading international distributor of microcomputer products, intend to make personal purchases of a significant number of shares of the company’s stock, Chairman and Chief Executive Officer Claudio Osorio announced.

"Mr. Osorio said key members of the CHS senior management team have committed to buy the shares because of their confidence that current price levels CHS shares represent an exceptional value."

What he failed to say, or explain, is why the Osorio-controlled Comtrad is buying puts and selling calls in CHS’ stock as a so-called collar. As this column reported yesterday, the original collar was set up on May 20, and there’s no evidence that it has been closed, in which case Comtrad (Osorio) is
roughly $4 million in the money. CHS bills itself as the world’s third-largest electronics distributor.


Oh, what a tangled web: In an earlier episode of the thickening plot of CHS (HS:NYSE), an item here suggested that CHS, CEO Claudio Osorio was betting against CHS’ stock when it was much higher, by buying puts and selling calls on CHS’ stock as a so-called collar. He was doing this through another company he controls called Comtrad, whose main asset is 7.5 million shares of CHS, which does all of its business overseas. Osorio insisted the move wasn’t a bet against CHS, which loaned $207 million to Comtrad, but a way to protect the value of CHS shares owed to individuals who sold their companies to CHS. (A mouthful, I know, but keep reading.)

Fast forward to last quarter’s 10-Q, filed last month: Comtrad, which also was on the hook for $10 mil to a bank, couldn’t pay its loan back to CHS, and CHS’ shares had fallen too much to cover the amount owed, so CHS wrote off the loan.

Fast forward again, this time to last week, when Comtrad filed to sell 2.5 million shares of CHS stock worth around $10 million at the time. A bet against the future of CHS or a liquidation to pay off the bank? CHS officials couldn’t be reached. Still, this much is for sure, according to one industry observer, who is short CHS stock: If CHS’ financial condition does worsen, a clear benefactor would be Tech Data (TECD: Nasdaq), which warned last week that its biz is hurting because of price-cutting in Europe. Tech Data didn’t name names, but on a conference call it said that one of it’s European competitors was in jeopardy of losing product, supply because of its financial condition. Can’t imagine who that might be.


104. Plaintiffs have also learned that four individuals: Boccalandro, the Company’s chief of mergers and acquisitions; Juan Fisher; Alexis Loppebello and Pedro Salazar, who are all close friends of Osorio, owned shares in Comtrad. Boccalandro, Fisher, Loppebello and Salazar were all selling CHS shares through offshore entities controlled by them during the Class Period.
b. Acquisitions

105. According to the Company's Annual Report on Form 10-K for the year ended December 31, 1998, filed with the SEC on March 31, 1999;

As of December 31, 1998 [the Company] operated in 46 countries primarily in Western Europe, Eastern Europe and Latin America and serviced an active customer base of approximately 150,000 resellers.

However, CHS was not always this large.

106. CHS's distribution empire is a creature of an intense acquisition campaign waged since 1994. Indeed, the Company's business model involves growth through acquisition. Osorio, commenting on CHS's acquisition strategy stated on CNN on February 26, 1999:

The acquisition strategy has been a process to enable us to execute our core strategy which is to work in international markets, and to focus on a limited number of vendors. This has been the key driver for our growth, having very few vendors, the blue chip vendors in the industry, that allows us to turn inventory fast, you have less risk in inventory.

107. In fact, CHS's high revenue and earnings growth was attained through acquisitions:

(a) According to an article in UPSIDE Magazine on November 1, 1998, "CHS has bought its way to truly astonishing revenue growth. A $146 million sales outfit in 1993; it grossed $4.8 billion last year. Of its $2.9 billion year over year revenue gain, nearly all of that amount -- $2.5 billion -- came from revenue increases made by acquired companies."

(b) According to a Computer Reseller News article on May 11, 1998, "no one has acquired more companies to fill in geographic areas outside the United States than CHS, which has crisscrossed hemispheres in the last two years in search of globalization."
Further Osorio stated, with respect to CHS's acquisitions, "We are going to make sure we're the dominant player in Europe by quite a margin."

(c) On April 27, 1998, in commenting on the acquisition of Metrologie International, Osorio stated, "The most important reason for this deal is size. Size in our business has two meanings. One is purchasing power, which translates to discounts and rebates, and the second is economies of scale."

(d) TechWeb News on October 8, 1999, quoted Jeff Matthews from RAM Partners, an investment firm, regarding CHS's acquisition strategy: "This whole thing has been one big acquisition machine. If the acquisitions stop, the train goes off the track."

108. In making its acquisitions, CHS typically purchases the companies in exchange for cash and CHS common stock. The stock component of the purchase price typically represented a substantial portion of the consideration.

109. In fact, CHS structures many of its acquisitions so that the issuance of stock occurs over a specified period of time. As reported in UPSIDE Magazine on November 1, 1998, in these types of deals, the purchase price can be adjusted depending on how the acquired operations perform during the next year. In CHS's case, therefore, if the price of CHS stock increases over that time period, it does not have to issue as many shares to acquire the company. On the other hand, however, if the price of CHS stock decreases, it has to issue more stock than originally anticipated when the agreement was made. As a result, CHS has a strong incentive to maintain, or increase, the price of its stock in order to acquire companies by issuing as few shares as possible.

110. Between May and December 1998, CHS acquired the following thirteen companies: MC DOS, Lung, Brightstar, Acron, Memory Set, Cornejo, Intcomex,
Metrologie International, Arena, Armada, Merisel Russia, Raphael Informatika and Aptec (the “Class Period Acquisitions”). These companies were acquired through a combination of cash and CHS common stock. For example:

(a) According to the Sun-Sentinel on September 24, 1998, CHS agreed to purchase Brightstar for about $10-12 million in mostly stock over two years. As also reported in Electronic News on September 28, 1998, the price of the Brightstar acquisition was to be established on an earn-out basis according to future financial results. Therefore, CHS would need to keep the price of its stock up, otherwise it would have to issue more stock than originally anticipated over the two year period.

(b) On May 8, 1998, CHS announced the acquisition of Intcomex, Acron, and Cornejo for a combination of CHS shares and stock. In addition, the price of the acquisition, and the amount of stock CHS would eventually have to issue, would be based on further performance of the acquired companies and the price of CHS stock.

(c) CHS also acquired Redington Private Limited, Aptec, and Lung Electronics Limited in a similar manner according to a press release issue by the Company on May 29, 1998.

(d) Finally, in yet another acquisition in a period of a few months, CHS announced on July 7, 1998, an agreement to acquire Vobis Microcomputer AG, Maxdata Computer GmbH and Peacock System GmbH, subsidiaries of Metro AG of Germany (the “Vobis Acquisition”), for $320 million in cash and stock.

111. In connection with the Class Period Acquisitions, CHS issued 5,485,640 shares of its common stock as consideration. The average price of CHS common stock between May 1998 and December 1998 was approximately $15.83 per share. Thus, just
prior to, and during the Class Period, CHS issued stock valued at approximately $86.8 million as consideration for the acquisitions consummated between May and December 1998.

112. The Vobis Acquisition was an important acquisition and represented a milestone for CHS. As the Miami Herald reported on July 8, 1998, the Vobis Acquisition "would make it by far the dominant PC distributor in Europe." Further, Kristi Thiese, an analyst with Raymond James & Associates stated that "CHS’s acquisitions give it economies of scale that few competitors can match."

113. The Vobis Acquisition, however, would never be consummated. According to Computergram International on October 14, 1998, the Vobis Acquisition failed because "CHS was not in a position to pay the purchase price because of the poor conditions on the international capital markets." The collapse of the CHS share price from a peak of $30 last year, to a current level of $6.69 was considered to be a major factor undermining the deal.

114. Furthermore, the Miami Herald reported on October 13, 1998, that CHS was unable to consummate the Vobis acquisition because its stock had plunged, precluding it from selling new shares to raise enough money to finance the acquisition. After the Vobis deal fell through, Osorio stated that CHS’s acquisition strategy was “on a slower pace, mostly focused on smaller acquisitions.”

115. Thus, CHS knew that, if it was unable to support its stock price, it would be woefully unable to continue its acquisition spree and execute its business plan. As a result, defendants were motivated to artificially inflate the value of CHS stock during the Class Period to make such stock an attractive acquisition currency. In fact, CHS’s worst fears were realized when its stock plunged after March 22, 1999 -- the Company would not, and currently does not, have enough stock to pay for its acquisition spree.
c. Analysts' Expectations

116. By overstating the Company's vendor rebates in the second and third quarters of 1998 by $17 million and $19 million, respectively, the Company was able to meet or barely beat analysts' earnings expectations. In particular, for the second quarter of 1998, analysts predicted that the Company would earn $0.33 per share. By recording $17 million in bogus rebates for the second quarter, the Company was able to beat analysts' expectations by $0.03 per share. Had defendants not recorded the false rebates, earnings per share would have been reported as a mere $0.10 per share, less than one-third of analysts' expectations.

117. Similarly, for the third quarter of 1998, analysts predicted that the Company would earn $0.40 per share. Recording $19 million in phony rebates in the third quarter permitted the Company to narrowly beat analyst expectations by a penny. Absent the rebate overstatement, the Company would have reported earnings per share of only $0.12. On the news of the false financial report for the third quarter issued on November 2, 1998, the Company's shares soared $3.6875 per share or 32%.

H. The Truth is Revealed

118. On February 24, 1999, CHS issued a press release on the PR Newswire, announcing "preliminary" results for the fourth quarter and year ended December 31, 1998. "Preliminary" earnings were $0.47 and $1.61 per share in the 4th quarter of 1998 and for fiscal year 1998, respectively, versus $0.45 and $1.32 per share in the same periods of the previous year. According to the press release, net earnings increased a staggering 86%. For the fourth quarter of 1998, CHS reported net sales of $2.9 billion, an increase of over 56% over the $1.8 billion in the comparable quarter for the previous year. Preliminary gross profit increased 50% to $193.4 million in the fourth quarter, and operating income rose 52%.
to $53.8 million. Preliminary net income was $26.2 million, or $0.47 per diluted share, compared to $23.8 million or $0.45 per diluted share in the previous year's fourth quarter.

119. The results announced on February 24, 1999 were “preliminary” because significant discrepancies in CHS financial statements had been discovered by the company’s auditors. In an attempt to allay investors’ fears, the Company stated that “earnings for 1998 may be higher than reported today.” Defendant Osorio stated:

Unfortunately, these discrepancies were discovered very recently. As a result, we have taken swift and appropriate measures to resolve these issues as soon as possible. The strong revenue growth reported in the fourth quarter and year are a reflection of the strength of CHS’ focused business model, operating systems, and low cost structure in Europe, Asia, and Latin America. More importantly, we were able to attain these financial results through internally generated sales and without the contribution of acquisitions in the fourth quarter of 1998.

120. On March 22, 1999, CHS issued a press release and filed a report on Form 8-K, disclosing that its vendor rebates had been overstated in the second, third and fourth quarters of 1998; that its results for the fourth quarter of 1998 would have to be restated to net income of only $.23 per share, rather than the $.47 per share previously reported; that its results for the year ended December 31, 1998 would have to be restated to net income of only $.82 per share, rather than the $1.61 per share previously reported; that the Company had 25-30 redundant local warehouses across all regions and was reviewing their possible closure; that the Company was overstaffed and would freeze hiring worldwide and reduce total employee headcount by approximately 600, about a 10% reduction; and that the Company will reduce capital expenditures and initiate a comprehensive cost cutting program, including consolidations, closings and restructurings of operations. The press release stated:

These results are lower than those announced on February 24, 1999. Following an analysis performed together with its independent auditors and an
investigation by outside attorneys, the Company found that vendor rebates were overstated in the second, third and fourth quarters of 1998. Some of the fourth quarter rebates were supported with invalid documentation and all of the overstated rebates have been reversed. As a consequence, a senior executive of the Company's European headquarters office has resigned from the Company.

121. Upon the Company's dissemination of the March 22, 1999 press release, however, the price of CHS's stock plunged $2.06, or 34% to $3.94, an 82% drop in value since January 1, 1999, making the stock one of the largest percentage decliners on U.S. exchanges.

IX.

THE COMPANY'S CURRENT FINANCIAL CONDITION

122. The Company appears to be in a precarious financial position. In a press release issued by the Company on August 16, 1999, CHS stated "that it intends to immediately hire an investment banker to assist the Company in evaluating strategic alternatives that would enhance shareholder value." The Company recorded a net loss of $33.6 million for the second quarter of 1999 and gross margin percentage slipped from 6.4% to 4.9%. A story in the September 16, 1999 edition of the Palm Beach Daily Business Review stated, in part:

The company is still fighting to recover. In May, it announced restructuring plans and began cutting 600 jobs and closing down warehouses. Those moves are expected to save the company $30 million this year and $40 million next year. In August, CHS hired a turnaround specialist named Mark Keough to head operations. It also sold its Sun Microsystems Inc. distribution business in Germany, Austria, Denmark and Sweden, and will use the $38 million to pay down debt.

But compared to the enormity of its problems, these efforts are not likely to be enough to trigger a recovery. 'The balance sheet is awful,' says analyst [Robert] Dameron [of Cleary Gull Reiland & McDevitt, Inc.]. Joel Pitt, an
analyst with Credit Suisse First Boston Corp. agrees that it is one of the worst he’s seen.

In August, both Moody’s Investors Service and S&P’s Rating Services lowered their ratings on CHS corporate bonds from stable to negative. CHS managed to pay down some debt in recent months, and reduced its debt from $1.1 billion to $977 million as of June 30. But it is not in compliance with the terms of at least three of its loans, a $180 million credit facility owed to German banks and two short-term loans totaling $67.4 million, according to documents the company filed with the SEC. CHS is attempting to renegotiate those loans.

As the company’s problems mounted, relations with vendors and suppliers have deteriorated. Afraid they could get burned if CHS goes under, vendors and suppliers have restricted credit, decreased the number of days CHS has to pay for inventory and raised interest rates. These changes have increased CHS’s financing costs and its need for working capital, according to SEC documents.

Moreover, on September 16, 1999, the Company stated:

CHS Electronics, Inc. (NYSE: HS), a leading international distributor of IT products and services, today announced that it has retained Raymond James & Associates, Inc. to assist the Company’s Board of Directors in evaluating strategic alternatives. The Company stated that Raymond James has undertaken a thorough review of the Company including its operations and markets and will recommend actions to enhance shareholder value. Alternatives may include a recapitalization, merger, privatization, or sale of all or part of the Company.

VAR Business reported on October 25, 1999 that CHS “is in a state of financial turmoil.” On June 30, 1999, $299 million was due to sellers on seven acquisitions made during 1998, and CHS has been in default since then. Therefore, as indicated in paragraph 114, as a result of the plunge in the price of CHS common stock, the Company was unable to pay for a number of the Class Period Acquisitions.

In fact, on November 1, 1999, CHS announced that “it has further reduced its earn-out obligations by transferring interests in three operations to the original owners of each company in non-cash transactions. Under the terms of the agreements, CHS, in certain
of the operations, will retain a small minority interest with an option to repurchase the
remaining interest at a later date.” The transactions included three operations in Latin
America.

126. Further, on October 27, 1999, CHS announced that it had executed a letter of
intent with a group of its senior managers in Latin America proposing a transaction in which
CHS would sell for cash a majority interest in certain of its operations in Latin America.

127. On October 26, 1999, CHS announced that CHS Frank & Walter, CHS
Germany, and CHS Austria, subsidiaries of CHS, have voluntarily filed for creditor
protection under German and Austrian law. The Company stated further that “[t]he filing
was necessitated by continuing losses in the operations due to competitive industry conditions
in the region, restricted credit from subsidiaries’ vendors, and a reduced bank line.
Insolvency administrators have been appointed by the court to oversee each operation.”

128. Finally, on November 3, 1999, CHS announced the sale of its U.K.-based
subsidiaries, Metrologie Ltd., Karma U.K. Ltd. and CHS Electronics Plc. According to the
press release, “[t]he sales follow receivership and voluntary administrative actions that took
place in the week of October 25, 1999.”

129. On November 8, 1999, an article in Computer Reseller News summarized the
plight of CHS:

Piece by piece, CHS Electronics Inc. is dismantling itself in an effort to make
it into the new year.

The distributor last week transferred majority ownership of three Latin
American subsidiaries back to their previous owners. That brings to a total of
seven the number of subsidiaries the company has returned to reduce its debt
to sellers by $216 million.
CHS ... also is negotiating the return of six more companies to their previous owners.

*   *   *

If the continuing negotiations are successful, the $299 million owed for acquisitions as of June 30 would be eliminated, said company executives.

*   *   *

In addition, CHS Electronics Plc, one of three CHS companies in the United Kingdom, has been placed in receivership by a lender. The company has a $20 million outstanding loan, and it is secured by accounts receivable of about $33.5 million, the distributor said.

130. Finally, the Palm Beach Daily Business Review, on October 22, 1999, in commenting on the recent financial problems plaguing CHS, described Osorio as "a Pac-Man in Dire Straits." Banking on paying for a majority of its acquisition spree with CHS common stock, the Company's plan derailed on March 22, 1999. Currently, the stock trades at approximately $0.81 per share.

X.

GAAP/SEC REGULATIONS VIOLATIONS

131. The SEC requires that publicly-traded companies present their financial statements in accordance with GAAP. 17 C.F.R. § 210.4-01(a)(1). GAAP incorporate the consensus among accountants at a particular time concerning the economic resources and obligations that should be recorded as assets and liabilities, which changes in them should be recorded, when these changes should be recorded, how the recorded assets and liabilities should be measured, what information should be reported, how it should be disclosed, and which financial statements should be prepared.
132. 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).

Regulation S-X requires that interim financial statements must also comply with GAAP, with the exception that interim financial statements need not include disclosure which would be duplicative of disclosures accompanying annual financial statements. 17 C.F.R. § 210.10.01(a).

133. GAAP provides that previously issued financial statements which are misstated as a result of oversight or a misuse of facts that existed at the time that the financial statements were prepared are to be retroactively restated. See, e.g., Accounting Principles Board ("APB") Opinion No. 20, APB Opinion No. 9 and the AICPA's Statement on Auditing Standards No. 53. Defendants have now acknowledged that the Company's financial statements for the second, third and fourth quarter of 1998 were materially misstated. Indeed, CHS's knowing or severely reckless use of improper accounting practices resulted in a material restatement of almost every income statement item over three consecutive quarters and evidences defendants' intent to manipulate CHS's operating results.

134. GAAP includes the following principles, among others, which were violated by defendants:

a. Revenue should ordinarily be accounted for at the time a transaction is completed. (APB Opinion No. 10, ¶ 12);

b. Revenues and gains generally are not recognized until realized or realizable, and revenues are considered to have been earned when the entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenues. (Statement of Financial Concepts ("Concepts Statement"), No. 5, ¶ 83;
c. 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);

d. the principle that the financial information presented should be complete. (See APB No. 4, ¶¶ 28, 35, 88, 171);

e. the principle of fair presentation ("presents fairly"). (See APB No. 4, ¶¶ 109, 138, 189);

f. the principle of adequacy and fairness of disclosure. (See APB No. 4, ¶¶ 81, 106, 189, 199);

g. the principle of materiality concerning information that is significant enough to affect evaluations or decisions. (See APB No. 4, ¶ 25, 128);

h. the principle that the substance of transactions rather than form should be reflected. (See APB No. 4, ¶¶ 25, 35, 127);

i. the principles that informed judgment based on background and knowledge should be applied. (See APB No. 4, ¶¶ 25, 35, 124, 173, 174);

j. the principle that items included in the financial statements be reliably corroborated by outside evidence (verifiability). (See APB No. 4, ¶¶ 23, 35, 90);

k. 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);

l. 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);

m. the principle that financial reporting should provide information about the economic resources of an enterprise, the claims to those resources, and the effects of transactions, events and circumstances that change resources and claims to those resources. (Concepts Statement No. 1, ¶ 40);

n. the principle that financial reporting should provide information about how management of an enterprise has discharged its stewardship
responsibility to owners (stockholders) for the use of enterprise resources entrusted to it. To the extent that management offers common stock of the enterprise to the public, it voluntarily accepts wider responsibilities for accountability to prospective investors and to the public in general. (Concepts Statement No. 1, ¶ 50); and

the principle that financial reporting should provide information about an enterprise's financial performance during a period. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investment and credit decisions reflect investors' expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance. (Concepts Statement No. 1, ¶ 42).

135. Under Item 303 of Regulation S-K, promulgated by the SEC under the Exchange Act, there is a duty to disclose in periodic reports filed with the SEC “known trends or any known demands, commitments, events or uncertainties” that are reasonably likely to have a material impact on a Company’s sales revenues, income or liquidity, or to cause previously reported financial information not to be indicative of future operations results. 17 C.F.R. ¶ 220.303(a)(1)-(3) and Instruction 3. In addition to the periodic reports required under the Exchange Act, management of a public company has a duty “to make full and prompt announcement of material facts regarding the Company’s financial condition.” Release No. 34-8995 (October 15, 1970), 17 C.F.R. § 241.8995. The undisclosed adverse information concealed by defendants during the Class Period is the type of information which is expected by investors and securities analysts to be disclosed and is known by corporate officials and their legal and financial advisors to be the type of information which is expected to and must be disclosed.
COUNT I

VIOLATION OF SECTION 10(b) OF THE EXCHANGE ACT AND
RULE 10b-5 OF THE SECURITIES AND EXCHANGE COMMISSION

136. Plaintiffs repeat and reallege each and every allegation contained in the
foregoing paragraphs as if fully set forth herein.

137. This Count is asserted against all defendants and is based upon Section 10(b)
of the 1934 Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder.

138. During the Class Period, defendants, singly and in concert, directly engaged in
a common plan, scheme, and unlawful course of conduct, pursuant to which they knowingly
or in a severely reckless manner engaged in acts, transactions, practices, and courses of
business which operated as a fraud and deceit upon Plaintiffs 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 Plaintiffs and the other members of the Class. The
purpose and effect of said scheme, plan, and unlawful course of conduct was, among other
things, to induce Plaintiffs and the other members of the Class to purchase CHS securities
during the Class Period at artificially inflated prices.

139. During the Class Period, defendants, pursuant to said scheme, plan, and
unlawful course of conduct, knowingly and/or in a severely reckless manner issued, caused
to be issued, and/or participated in the issuance of deceptive and materially false and
misleading statements to the investing public as identified above.

140. Throughout the Class Period, CHS acted through the Individual Defendants,
whom it portrayed and represented to the financial press and public as its valid
representatives. The willfulness, motive, knowledge, and severe recklessness of the Individual Defendants is therefore imputed to CHS, which is primarily liable for the securities law violations of the Individual Defendants while acting in their official capacities as Company representatives, or, in the alternative, which is liable for the acts of the Individual Defendants under the doctrine of respondent superior.

141. As a result of the dissemination of the false and misleading statements set forth above, the market price of CHS securities was artificially inflated during the Class Period. In ignorance of the false and misleading nature of the statements identified above and the deceptive and manipulative devices and contrivances employed by the defendants, Plaintiffs and the other members of the Class relied, to their detriment, on the integrity of the market price in purchasing CHS securities. Had Plaintiffs and the other members of the Class known the truth, they would not have purchased said shares or would not have purchased them at the inflated prices that were paid.

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

143. By reason of the foregoing, defendants directly violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder in that they: (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material facts or omitted to state material facts in order to make the statements made, in light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon Plaintiffs and the other members of the Class in connection with their purchases of CHS securities during the Class Period.
144. Less than one year has elapsed since plaintiffs discovered or reasonably could have discovered the facts upon which this Complaint is based.

COUNT II

VIOLATION OF SECTION 20(a) OF THE EXCHANGE ACT

145. Plaintiffs repeat and reallege each and every allegation contained in each of the foregoing paragraphs as if set forth fully herein.

146. The Individual Defendants, by virtue of their position, stock ownership and/or specific acts described above, were, at the time of the wrongs alleged herein, controlling persons within the meaning of Section 20(a) of the 1934 Act.

147. The Individual Defendants had the power and influence and exercised the same to cause CHS to engage in the illegal conduct and practices complained of herein.

148. By reason of the conduct alleged in Count I of the Complaint, the Individual Defendants are liable for the aforesaid wrongful conduct, and are liable to Plaintiffs and to the other members of the Class for the substantial damages which they suffered in connection with their purchases of CHS securities during the Class Period.

149. Less than one year has elapsed since plaintiffs discovered or reasonably could have discovered the facts upon which this Complaint is based.

WHEREFORE, Plaintiffs, on their own behalf and on behalf of the Class, pray for judgment as follows:

A. Declaring this action to be a proper class action and certifying Plaintiffs as class representative under Rule 23 of the Federal Rules of Civil Procedure;
B. Awarding compensatory damages in favor of Plaintiffs and the other members of the Class against all defendants, jointly and severally, for the damages sustained as a result of the wrongdoings of defendants, together with interest thereon;

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

D. Granting extraordinary equitable and/or injunctive relief as permitted by law, equity and federal statutory provisions sued on hereunder, including attaching, impounding, imposing a constructive trust upon or otherwise restricting the proceeds of defendants' trading activities or their other assets so as to assure that Plaintiffs has an effective remedy; and

E. Granting such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiffs demand a jury trial of all issues so triable.

Dated: November 30, 1999

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Consolidated Amended Class Action Complaint was sent by First Class Mail on November 30, 1999 to:

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