CONSOLIDATED CLASS ACTION COMPLAINT

Lead Plaintiff alleges the following based on the investigation of counsel (except for those allegations which pertain to Lead Plaintiff, which allegations are based upon personal knowledge), including, among other things, an analysis of various public filings of Anicom, Inc. ("Anicom" or the "Company") with the Securities and Exchange Commission ("SEC"), press releases, analyst reports, various articles detailed herein, and interviews of former Anicom employees and Anicom customers, and an analysis of documents obtained during the course of the investigation:

NATURE OF THE ACTION

1. This is a class action brought by Lead Plaintiff, State of Wisconsin Investment Board ("SWIB"), on behalf of itself and all other persons or entities who purchased the common stock of Anicom on the open market during the period April 29, 1998 through July 18, 2000 (the "Class Period"), inclusive, except as noted below, and who were damaged thereby. Lead Plaintiff seeks to recover damages caused to the Class by defendants misrepresentations and omissions of material fact.

OVERVIEW

1. This is a lawsuit about Anicom - a company that has made two huge admissions. Anicom has admitted that it overstated its publicly reported net income by a total of $35 million during 1998, 1999 and one quarter of 2000. Anicom has also admitted that this overstatement was no mistake - but rather was caused by the deliberate and fraudulent recordation and recognition of revenue that Anicom Chief Executive Officer Thomas
Reiman has admitted "shouldn't have been recognized at all." See November 14, 2000 Chicago Tribune.

2. Anicom is a Chicago-based wire and cable distribution company, formed in 1993 by the Anixter family. The Anixters were thirty-year veterans of the wire and cable business - having sold their interests in their predecessor company, Anixter Brothers in 1986. The entire Anixter Brothers transaction was valued at more than $500 million. By 1993, the Anixters had grown weary of retirement and sought to return to the wire and cable business. The Anixters formed Anicom.

3. In forming Anicom, the Anixters had two goals - to quickly grow Anicom to $1 billion in revenue, and to sell Anicom and reap millions after it attained the revenue goal. From 1993 through 1995, the Anixters plan worked marvelously - and Anicom conducted its initial public offering at $3.00 per share in February 1995 (split adjusted) and a secondary offering at $4.50 per share in November 1995 (split adjusted).[3]

1. With additional capital and freshly minted common stock to use as currency to fuel Anicom's acquisition machine, the Anixters implemented their "growth through acquisition" strategy from 1995 through 1997 - with Anicom selling an additional 5.9 million shares in private placements in 1997 at $9.00 and $13.10 per share, expanding its credit agreements with banks, and acquiring twelve more privately owned wire and cable distribution companies across the United States for more than $100 million.

2. As defendants soon learned, however, the simple act of Anicom's having acquired a number of marginally profitable or unprofitable independent companies did not automatically render these businesses profitable. Moreover, the harsh wire and cable distribution business environment that had prevailed throughout 1996 and 1997 persisted into the first quarter of 1998.

3. By the beginning of 1998, it became obvious to defendant insiders that Anicom was losing millions. During each successive quarter throughout 1998, 1999 and 2000, Anicom's multi-million dollar losses continued to mount.

4. Well aware that disclosure of this fact would derail both defendants' "growth through acquisition" strategy and the Anixters plan to reap millions by rapidly building Anicom and selling it, defendants deliberately withheld from Class members the fact that Anicom was losing millions and instead, defrauded investors into believing that Anicom was achieving record growth.

5. Rather than disclose Anicom's multi-million dollar losses, defendants began a fraudulent scheme of prebilling sales and recording fictitious invoices in violation of both their own stated accounting policies in SEC filings and generally accepted accounting principles ("GAAP"). Some examples of Anicom's prebills and fictitious invoicing to GTT Electronics ($2.1 million), J.W. Few ($2,136,176), Chrysler ($34,125 - $68,250 and $46,000), Micro Computer Cable ($502,500), Midwest Datacomm ("109,497 and $76,664), Teleplus ($135,000), ISA ($809,579) and CDK Contracting ($285,000) are described in ¶¶ 103, 127-30, 137-40 below. And like all such schemes, this scheme continued to snowball, as one false invoice had to be replaced by ever more false invoices to hide the mounting losses.

[chart to be added]
1. Anicoms accounting fraud was pervasive and known to employees throughout the Company. The fraud was accomplished primarily through (i) issuance of "prebill" invoices through branch offices for goods that were not shipped and services that were not performed, (ii) the creation of fictitious prebill invoices through the "Drop-Ship" department in Anicoms corporate offices in Rosemont, Illinois, (iii) the deferral of credits due Anicom customers, (iv) an overstatement of vendor rebates, (v) an understatement of expense accruals, and (vi) an understatement of inventory costs. Substantially all of the prebills and fictitious invoices were entered into the accounting system just at the very end of each quarter and were for dollar amounts greatly in excess of the dollar amounts typically associated with Anicom's invoices. Moreover, the prebills and fictitious invoices were followed, in many instances, in subsequent quarters with credits issued (again in amounts greatly in excess of Anicom's usual practices) against the fraudulent invoices.

2. Defendants Scott Anixter, Carl Putnam, Donald Welchko and Alan Anixter (referred to herein, at times, as the "Management Defendants") had actual knowledge of the fraud.

3. Scott Anixter, who served as Anicom's CEO and Board Chairman throughout most of the Class Period, ruled Anicom with an iron fist. Using a sophisticated accounting system called "Trend," Scott Anixter was able to monitor Anicom's sales and open order report in "real time" and knew as the end of each quarter approached that, without the accounting fraud, Anicom would substantially underperform analysts' expectations - resulting in a dramatic decline in Anicom's stock price. The accounting fraud was pervasive and known throughout the Company, and was accomplished through transactions at the end of each quarter that were outside the ordinary course of Anicom's business. These end of quarter transactions were followed by credits in subsequent quarters, also outside the ordinary course of Anicom's business, Scott Anixter, managing Anicom with an iron fist and monitoring the business in "real time," had actual knowledge of the fraud.

4. Carl Putnam, who held the positions of COO and then CEO during the Class Period, personally orchestrated the fraud and personally directed branch offices and Anicom's "Drop-Ship" department to engage in prebilling and fictitious drop-shipping.

5. Donald Welchko, Anicom's CFO during the Class Period, also had actual knowledge of the fraud. Welchko personally orchestrated the entry of at least nine fictitious invoices into the accounting system in early 1999 to offset credits that were due customers, and he was repeatedly informed by regional credit managers of fraudulent prebilling. Welchko also knew, by virtue of his position as CEO and access to Anicom's "Trend" accounting system, of the large number of irregular transactions entered at the end of each quarter and the reversal of those transactions in subsequent periods.

6. The defendants were motivated to commit the fraud to: (i) keep the price of Anicom shares artificially inflated so that defendants could continue to implement their "growth through acquisition" strategy by buying companies with artificially inflated stock and creating the illusion that Anicom was a successful industry consolidator, (ii) prove that they could build another billion-dollar company like Anixter Brothers in less time, and (iii) to inflate their cash and stock-based compensation from Anicom and eventually sell Anicom and thereby reap millions.

7. The collapse of defendants fraudulent scheme came on July 18, 2000, when Anicom announced "accounting irregularities" - an accounting term defined as "intentional misstatement or omissions of amounts or disclosures in financial statements." (Exhibit 1.)
8. On November 13, 2000, Anicom belatedly acknowledged that its financial statements for the nine quarters comprising the Class Period were inflated by an aggregate amount of $39,613,000 in reported revenue and $34,419,000 in pre-tax net income as follows:

<table>
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<tr>
<th></th>
<th>Fiscal 1998 (000)</th>
<th>Fiscal 1999 (000)</th>
<th>First Quarter Fiscal 2000 (000)</th>
<th>Aggregate Overstatement</th>
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<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As Reported</td>
<td>$470,279</td>
<td>$536,721</td>
<td>$145,523</td>
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<tr>
<td>As Restated</td>
<td>$456,667</td>
<td>$521,759</td>
<td>$135,484</td>
<td></td>
</tr>
<tr>
<td>Overstatement</td>
<td>$13,612</td>
<td>$14,962</td>
<td>$11,039</td>
<td>$39,613</td>
</tr>
<tr>
<td><strong>Pre-Tax Net Income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As Reported</td>
<td>$13,142</td>
<td>($16,294)</td>
<td>$1,682</td>
<td></td>
</tr>
<tr>
<td>As Restated</td>
<td>($2,865)</td>
<td>($28,401)</td>
<td>($4,623)</td>
<td></td>
</tr>
<tr>
<td>Overstatement</td>
<td>$16,007</td>
<td>$12,107</td>
<td>$6,305</td>
<td>$34,419</td>
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Indeed, the magnitude of the fraud was so pervasive that almost six months later, Anicom has still failed to restate its financial statements for the nine consecutive quarters during which the fraud was perpetrated, or the two subsequent quarters in 2000.

1. Following defendants acknowledgment of the accounting irregularities and issuance of summary restated financial statements, Anicom common stock has been suspended from trading on the NASDAQ National Market list, and is currently trading on the "pink sheets" for pennies a share - down from the Class Period high of $16.75 per share. Anicom’s deceived investors lost tens of millions of dollars as a result of defendants massive and long-running fraud.

**JURISDICTION AND VENUE**

1. The claims herein arise under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act"), 15 U.S.C. §§ 78j(b) and 78t(a), and 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 Exchange Act, 15 U.S.C. § 78aa, and 28 U.S.C. § 1331.

2. Venue is proper in this District pursuant to Section 27 of the Exchange Act, and 28 U.S.C. § 1391(b). Many of the acts complained of, including the dissemination to the investing public of materially false and misleading statements, occurred in substantial part in this District. In addition, Anicom’s executive offices are located in this District and the Management Defendants reside in this District.
3. 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 a national securities exchange.

THE PARTIES

1. The State of Wisconsin Investment Board ("SWIB") is designated as Lead Plaintiff. Located in Madison, Wisconsin, SWIB is a Wisconsin state agency that invests the assets of the Wisconsin Retirement System, the State Investment Fund and several smaller trust funds established by the State. SWIB purchased common stock issued by Anicom at artificially inflated prices during the Class Period and was damaged as a result thereof.

2. Anicom is a Delaware corporation with executive offices located at 6133 North River Road, Suite 1000, Rosemont, Illinois 60018. Anicom is a distributor of multimedia technology products consisting of communications related wire, cable, fiber optics, and computer network and connectivity components. Anicom also provides specialized services such as cutting and re-spooling services and technical support. Anicom's stock trades on the NASDAQ, an efficient market, under the stock symbol "ANIC." As of March 27, 2000, Anicom had 25,248,611 common shares outstanding.

3. Defendant Scott C. Anixter served as Chief Executive Officer and a director of the Company since its inception until September 1, 1999. From September 1, 1999 through May 17, 2000 Scott Anixter was Chairman of the Board of Directors of Anicom. Effective May 17, 2000, defendant Scott Anixter became Chairman Emeritus and Director of Strategic Planning. On November 13, 2000, Anicom announced that Scott Anixter would retire from Anicom effective December 31, 2000.

1. Defendant Carl E. Putnam ("Putnam") was throughout the Class Period a Director of Anicom. Putnam was the President and Chief Executive Officer of Anicom from September 1, 1999 until he was placed on administrative leave on or about July 18, 2000 and was forced to resign on September 11, 2000. Prior to becoming Chief Executive Officer on September 1, 1999, Putnam served as President and Chief Operating Officer of Anicom. Prior to working at Anicom, Putnam spent fifteen years working for Alan Anixter and Scott Anixter at Anixter Bros., Inc., where he last served as a Regional Vice President.

2. Defendant Donald C. Welchko ("Welchko") was Anicom's Senior Executive Vice President and Chief Financial Officer from September 1, 1999 until placed on administrative leave on or about July 18, 2000 and forced to resign on September 11, 2000. From January 1995 until September 1999, Welchko was a Vice President and Chief Financial Officer of Anicom. Welchko was a director of Anicom throughout the Class Period and a member of Anicom's Audit Committee in 1998 and 1999. Prior to joining Anicom in January 1995, Welchko served as a Vice President-Corporate Lending of Harris Trust and Savings Bank, Anicom's principal banker.

3. Defendant Alan Anixter was an Anicom director from its founding until his resignation on May 17, 2000 - he was the Chairman of the Board of Directors until September 1999.
From September 1999 through May 17, 2000, Alan Anixter was Chairman of Anicoms Executive Management Committee.

HISTORY LEADING UP TO THE FRAUD

1. In the 1950s brothers Alan and William Anixter founded Anixter Brothers. Anixter Brothers was a wire and cable distribution company that was run and managed by the Anixter Brothers for more than thirty years - from the time it was founded until the Anixters sold Anixter

Brothers to a Sam Zell company in the late 1980s. By the time Alan Anixter left the helm of Anixter Brothers, it was generating $1 billion in annual revenue.

1. By early 1993 - as soon as the Anixter brothers non-compete agreement had expired

- father Alan Anixter and son Scott Anixter wasted no time in forming their own new wire and cable distribution company that was to compete directly with the Zell-owned Anixter Brothers. Their new company was named "Anicom" - an amalgam of "Anixter" and "competition."

1. Well known and well financed, father and son Anixter wasted no time in establishing their new company by luring several of the employees who had worked for them at Anixter Brothers to work at Anicom, and by growing the newly formed Anicom by acquiring a number of smaller, independently owned, wire and cable distributors across the United States. All of these actions were taken in furtherance of the Anixters two goals - one of which was known to investors and one of which was not. The first goal - which was repeatedly publicly proclaimed by the Anixters was to grow Anicom into a billion-dollar company. The second - and undisclosed - goal was to sell Anicom once the $1 billion in annual revenue goal had been attained, and thereby reap millions for themselves.

2. Because the margins in the wire and cable distribution business are razor-thin, there was no room for error in the execution of the Anixters plan to reap millions. Growing Anicom into a company that generated $1 billion in annual revenue would require the rapid implementation of the Anixters "growth through acquisition" program and any factor tending to derail the acquisition program or negatively impact Anicom's revenue, earnings or profitability growth would pose a serious threat to the success of the Anixters plan.

3. The Anixters plan was implemented smoothly from 1993 through 1995, at which time the Anixters took Anicom public by way of a 1.4 million share offering in February 1995. Not long after going public, Anicom acquired Pinnacle Wire Cable in Columbus, Ohio and Morgan Hill Supply Company in Kingston, New York for $1.4 and $1.5 million worth of cash, common stock and notes, respectively, in July and October 1995.

4. In 1996, the Anixters "growth through acquisition" strategy shifted into high gear

- with Anicom acquiring: (i) Medisco, Inc. in Indianapolis, Indiana for $837,000 in cash in February 1996; (ii) Northern Wire and Cable in Troy, Michigan for approximately $18.6 million in cash, common stock and notes in March 1996; (iii) Southern Alarm Supply Co. in Nashville, Tennessee for $350,000 in cash and common stock in May 1996; (iv) Norfolk Wire &
Electronics in Virginia Beach, Virginia for approximately $6.6 million in cash, common stock and notes in September 1996; and (v) Western Wire and Alarm Co. in Denver, Colorado for approximately $350,000 in cash, common stock and notes in September 1996.

1. By 1997, the Anixters strategy appeared to be taking root. For fiscal year 1996, Anicom reported $116.0 million in revenues and $2,623,000 in earnings - increases of more than 295 percent and 243 percent respectively over the prior year. By all appearances, the Anixters had hit their stride and the size of the acquisitions that the Anixters were able to make swelled significantly in 1997. Anicom acquired: (i) Carolina Cable and Connector in Tennessee for approximately $7 million in cash, common stock and notes in February 1997; (ii) Security Supply, Inc. in New Orleans, Louisiana for approximately $2 million in cash and common stock in March 1997; (iii) Energy Electric Cables in Auburn Hills, Michigan for approximately $29 million in cash, common stock and notes in July 1997; (iv) Zack-Datacom in San Jose, California for approximately $4.7 million in cash and common stock in October 1997; and (v) 1W Communications Corporation in Farmingdale, New York, for approximately $29.6 million in cash, common stock and notes in December 1997.

2. The 1997 acquisitions were financed in substantial part by increases in Anicom's credit facilities and the issuance of 3 million shares of convertible preferred stock at $9 per share in a May 1997 private placement, and 2.9 million shares of common stock at $13.10 per share in a November 1997 private placement. In February 1997, Welchko was quoted as saying that "as long as the equity markets hold up, Anicom will continue to pursue acquisitions."

3. Prior to the first quarter of 1998, Anicom had grown primarily through acquisitions. Anicom's ability to issue stock and borrow money fueled its acquisition strategy. Anicom maintained a credit agreement (the "Facility") with various lenders throughout the Class Period. The available borrowings under the Facility increased from $50 million at the beginning of the Class Period to $150 million at the end of the Class Period. The Facility contained certain financial covenants, including an interest coverage ratio, with which Anicom was required to comply.

4. For example, the December 17, 1999 Facility provided that the interest coverage ratio, a ratio of EBIT (earnings before interest and taxes) to Interest Expense, be maintained at 2 to 1. With actual earnings losses mounting, it became increasingly important for the defendants to artificially inflate the Company's earnings through fictitious billing and excessive prebilling. As restated. Anicom had earnings losses of $2.9 million and $28 million in 1998 and 1999, respectively. Had the truth been reported, Anicom's Facility would never have been increased 300% during the Class Period. Without the ability to constantly increase the available borrowings under the Facility, Anicom's acquisition strategy would have been greatly hindered. This provided strong motivation for the Management Defendants to artificially inflate earnings to remain in compliance with the Facility's terms.

5. Implementation of the Anixters plan could not have gone more smoothly than it did during 1996 and 1997. Less than three years after having taken Anicom public, the Anixters had acquired 12 companies valued at a total of approximately $100 million and, for fiscal year 1997 Anicom generated $244 million in revenue, an increase of more than 730 percent over the $29.4 in revenue generated in 1995, the year of Anicom's IPO.
Revealing the importance of Anicom's stock price to his acquisition binge, Scott Anixter was quoted as saying, "We used a high-multiple currency to buy private, low-multiple currencies." Anicom appeared to be well on its way to generating the $1 billion in annual revenues that the Anixters had set as their goal, and the Anixters moved ever closer to their secret goal of selling Anicom and reaping millions for themselves.

6. The ability to acquire 12 companies worth roughly $100 million in less than three years was quite an accomplishment when viewed in light of the negative business environment in which wire and cable distributors operated during 1996 and 1997. The Anixters' ability to achieve these types of results during what Electrical Wholesaler magazine termed "an awful couple of years for wire and cable specialists" was remarkable - and was recognized as such by securities analysts who provided coverage of Anicom and who had come to expect consistent quarterly revenue, earnings and profit increases by Anicom over the past couple of years.

7. Scott Anixter was quoted in Forbes as stating that Anicom's internal growth rate was 15%-20% a year without acquisitions. That defendants had succeeded in positively "guiding" analyst expectations was evidenced by a number of analyst reports issued in late 1997 and early 1998. Included among these analyst reports were:

1. A December 10, 1997 PaineWebber report that stated "[w]e expect the company to supplement a projected internal growth rate of approximately 20% with a series of accretive, complimentary acquisitions to produce a near term EPS growth rate of approximately 35% and longer term, a sustainable growth rate of approximately 20-25%." The Paine Webber analyst established earnings expectations for fiscal 1998 of $0.47 per share; and

2. A February 12, 1998, Cleary Gull Reiland & McDevitt Inc. research report that reiterated that firms "#1-Buy" recommendation on Anicom common stock and raised its fiscal year 1998 earnings per share estimate from $0.50 to $0.52, including a first quarter 1998 earning estimate of $0.11. This report stated that Anicom had been able to achieve "an internal growth rate of 20%+ [excluding acquisitions] in an industry growing 10%" and that the analyst "believed Anicom will be able to continue this internal growth rate going forward as more industry sales are outsourced to the distribution channel and larger, more aggressive distributors [such as Anicom] outperform the smaller less sophisticated ones." The February 12, 1998 Cleary Gull report established a price target for Anicom of $21 "over the next six-twelve months," based on "an expected 3-5 year EPS growth rate of 40-45% and a price/earnings multiple of 40 times fiscal 1998 earnings estimates of $0.52 per share.

1. By early 1998, defendants were no longer able to ignore or hide from the realities of the wire and cable marketplace in which Anicom operated. Two years of adverse market conditions for wire and cable products had caused a number of independent wire and cable specialists to throw in the towel and sell their operations to Anicom, and defendants
were now faced with integrating these twelve acquisitions and operating them profitably—a daunting task in the best of times—let alone in the negative market climate for wire and cable suppliers that existed in early 1998.

2. By early 1998, the competitive pressures of the wire and cable supply marketplace proved to be too much for even the Anixters and Anicom. Unable to digest all of their acquisitions and operate them profitably, Anicom was about to incur and report its first losses since it had gone public.

3. Each of the defendants was keenly aware of the consequences of Anicom breaking its uninterrupted string of revenue, earnings and profit increases. If Anicom were to report its first ever operating loss, analysts would be shocked and their expectations would be dashed, analysts would downgrade their ratings on Anicom shares, the price of Anicom shares would plummet, potential acquisition targets would be less willing to accept devalued Anicom common stock as payment, and the Anixters plan of building Anicom into a company capable of generating $1 billion in annual revenue and selling Anicom would be thwarted.

4. Unwilling to surrender to reality and report the truth namely that Anicom had incurred its first ever operating loss - the defendants determined to, and did, embark on the fraudulent scheme detailed below. Defendants fraudulent scheme was designed to and did permit defendants to: (i) conceal from financial market participants the fact that Anicom was incurring multi-million dollar losses throughout 1998, 1999 and 2000; (ii) continue to deceive analysts into believing that Anicom was immune from the financial woes encountered by Anicom's competitors; (iii) continue using artificially inflated Anicom shares as capital in connection with the four acquisitions made by Anicom during 1998; and (iv) deceive purchasers of Anicom shares into purchasing those shares at artificially inflated prices, causing such purchasers to incur millions of dollars in damages when the truth was eventually revealed and the price of Anicom shares plunged.

HOW THE FRAUDULENT SCHEME WORKED

1. Defendants Closely Monitored Anicom's Business And Financial Performance By Using The Company's "NX Trend" Integrated Financial Software Application And "The Flash" In Order To Fine Tune Their Fraud

1. Scott Anixter knew how important it was to keep close tabs on his Company's sales and profits. Noting that Scott Anixter was "relying heavily on sophisticated information systems to reach his goals," a February 3, 1997 article in Internet Week quoted him as saying, "My father always said that data processing or information systems is as important as sales." Scott Anixter continued: "We feel it is important to have a very close handle on your business, and more important, to avoid surprises for ourselves and for the
people who invest in our company." Ironically, he and the other Management Defendants used that sophisticated system and their unwillingness to "surprise" investors with the truth to implement a wide-ranging fraud.

2. In late 1997, Anicom installed a new integrated financial management software application for use by all of Anicom's salespeople and management personnel. The new system was known as "Trend," and was distributed by Colorado Springs, Colorado based NX Trend. According to knowledgeable former Anicom employees, Anicom's Paul Adams had recommended that Anicom purchase the Trend system because the Company's financial management and information systems needs had expanded beyond the capability of the "Rubicon" system that was then being utilized by Anicom.

3. According to knowledgeable former Anicom employees, each of the four Management Defendants, in order to further monitor sales and margin activity in realtime, requested that Anicom's Trend system be customized with an application known as "The Flash."

4. True to its name, "The Flash" enabled each of the Management Defendants and a limited number of other Anicom employees who had security access to The Flash to monitor sales and gross profit data at the corporate, regional, branch and salesperson levels, virtually in real time, throughout each fiscal quarter. According to knowledgeable sources, The Flash was indeed closely monitored by Anicom's senior executives, including the Management Defendants, on an ongoing basis and was viewed most assiduously by the Management Defendants at the end of each fiscal quarter as they watched orders. Defendants Scott Anixter, Putnam and Welchko were often seen sitting and simply watching The Flash at Anicom's Rosemont, Illinois headquarters throughout the Class Period.

5. Anicom also maintained an Open Order Report that was regularly accessed by the Management Defendants. The Open Order Report contained detailed information on the nature of open (unfilled) purchase orders from Anicom's customers, including when products were scheduled to be shipped. As stated in Anicom's Form 10-Q for the first quarter of 1999, Anicom's "new information system . . . integrates sales, inventory control and purchasing, warehouse management, financial control and internal communications while providing real-time monitoring of inventory levels, shipping status and other key operational and financial benchmarks of all of Anicom's sales and distribution locations." [Emphasis added.]

6. Many of Anicom's purchase orders from customers were requirement contracts that were to be filled over many months. Each week, Anicom's more than 50 branch managers were required to report in writing to Daryl Spinell ("Spinell"), Anicom's national sales manager, as to the total amount of revenue that had been billed month-to-date and that the branch manager expected would be shipped over the balance of the month (and the gross profit margins associated with that revenue). Branch managers were also required to report to Spinell the status of any pending purchase orders from customers.

7. By virtue of their access to and use of the Trend system, The Flash, the Open Order Reports, and the weekly reports from branch managers, Anicom's senior officers, including the Management Defendants, were able to, and did, micro-manage the business, including identifying (i) the items on the Open Order Report that were not scheduled for shipment until future quarters, and (ii) anticipated purchase orders that were expected to convert into revenue in future quarters.
8. Significantly, each of the aforementioned information sources permitted the defendants to monitor, particularly right at the end of each financial reporting quarter, how far Anicom was below expectations for revenue, gross profit, and net income. The "Trend" system also allowed Anicom officials to see orders that had been placed, but that had not yet been shipped.

9. In addition, according to persons familiar with the operations of Anicom during the Class Period, Scott Anixter operated Anicom with an iron fist. Nothing happened to Anicom in the field without Scott Anixter knowing about it. As he had told Internet Week, Scott Anixter did indeed "have a very close handle on" Anicom's business.

B. Defendants Routinely Directed Anicom's Salesforce To

"Prebill" Anicom's Customers In Order To "Make The Numbers"

1. Beginning as early as the first quarter of 1998, toward the end of each fiscal quarter, Anicom's senior executives, including the Management Defendants and Spinell, closely monitored

   The Flash and reviewed sales and gross profit reports for the quarter in order to determine whether Anicom would achieve internal and analyst growth expectations. Because Anicom's internal revenue, earnings and profit growth had already begun to decline drastically by the first quarter of 1998-- and continued to do so throughout the Class Period-- Anicom's senior officers, including the Management Defendants, were forced to either disclose this fact to financial market participants - or to resort to unlawful means to achieve the levels of revenue and profit growth they had led analysts to expect from Anicom. Unwilling to disclose the truth, the defendants chose to defraud financial market participants.

   1. Defendants did so by improperly directing Anicom's regional and branch sales managers to "prebill" customers for products that were not scheduled to be shipped and would not be shipped in the given quarter, and in many instances had not even been ordered by the customers. This practice was designed to, and did, create the appearance that Anicom's sales, and resultant financial statistics were far greater than they actually were during any given quarter of the Class Period and permitted Anicom to report artificially inflated revenue, earnings, assets and profit statistics throughout the Class Period in violation of the Company's publicly stated revenue recognition policy and GAAP.

C. Defendants Routinely Instructed Anicom's "Drop-Ship" Billing Department To Create Fictitious Orders In Order To "Make The Numbers"
1. Defendants willingness to "create" sales and employ fraudulent practices in violation of both Anicom's stated revenue recognition policy and GAAP did not end there, however. When defendants were unable to "generate" the financial results that Anicom needed in order to meet analyst expectations through the use of defendants fraudulent "prebill" scheme, they resorted to creating completely fictitious orders and reporting the revenue, earnings and profit that had purportedly been derived from these wholly fictitious orders throughout the Class Period.

2. Recognizing that many of Anicom's regional and branch managers would be unwilling to engage in what amounted to outright fraud through the creation of completely fictitious sales, defendants Scott Anixter, Putnam and Welchko took matters into their own hands and themselves personally directed and supervised the creation of countless fictitious sales in order to permit Anicom to report financial results that were in line with, or exceeded, analyst expectations. Knowledgeable ex-Anicom employees have informed plaintiffs counsel of specific examples of numerous instances in which these defendants personally participated in the recording of fictitious sales.

3. In order to "create" these fictitious sales, these defendants routinely directed employees in Anicom's "Drop-Ship Billing Department" to create fictitious invoices that would then be used to "book" the "revenue" that had purportedly been derived from these wholly fictitious orders.

4. Spinell, who reported directly to President and CEO Putnam, acted at the instruction of the defendants in directing the creation of these wholly fictitious invoices, and knowledge of this clearly illegal practice was widespread throughout Anicom's headquarters on the executive floor (Exhibit 3). Moreover, the implementation of this scheme was quite easy because the key players were all on the same floor in Anicom's corporate headquarters in Rosemont. As shown by Exhibit 3, all the key players, including the defendants Scott Anixter, Carl Putnam, Don Welchko, and Spinell, and the creation of wholly fictitious "Drop-Ship" orders occurred right on this same floor (Exhibit 3).

5. Significant transactions took place in the Drop-Ship department at the end of every quarter. The vast majority of orders within the Drop-Ship department was placed within the last two or three days of every quarter.

6. In order to generate these fictitious Drop-Ship invoices, it was necessary to enter a purchase order to an Anicom vendor in the accounting system. These "dummy" purchase orders were entered into the Trend system and coded with a clearly marked designation: "As per Daryl [Spinell]." An example is attached as Exhibit 4.

7. The code "as per Daryl," referred to instructions by sales head Daryl Spinell to create these false purchase orders. These dummy orders also stated "DO NOT MANUFACTURE UNTIL APPROVED IN WRITING" (Exhibit 4).

8. In addition, these fraudulent practices were widely known in the field offices of Anicom, which were spread out all across the United States. For example, Mike Duran, an Anicom sales official in Anicom's Torrance, California office, has recently stated on the Yahoo Internet message board for Anicom (Exhibit 5):

ANYONE WHO WANTS TO KNOW SPECIFICS ON PREBILLED
ACCOUNTS OR WRONG DOINGS JUST ASK ME I KNOW A LOT!!!!

AND I TOLD THE LAWYERS THATS WHY THEY LET ME GO.

CAUSE I KNEW TOO MUCH!!!

1. Using the "Drop-Ship" strategy, numerous false invoices were generated in 1998 alone. Attached as Exhibit 6 is a spreadsheet maintained at the Company listing over 100 of those Drop-Ship invoices outstanding at year-end 1998.(2)

2. In many instances, prebills would be followed in a subsequent quarter by the issuance of very substantial credits, which would be a charge against that quarters revenues. Those credits were a red flag that would have alerted Scott Anixter (as well as Putnam and Welchko) to the fraud, were they not already aware of it.

D. Defendants Routinely Refused To Issue Credits To Anicom's Customers In A Timely Manner If At All In Furtherance Of Defendants Fraud

1. Defendants also caused Anicom's financial results to be materially misrepresented throughout the Class Period by both refusing to issue credits to its customers who were due credits in a timely manner - and sometimes even refusing to issue credits at all.

2. Ex-employees who personally were present at the quarter ends have stated that pallets of returned merchandise were allowed to build up at Anicom's warehouses and were only processed after each quarter to avoid taking a charge against current period revenues. Furthermore, stacks of credit requests sat in the accounts receivable department at Anicom's executive offices in Rosemont, unprocessed until after the close of fiscal quarters.

3. Defendant Putnam routinely overruled senior officers under his immediate supervision who cautioned Anicom to exercise restraint in the prebill scheme.

4. Putnam specifically directed, among other things, in January 1999, with regard to a $25,000 return of merchandise to a vendor, that the transaction be recorded as a sale (Purchase Order No. 3480304), rather than as a reduction of inventory, as it should have been.

1. When credit managers raised legitimate concerns with customer credit, Putnam denigrated their efforts by calling the credit department the "order prevention" department.

2. Defendant Welchko had actual knowledge of the scheme. Among other things, Welchko was provided by e-mail and written reports, on at least a monthly basis by Anicom's regional credit managers, with a list of accounts receivable outstanding on items that
were never shipped, with recommendations that the accounts receivable be immediately credited. These e-mails and written reports were routinely ignored by Welchko.

3. Welchko had frequent communications with Anicoms auditors in an effort to explain the absence of shipping documents.

INDIVIDUAL DEFENDANTS WHO ORCHESTRATED THE SCHEME

1. At all times, this scheme was controlled by a tight inner circle of individual defendants - Anicom CEO Scott Anixter, COO (and later CEO) Carl Putnam, and CEO Don Welchko. A key guru overseeing management was also Alan Anixter, close advisor of Scott Anixter.

2. These defendants had offices right next to each other on the same executive-office floor of Anicom in Rosemont, Illinois. See Exhibit 3. This group represented the four-person senior management team at Anicom.

3. It was Scott Anixter and Carl Putnam who literally had the idea of starting Anicom and approached the elder Anixter brothers for support. And Don Welchko had been the banker for Anicom before joining the Company.

4. Scott Anixter was CEO from Anicom's inception until September 1, 1999 and a director from its inception through the end of the Class Period. He was chairman of the board of directors from September 1, 1999 through May 17, 2000. Effective May 17, 2000, he became Chairman Emeritus and Director of Strategic Planning. He signed numerous SEC filings, including 10-Ks with financial statements. On November 13, 2000, at the same time that Anicom announced its unaudited, restated financial statements, Anicom also announced that Scott Anixter would retire from Anicom effective December 31, 2000.

1. Carl Putnam was a director of Anicom through the Class Period. He was president and COO during the first part of the Class Period, and was president and CEO from September 1, 1999 until he was placed on administrative leave on or about July 18, 2000 and was forced to resign on September 11, 2000. According to Anicom's August 12, 1999 press release, Putnam played an integral role in quickly building Anicom into a leading North American specialist in the distribution of multimedia technology products. Prior to working at Anicom, Putnam spent fifteen years working for Alan Anixter and Scott Anixter at Anixter Brothers, Inc. where he last served as a regional vice president.

2. Donald Welchko was Anicom's vice president and CEO from January 1995 through September 1999, when he was promoted to senior executive vice president and CEO. He served in that position until he was placed on administrative leave on or about July 18, 2000 and was forced to resign on September 11, 2000. Welchko was an Anicom director during the Class Period and a member of Anicom's Audit Committee in 1998 and 1999. That committee, as stated in April 27, 1998 and April 20, 1999 proxy statements, had responsibility for recommending the plan and scope of the accountant audit, reviewing Anicom's audit and control functions and reporting to the Anicom board of directors on these functions.

3. Prior to joining Anicom in January 1995, Welchko served as a vice president of corporate lending for Harris Trust and Savings Bank, Anicom's principal banker. According to
Anicoms August 12, 1999 press release, Welchko placed a critical role in putting together each of Anicoms acquisitions.

4. Finally, Alan Anixter was Anicoms board chairman from its founding until September 1, 1999. From September 1, 1999 through May 17, 2000, Alan Anixter was also chairman of Anicoms Executive Management Committee. Alan Anixter remained a director of Anicom from May 17, 2000 until his resignation after the end of the Class Period. 

Anicom has publicly described Alan Anixter as a "founder" of Anicom. Anicoms Form 8-K dated November 22, 2000, states that Alan Anixter "built Anicom from scratch." Anicoms marketing literature published in 1999 described Alan Anixter (together with Scott, Putnam and Welchko) as one of the members of Anicom's "four-person senior management team."

5. These Management Defendants were at the heart of Anicom's false and misleading SEC filings. The Management Defendants each participated in drafting, reviewing and approving the issuance of the following false and misleading statements during the Class Period (among others): 1) Anicoms Form 10-Qs for the interim quarters of 1998 and 1999 and the first quarter of 2000; 2) Anicoms Form 10-Ks for 1998 and 1999; and 3) quarterly press releases and other press releases announcing Anicoms operating results. Each of these was published by the Management Defendants as group. Those Management Defendants who signed some but not all of the false and misleading statements are nevertheless liable for each of the statements, because of their participation in the creation of the statements, as well as by virtue of their failure to prevent the false statements from being made.

6. These Management Defendants, as the most senior executive officers of Anicom, were controlling persons of Anicom within the meaning of Section 20(a) of the Exchange Act. By reason of their positions at Anicom, the Management Defendants had access to material inside information about Anicom, and were able to and, directly or indirectly, in whole or in material part, did control the content of various public reports and filings with the SEC and public statements issued by Anicom.

7. These defendants clearly had the motive and opportunity to commit the fraud described in this complaint. They were committed to quickly building a billion-dollar company through fast acquisitions. In addition they had stock and stock options that gave them a further incentive to commit fraud.

8. As of April 7, 2000, Scott Anixter owned 2,330,000 Anicom common shares (including 235,000 stock options exercisable within 60 days thereafter), as well as an additional 190,000 Anicom stock options that were not then exercisable. Scott Anixter was paid a base salary of $300,000, $360,000, and $400,000, respectively, for 1997, 1998, and 1999. According to Anicom's 1998 proxy statement, these successive raises were based upon the significant growth experienced by Anicom based upon an evaluation of the CEO's contribution to achieving growth.

9. In addition, Scott Anixter was awarded cash bonuses of $72,500 and $100,000 respectively for 1997 and 1998. In each of 1997 and 1998, Scott Anixter was awarded 100,000 Anicorn stock options at the then current market price. His 1998 option award was a direct product of Anicom's false reporting of strong profits that year.

10. Putnam had the same financial incentive to participate in the fraudulent scheme. He owned 323,559 shares of Anicom common stock as of April 7,2000, which included 202,000 stock options exercisable within 60 days, as well as an additional 234,000...
options not then exercisable. His salary also increased from $260,000 in 1997, to $312,000 in 1998, to $345,000 in 1999, as well as cash bonuses of $75,000, $100,000, and $40,000 during those years. Putnam was also awarded 100,000, 100,000, and 50,000 in stock options, respectively, during those years, exercisable at the then current market prices.

11. Welchko owned 141,614 shares of Anicom common stock (including 131,400 stock options exercisable within 60 days), as of April 7, 2000. He owned 208,600 Anicom common stock options not then currently exercisable. Welchko was paid a base salary of $170,000, $204,000, and $230,000 respectively for 1997, 1998, and 1999, and received cash bonuses for those same years of $75,000, $100,000, and $40,000. He was also awarded options of 75,000, 100,000, and 50,000 shares, respectively, exercisable at then current market prices during those years.

12. Therefore, the Management Defendants had a significant personal financial stake in Anicom's performance. According to Anicom's proxy statements filed with the SEC during the Class Period, the defendants' base salaries, bonuses, and options were directly dependent upon Anicom's strong performance.

13. There was an additional motivation for Scott Anixter. In 1989, Scott Anixter was caught in an FBI sting for a soybean trading scam on the Chicago Board of Trade. After being caught, Anixter provided assistance to the FBI in return for pleading to a misdemeanor charge, rather than a felony charge on which he had been indicted.

14. After getting out of this problem, Anixter urged his father to set up Anicom. Scott Anixter clearly wanted to build a company that would overcome the taint of his prior conviction. He did not want to be shown to be a failure again. During the class period in 1999, Scott Anixter told the Chicago Sun-Times that his criminal past was just a "speed bump." In fact, his fraudulent ways were living on at Anicom.

15. The Management Defendants had a duty to disseminate promptly truthful and accurate information with respect to Anicom's operations, financial condition, and business, and to correct promptly any public statements issued by Anicom which had become false or misleading to ensure, inter alia, that the market price of Anicom's securities would be based on truthful and accurate information.

16. Notwithstanding this duty, the Management Defendants participated in the wrongdoing alleged herein in order to create and further defendants' fraudulent scheme which was designed to, and did:

1. create the artificial appearance that Anicom's revenue, earnings, and profitability were growing at an exponential rate despite the razor-thin margins and adverse business conditions under which Anicom had operated during 1996 and 1997, when in fact, beginning in 1998, Anicom had actually lost millions of dollars and was not a profitable company as defendants had falsely depicted it to be;

2. falsely lead securities analysts providing coverage of Anicom to believe that Anicom's revenue, earnings, and profitability were continuing to grow at, or above, the rates previously experienced by Anicom in prior quarters, when in fact, they were not;

3. cause the price of Anicom's common stock to become and remain artificially inflated because defendants had falsely and repeatedly
reported that Anicom was experiencing revenue growth and earning a profit, when it was actually incurring multi-million dollar losses quarter after quarter; 
4. permit defendants to use Anicom’s artificially inflated common stock as capital in furtherance of defendants ”growth through acquisition” strategy, thereby enabling defendants to complete more than $62 million in acquisitions using Anicom stock that was worth millions less than defendants had falsely represented it to be worth; and 
5. permit defendants to pursue their plan to rapidly build Anicom into a $1 billion company in furtherance of defendants undisclosed plan to prepare Anicom for sale and thereby allow the Management Defendants to reap millions in illicit gains.

DEFENDANTS USE OF MATERIAL MISREPRESENTATIONS AND OMISSIONS TO HIDE THE SCHEME

1. These defendants were as blatant with false representations as they were with the fraudulent accounting practices. They constantly published false press releases about the Company’s condition to reinforce increasingly distorted financial statements.
2. Throughout the Class Period, the defendants were under heavy pressure to meet the expectations of securities analysts, which expectations the defendants had created and fostered in their omnipresent effort to inflate Anicom’s stock price. Meeting these expectations was one of the motives behind the fraud.

A. The Material Omissions And Materially False And Misleading Statements Issued Concerning The First Quarter Of 1998

1. On April 29, 1998, defendants issued a press release announcing record first quarter 1998 results, stating, in pertinent part that net income for the quarter ended March 31, 1998 had increased 200.3 percent to an all time high of $2.7 million, as compared to $888,000 for the first quarter of 1997. Diluted earnings per common share for the three month period ended March 31, 1998, were $0.11 per share, an 83.1 percent increase versus the prior year.

1. Reported net sales for the first quarter of 1998 increased to a record $102.1 million, a 126.8 percent increase over net sales of $45 million in the first quarter of 1997. The
significant increase was attributed to the continued success of Anicoms integrated growth strategy.

2. Scott C. Anixter was quoted in the press release as stating "I am proud of the success Anicom has achieved to date. Our current financial strength will allow us to continue growing aggressively, while maintaining our emphasis on improving the bottom line . . ."

3. Alan B. Anixter added in the press release that "Our focus over the next 18 months will be to continue to maximize operating leverage from our acquisitions through gross and net margin improvement in our core component products, as well as the pursuit of additional markets and selected acquisition opportunities as they develop."

1. On or about May 15, 1998, defendants filed their First Quarter 1998 Form 10-Q reiterating the financial results disclosed in the Company's April 29, 1998 press release. The Form 10-Q misrepresented that "[t]his significant increase [in net sales] is attributable to new customers, new products, expanded market penetration and increased volume with existing customers, all of which have resulted from the Company's acquisitions and internal growth." The first quarter Form 10-Q was signed by defendant Welchko.

2. Defendants repeatedly reassured investors, the public and the marketplace of the accuracy of Anicom's financial statements. For example, in Anicom's first quarter 1998 Form 10-Q, filed with the SEC on May 15, 1998, defendants made the following misrepresentation:

In the opinion of management, the accompanying unaudited financial statements contain all adjustments necessary to present fairly the financial position of Anicom, Inc. (the "Company" or "Anicom") as of March 31, 1998 and the results of its operations and cash flows for the three months ended March 31, 1998 and 1997.

1. Defendants included substantially similar false and misleading reassurances in each of Anicom's quarterly filings during the Class Period.

2. Defendants made and endorsed these representations although they knew, at the time of each such misrepresentation, that Anicom's financial statements did not present fairly the financial position of the Company. Defendants knew, or recklessly disregarded the fact that defendants were artificially inflating Anicom's reported financial results through each of the fraudulent practices described above, the magnitude and consequences of which are revealed in Anicom's subsequent restatement of its operating results at the end of the Class Period.

3. For example, J.W. Few was one of the customers prebilled in the first quarter of 1998. On March 31, 1998, Anicom prebilled J.W. Few $2,136,176.48 for cable wire. The material billed to J.W. Few was not shipped to the customer, and the amount was invoiced to increase sales. Of the amount invoiced on March 31, 1998, a credit for $814,920.75 was issued on October 29, 1998, and the balance of the invoice ($1,321,255.73) remained outstanding at December 31, 1998. On March 30, 1999, J.W. Few was prebilled an additional $741,760. J.W. Few was prebilled through Anicom's Troy, Michigan branch.
4. Defendants recognition of revenue on prebills and wholly fictitious transactions violated GAAP, as well as Anicom's revenue recognition policy, as stated in its 1998 and 1997 Form 10-Ks. Significantly, Anicom's revenue recognition policy required Anicom to recognize revenue from "sales and the related cost of sales [only] upon the shipment of products."

5. Analysts were expecting earnings per share of 11 cents for the first quarter of 1998. Moreover, in early 1998, analysts were expecting annual 1998 earnings of around 52 cents per share. Based on these expectations, analysts such as Cleary Gull and J.C. Bradford issued "Buy" recommendations to their customers. Through the accounting fraud detailed herein, Anicom was able to report earnings that met the first quarter expectation. Without the fraud, the price of Anicom stock would have severely dropped, leading the defendants to choose to cook the books rather than disappoint investors.

B. The Material Omissions And Materially False And Misleading Statements Issued Concerning The Second Quarter Of 1998


2. Reported net income available to common stockholders for the quarter ended June 30, 1998 increased 194 percent to an all-time high of $2.8 million, from $1.0 million in the second quarter of 1997.

3. For the three months ended June 30, 1998, reported basic and diluted earnings per common share increased by 100 percent to $.12 per share from $.06 per share for the same period in 1997, thus meeting analysts expectations.

4. Reported net sales for the second quarter of 1998 increased to a record $113.3 million, a 116 percent increase from net sales of $52.5 million in the second quarter of 1997. Defendant Scott C. Anixter commented on the company's results, saying, "We believe our current financial strength will allow us to continue growing aggressively, while maintaining our emphasis on improving the bottom line." Defendant Alan Anixter added in the press release that "[w]e will continue to maximize operating leverage from our acquisitions. For instance, we believe we are well positioned for future growth as one of the leading distributors in the cable TV industry as well as the security and life safety markets. We also will continue to actively pursue additional markets and selected acquisition opportunities as they develop. We believe that Anicom should be able to complete one or two more acquisitions by the end of this year."

5. On or about August 13, 1998, defendants filed a Form 10-Q with the SEC, signed by defendant Welchko, reiterating the financial results released by the Company on July 30, 1998. The Form 10-Q falsely stated that increased sales were due to "new customers, new products, expanded market penetration and increased volume with existing customers, all of which have resulted from the Company's acquisitions and internal growth," when in fact they were due to the accounting fraud.
6. During the second quarter of 1998, Anicoms senior executives continued their pattern of prebilling and the creation of wholly fictitious transactions in order to achieve analysts and the markets expectations. Among other transactions, during the second quarter Anicom rebilled $34,125 to Chrysler Corp. The $34,125 was prebilled to Chrysler out of Anicom’s Drop-Ship department in Rosemont notwithstanding the absence of a purchase order from Chrysler. The $34,125 invoice was credited in full by Anicom on November 4, 1998, according to internal Anicom documents, because the "material has not shipped."

7. A Drop-Ship, or direct order ("DO"), such as the $34,125 fictitious Chrysler order, is an order shipped directly from a manufacturer to Anicom’s customer (as opposed to a stocking order (or "SO"), which is shipped directly from an Anicom warehouse to Anicom’s customer).

8. Unlike SOs, where invoicing was initiated during the Class Period from the branch offices, invoicing for Drop-Shipment was initiated during the Class Period from the Drop-Shipping department at Anicom. Former Anicom employees have confirmed that, at the end of each quarter, Putnam and Spinell routinely frequented the Drop-Shipping department and instructed Anicom employees to create and enter wholly fictitious invoices for Drop-Shipment that had not actually been shipped from the manufacturer to the customer so that Anicom would be able to meet its quarterly sales and gross profit objectives.

9. Former Anicom employees have also confirmed that the issuance of wholly fictitious invoices out of the Drop-Shipping department at quarter end was open and notorious and widely known throughout Anicom’s accounting department under the supervision of Welchko.

10. That defendants had succeeded in defrauding securities analysts into believing that Anicom was continuing to meet analysts expectations was clearly demonstrated by a number of analyst reports issued during the second fiscal quarter of 1998 - a quarter when analysts were expecting Anicom to report earnings per share of $.12 per share.

11. On April 30, 1998, for example, Cleary Gull reiterated its "#1-Buy" rating on Anicom, in reliance on the accuracy of Anicom’s first quarter earnings announcement. Cleary Gulls April 30, 1998 research report emphasized that each of Anicom’s 14 acquisitions over three years "has been accretive to earnings as the company uses its relatively high multiple stock to purchase lower-multiple, privately held distributors." The research analyst also stated that the "recent move in the stock price from $13 to $16, [would make] it easier [for Anicom] to close accretive acquisitions."

12. This is an example of the analysts reports motivating the defendants to inflate Anicom’s operating results.

13. Indeed the Management Defendants encouraged these analysts projections. On May 20, 1998, defendants issued a press release announcing that Anicom had entered into a letter of intent to acquire Superior Cable & Supply, Inc. In the press release defendants stated, among other things:

Scott Anixter added, "Our primary consideration remains increasing shareholder value. With our strong balance sheet and our national network of approximately 60 locations, we plan to continue our integrated growth strategy both through internal growth and additional acquisitions as opportunities develop."
Additionally, Anicorn has received commitments today to increase its unsecured line of credit from $50 million to $100 million. Don Welchko, vice president and chief financial officer, stated, "this new added financial flexibility increases our ability to continue to actively pursue our goal of becoming a very profitable multi-billion dollar corporation."

1. On June 23, 1998, J.C. Bradford & Co, a regional brokerage firm, initiated coverage on Anicom with a Buy rating. The Bradford analysts wrote in the research report that they expected "earnings growth to accelerate on a sequential basis fueled, in part, by economies of scale and productivity gains from recent acquisitions." The analysts projected "Anicom's earnings to exceed $0.50 per share on $462 million in revenue" for fiscal 1998. And analysts hailed what Credit Suisse First Boston called "strong second quarter results," justifying a "Buy" recommendation.

2. Through the accounting fraud, the defendants were able to meet analysts expectations of earnings of 12 cents per share in the second quarter.

C. The Material Omissions And Materially False And Misleading Statements Issued Concerning The Third Quarter Of 1998

1. On September 22, 1998, defendants issued a press release announcing that Anicom had agreed to buy Texcan Cables for a combination of stock, cash and debt, consisting of 1.4 million common shares, preferred stock convertible into approximately 1.4 million additional shares of common stock, $27 million in cash, and the assumption of about $12 million in debt. Thereafter Anicom issued statements, including statements by Scott Anixter on or about October 6, 1998, that the acquisition would be accretive to earnings and that the Company was able to accomplish the transaction while maintaining a strong balance sheet and the financial flexibility to execute an integrated growth strategy in a profitable manner. This is one of the acquisitions that Anicom was able to make using inflated currency - its own stock.

2. In support of the acquisition, Defendant Scott Anixter stated,

This significant acquisition will firmly establish our market presence in Canada. We now are a strong North American company, with more than 75 locations and excellent opportunities for greater growth and profits. Our primary goal remains increasing shareholder value. We expect to
realize operating efficiencies through maximizing our North American integrated network.

[W]e continue to be comfortable with expectations for the third quarter.

1. Defendant Putnam concurred, making the following statement:

A hallmark of Anicom is our ability to acquire companies that are accretive and integrate them to maximize operating leverage and profitability. We plan to continue our integrated growth strategy both through internal growth and additional acquisitions as opportunities develop.

1. Defendants also announced an increase in their credit facility from $100 million to $125 million. Alan B. Anixter, stated, "We believe this additional financial flexibility will increase our ability to achieve our goal of becoming a multibillion dollar corporation."

2. On October 6, 1998, Scott Anixter reiterated that "We believe our recently completed acquisition of Texcan Cables is accretive." On the basis of defendants reported operating results and public statements, analysts were expecting earnings per share of 14-15 cents for the third quarter of 1998 and full-year earnings of 49-54 cents.

3. As the quarters progressed during the Class Period, defendants were under ever-increasing pressure to generate fraudulent prebills and to create wholly fictitious "Drop-Ship" transactions. The prebills and fictitious "Drop-Ship" orders that were initiated in prior periods would have to be reversed in subsequent periods, and would offset revenues that would otherwise have been earned in subsequent periods. Thus, defendants were required to - and did - issue prebills and fictitious "Drop-Ship" orders just to replace the revenue lost from the fraudulent prebills and fictitious "Drop-Ship" orders in the prior periods in order to continue to permit Anicom to report artificially inflated operating results.

4. For example, in the third quarter of fiscal 1998, Anicom issued a $502,500 prebill to Micro Computer Cable of Taylor, Michigan, two prebills to Midwest Datacomm ($109,497 and $76,664.60) and two prebills to Chrysler ($68,250 and $46,000).

5. The $502,500 prebill to Micro Computer Cable was in anticipation of a roll-out of dealer installation kits for an "electronic showroom" promotion for Chrysler that had not been committed to by Chrysler or Micro Computer as of the third quarter, and would not ultimately be rolled-out. Anicom reported a gross profit of $325,500 (or 64.8% of billed revenue) on the fictitious $502,500 order to Micro Computer Cable. The $502,500 prebill to Micro Computer was reversed on February 22, 1999. Internal Anicom documents stated that the "S/O [stocking order] was a courtesy billing for John Figurelli [Anicom's then executive vice president, operations]."

6. The invoice created for the prebills to Midwest Datacomm was for delivery of products not to Midwest Datacomm, but rather to Anicom's warehouse in Elk Grove, Illinois. The
two prebills to Midwest Datacomm were subsequently reversed per notation by Elizabeth VanderPlow in Anicoms accountants receivable department, because "material never shipped."

7. The two prebills to Chrysler had been issued in anticipation of a purchase order from Chrysler which was never received by Anicom. The invoice for $68,250 to Chrysler was prominently marked "PLEASE DO NOT MAIL INVOICE! ! ! !!! DO NOT MAIL!! ! ! !!!! DO NOT MAIL!!!!" Both Chrysler prebills were ultimately reversed by Anicom.

8. On or about November 3, 1998, defendants caused Anicom to issue a press release announcing record third quarter and nine month financial results. Anicom reported that fully diluted earnings per common share increased by more than 44 percent to $.13 per share, up from $.09 per share for the same period in 1997 (slightly below analysts expectations). Net income available to common shareholders for the quarter increased 87 percent to an all-time high of $3.1 million, compared to $1.7 million in the third quarter of 1997. Net sales were falsely represented for the third quarter increasing to a record $124.1 million, a 65 percent increase from net sales of $75.3 million in the third quarter of 1997.

9. The press release represented that "Anicom's management believes this significant increase is attributable to the continued success of the Company's integrated growth strategy, which includes acquisitions and strong internal growth through increased market penetration." Defendant Scott Anixter was quoted in the press release as stating "We believe that we are on target for the fourth quarter of 1998 and feel comfortable with analyst projections for 1999.... We are a growing company focused on North America, driving our revenues through 75 locations in the United States and Canada. We will continue to actively pursue additional North America locations and selected acquisition opportunities as they develop." Alan Anixter, Chairman of the Board, added, "We are very proud of our accomplishments and believe our financial strength with a debt-to-capitalization ratio of 32 percent provides us with the flexibility we need to continue growing aggressively while maintaining our focus on the bottom line."

10. On or about November 15, 1998, defendants filed a Form 10-Q with the SEC, signed by defendant Welchko, reiterating the financial results released by the Company on November 3, 1998. The Form 10-Q falsely represented that Anicom's sales growth was due to "new customers, new products, expanded market penetration and increased volume with existing customers, all of which have resulted from the Company's acquisitions and internal growth," when in fact Anicom's sales growth was due to the accounting fraud detailed herein.

11. At the times they were issued, each of the foregoing statements was materially false and misleading because they misrepresented the true financial results of Anicom and failed to disclose that the reported results had been accomplished through the use of fictitious prebills and "Drop-Ship" orders.

12. In reliance on the truth and accuracy of Anicom's reported operating results, on November 12, 1998, GS(2) Securities, Inc., a Milwaukee, Wisconsin research firm, initiated coverage of Anicom with a "Buy" rating. The November 12, 1998 research report stated that "Anicom continues to post solid results . . . . Anicom continues to grow internally at a solid 15% . . . . We believe that the company can achieve 30% to 40% growth over the next three years including acquisitions . . . Based on solid fundamentals, and Anicom's
growth potential, we believe a multiple of 30x to 35x is reasonable, combined with our 1999 earnings estimate of $0.71, we arrive at a twelve month price target of $21."

D. The Material Omissions And Materially False And Misleading Statements Issued Concerning The Fourth Quarter Of 1998

1. The pressure was severe for Anicom to earn at least 50 cents per share for fiscal year 1998, by reporting 14 cents per share in the upcoming fourth quarter. Anicom expressly fostered these expectations with its November 3, 1998 press release, in which Scott Anixter endorsed analysts estimates. On November 13, 1998, PaineWebber responded by issuing, for the first time, a "Buy" rating for Anicom.

2. At year-end 1998, Anicom prebilled approximately $6.5 million of invoices through the Drop-Ship department alone, representing gross profit of approximately $1.1 million. These fictitious orders were orchestrated by Anicom's senior executives, including the Management Defendants and Spinell. Included among these prebills was a $2.1 million prebill to Gil Electronics, and a $135,000 prebill to Teleplus, Inc. According to information obtained through a former employee in Anicom's accounting department, approximately 108 fictitious orders and accompanying invoices were fraudulently prebilled out of Anicom's Drop-Ship department at year-end 1998. See Exhibit 6.

3. The $2.1 million prebill to Gil Electronics was invoiced on December 30, 1998 for cable wire on a project involving Fujitsu that was not committed to by Fujitsu at that time and did not subsequently come to fruition. GTT is a small regional firm with total annual sales of only $8 million. The $2.1 million prebill to GTT was reversed in a subsequent period.

4. The $135,000 prebill to Teleplus was reversed because the "customer never ordered or received [the] material."

5. In addition, $809,579 was prebilled to ISA in the fourth quarter of 1998. According to internal Anicom documents, that invoice was reversed in the first quarter of 1999 because Anicom could not "provide back-up for the 12/29/99 charges. Will credit, it appears charges were billed to make year end figures." [Emphasis added.]

6. The large number of wholly fictitious orders that were fraudulently created in Anicom's Drop-Ship department at year-end 1998 should have been particularly striking to the Management Defendants, who assiduously monitored The Flash module of the Trend accounting systems, inasmuch as (according to Scott Anixter, in a February 11, 1998 press release issued over PR Newswire), Anicom's "slowest sales period [is] the last three weeks of December." In fact, however, the creation of these wholly fictitious orders was not striking--nor did it come as any surprise to any of the defendants--because these orders had been created at their direction and under their supervision.

7. On February 17, 1999, defendants caused Anicom to issue a press release announcing a fifth consecutive year of record growth, reporting its "record financial results for the fourth quarter and the year ended December 31, 1998." The press release reported that net sales had increased 93 percent to $470 million in 1998, from $244 million in 1997.
Net sales of $131 million for the quarter ended December 31, 1998, represented an 85 percent increase over net sales of $71 million for the comparable quarter in 1997. These record sales were attributed by the defendants to strong progress in the continuing implementation of Anicom’s integrated growth strategy.

8. Reported basic and diluted earnings per share were $0.48 and $0.47 per share, respectively, for the year ended December 31, 1998, exclusive of third-quarter acquisition related charges and net losses incurred from non-strategic assets divested by the Company in the fourth quarter. Basic and diluted earnings per share for the three months ended December 31, 1998 were $0.08 per share as compared to a loss of $(0.17) per share for the comparable 1997 period.

9. Analysts were expecting earnings per share of about 14 cents for the fourth quarter of 1998. Anicom severely disappointed the market by reporting 8 cents per share. Without the accounting fraud, the results would have been far worse and the stock price would have severely dropped.

10. Defendant Scott Anixter, commenting on the Company’s success in the February 17, 1999 press release said, "This is a young company, serving several explosive growth industries, whose performance is evidenced by the determination of our people and the value they, as a team, bring to our customers. During 1998, our integrated growth strategy was again successful, generating strong internal growth . . .

11. Defendant Alan Anixter also stated in the press release that "Anicom’s ongoing growth stems from our efforts to capitalize on the tremendous opportunities in our industry. We are poised for continued long-term growth, and feel very comfortable about achieving our goals for 1999. Our primary consideration is increasing shareholder value, and we will continue to pursue our integrated growth strategy, including acquisition opportunities as they develop."

12. On or about March 31, 1999, defendants filed their 1998 Form 10-K reiterating the financial results disclosed in the Company’s February 17, 1999 press release. The Form 10-K was signed by, among others, the Management Defendants. The 1998 Form 10-K stated that the financial statements and results shown therein were prepared in accordance with GAAP and accurately reflected the financial condition of the Company. The Management’s Discussion and Analysis portion of the Form 10-K also falsely stated the reasons for Anicom’s sales growth and profitability. Anicom’s Form 10-K for fiscal 1998 and Form 10-Q for the first quarter of 1999 stated, "[t]he significant increase [in net sales] is primarily attributable to acquisitions coupled with internal growth, which has led to new customers, new products, increased market share, expanded market penetration and increased volume with existing customers."

13. As subsequently disclosed by Anicom on November 13, 2000, reported fiscal 1998 revenues of $470,279,000 were in fact inflated by $13,612,000, and reported net income of $13,142,000 was inflated by $16,007,000. Remarkably, rather than earning a profit of approximately $13 million, Anicom actually suffered a loss of $2,865,000.
1. Defendants Scott Anixter, Putnam, and Welchko were each awarded cash bonuses of $100,000 and 100,000 stock options on the bases of Anicom's fraudulently obtained record operating results. According to Anicom's 1999 Proxy Statement, the stock options and cash bonuses were awarded on the basis of Anicom's purported "successful integration of a number of acquired companies in 1998, the Company's realization of strong internal growth, the increase of the Company's credit facility while reducing its interest rate and a variety of operational improvements implemented in 1998."

2. On the basis of these reported operating results, on February 18, 1999, Cleary Gull reiterated its "#1 -Buy" rating and fiscal 1999 earnings estimates of $0.65 per share (requiring 50% earnings per share growth). The report concluded that "Anicom continues to take market share, is improving its gross margins, and is leveraging its infrastructure."

3. On February 25, 1999, in reliance on the truth and accuracy of Anicom's public statements and operating results, PaineWebber issued a research report maintaining its "Buy" rating and 12-month target price of $11, approximately 60% above Anicom February 24, 1999 closing price of $6.875. PaineWebber's "Buy" rating was based on the analysts' assessment of Anicom's internal growth. According to the research report, "[i]nternal growth, which at Anicom is proving to be a real success story, is driven by a carefully constructed and persistently implemented annual sales plan that provides each sales person with clearly understood targets and compensation incentives that are developed with the input of both management and the sales person."

4. At the times they were issued, each of the foregoing statements was materially false and misleading because they misrepresented the true financial results of Anicom and failed to disclose that the reported results had been accomplished through the use of fictitious prebills and "Drop-Ship" orders.

5. The PaineWebber analysts projected 1999 revenue of $635 million and earnings per share of $0.65.

6. On March 1, 1999, B.C. Ziegler, a Milwaukee, Wisconsin research firm, issued a research report describing Anicom's fourth quarter revenues as weaker than expected. However, the report stated that according to Anicom management, a "strong December carried into the start of January . . . February, thus far, has good strength, with the March order rate looking solid. Last year, 50% of the quarterly volume occurred in March." The pressure on the defendants to meet these analysts and the markets expectations was intense.

E. The Material Omissions And Materially False And Misleading Statements Issued Concerning The First Quarter Of 1999

1. Analysts were expecting earnings per share of 13 cents for the first quarter of 1999. In early 1999, they were expecting 65-69 cents per share for the full year of 1999. The defendants knew that their scheme would have to increase in magnitude to avoid facing the truth that Anicom simply was not as profitable as the defendants had led the market to believe.
2. During the first quarter of 1999, the defendants instituted a new scheme entitled the "deferred credit plan." Anicom historically delayed crediting customers for returns and other adjustments to avoid the adverse impact to Anicom's reported operating results. Among other things, Anicom personnel were instructed not to process returned merchandise until after the close of fiscal quarters.

3. To avoid continuing adverse customer reactions to open credit items, Anicom determined in January 1999, to process the outstanding credits, but to offset those credits by issuing nine fictitious invoices—three in January, three in February, and three in March. In fact, the fictitious invoices exceeded the amounts of the credits issued, and accordingly had the effect of further inflating Anicom's operating results. Although Anicom began in April 1999 reversing out the fraudulent invoices, after a few months they ceased that process and allowed the fraudulent invoices to remain on the books. Anicom's operating results throughout 1999 were artificially inflated by the deferred credit plan.

4. The deferred credit plan was instituted and supervised by defendant Welchko and by John Figurelli.

5. In addition to the deferred credit plan, Anicom continued the practice of prebilling invoices during the first quarter of 1999. Included among the invoices prebilled in the first quarter were four invoices prebilled out of a branch identified as "Warehouse 47."

6. As part of the process of creating wholly fictitious Drop-Ship orders, it was necessary for Anicom to generate "dummy" purchase orders from Anicom's vendors in the Trend system to be matched against shipping documents.

7. During the first quarter of fiscal 1999, at least the following four dummy purchase orders were created to facilitate the issuance of fictitious Drop-Ship orders: 3166461-00, 3166474-00, 3166143-00, and 3166471-00. These purchase orders were clearly fictitious because they each stated: "DO NOT MANUFACTURE UNTIL APPROVED IN WRITING." These four purchase orders reflected a cost to Anicom of $2.25 million. The aggregate amount of revenue that was reported for the first quarter due to these bogus invoices (although currently unknown) was at least as great as that cost.

8. These purchase orders were first entered into Anicom's accounting system on March 29, 1999 and the invoices were prebilled as revenue, indicating that the products had been shipped by the manufacturer, by March 31, 1999, which was, in light of the "DO NOT MANUFACTURE" directive, impossible. These dummy "purchase orders" could have been accessed in the Trend accounting systems by any one of Anicom's senior executives, including the Management Defendants.

9. Furthermore, during the first quarter of 1999, Anicom re-prebilled Micro Computer Cable $502,500 for the aborted Fujitsu venture. Anicom went so far as to ship the wire to Micro Computer Cable, which subsequently returned the wire to Anicom and was credited for the invoice in a later quarter.

10. On or about May 5, 1999, defendants issued a press release announcing "record first quarter results."

11. Reported net income available to common stockholders for the quarter ended March 31, 1999 increased 17 percent to a record high of $3.1 million, from $2.7 million for the first quarter of 1998.

12. Reported net sales for the quarter increased to a record $137.2 million, a 34 percent increase over net sales of $102.1 million in the first quarter of 1998. The increase was attributed to the continued success of Anicom’s integrated growth strategy. For the three
months ended March 31, 1999, reported basic and diluted earnings per common share were $.12.

13. Scott Anixter commenting on the companys results, said, "Anicom posted a solid first quarter. We see the positive trends continuing for our business and end markets. Our current financial strength will allow us to continue growing aggressively, while maintaining our emphasis on improving the bottom line. We will continue to pursue additional markets and select acquisition opportunities as they develop."

14. At the times they were issued, each of the foregoing statements was materially false and misleading because they misrepresented the true financial results of Anicom and failed to disclose that the reported results had been accomplished through the use of fictitious prebills and "Drop-Ship" orders.

15. On May 5, 1999, in reliance on the accuracy of Anicoms public statements and operating results, Stifel, Nicolaus, a St. Louis, Missouri research firm, issued a research report addressing Anicoms first quarter fiscal 1999 operating results. Although the analysts expressed disappointment that first quarter revenues were $5.8 million below their expectations, they reported that management had stated that first quarter business accelerated each month and that April was Anicoms best month ever. According to the analysts report, management had also stated that Anicom had recently won several multi-year multi-million dollar contracts. On the basis of the Companys representations, Stifel, Nicolaus maintained its Buy rating and 12-18 month price target of $14-$18. For fiscal 1999, the analysts projected revenue of $630,000 and earnings per share of $0.69.

16. On or about May 14, 1999, defendants filed a Form 10-Q with the SEC, signed by defendant Welchko, reiterating the financial results released by the Company on May 9, 1999. The Form 10-Q again misrepresented the reasons for Anicoms sales and profitability.

F. The Material Omissions And Materially False And Misleading Statements Issued Concerning The Second Quarter Of 1999

1. On June 4, 1999, defendant Putnam stated in a press release issued over PR Newswire that "We are confident of Anicoms prospects for 1999. We have had five years of record performance, and, we believe this will be the sixth consecutive year. By the second half of 1999, we hope to begin realizing the benefit of some multi-year contracts recently awarded to Anicom. The outlook is excellent, and we are very optimistic about the future."

2. Defendants prebilling and fraudulent Drop-Ship billing practices continued at a rapid pace throughout the second quarter of 1999. Among other things, during the second quarter, Spinell directed a branch manager and regional vice president in the western region to prebill approximately $300,000 to CDK Contracting for tech-90 cable wire. CDK Contracting had ordered the cable wire but was not yet prepared to take delivery. When the branch manager and regional vice president refused to prebill the $300,000, Spinell directed the Drop-Ship department to prebill a separate pending order for
$285,000 from CDK Contracting for Perelli cable. As of June 30, 1999, when the $285,000 had been recognized as revenue by Anicom, the Perelli cable had not yet been manufactured and had not yet been shipped to the customer. When branch personnel made inquiries as to why the $285,000 had been invoiced, representatives of the Drop-Ship department acknowledged that they had no record of the Perelli cable wire having been shipped to the customer.

3. Analysts were expecting earnings per share of 15 cents for the second quarter of 1999.
4. By the second quarter of fiscal 1999, the fictitious prebill, Drop-Ship billing and deferred credit schemes had snowballed to a magnitude that it was no longer possible for Anicom's senior officers to generate sufficient fictitious invoices to maintain the illusion of growth in line with analysts expectations. Accordingly, on July 15, 1999, the Management Defendants caused Anicom to issue a press release announcing that sales and earnings for the second quarter would be below analyst expectations. The press release reported that Anicom expected sales for the second quarter of 1999 of approximately $132 million, $5 million less than the sales reported for the first quarter. Scott Anixter attributed Anicom's reduced revenue and earnings expectations to disappointing results at locations acquired from 1W Communications Corp. in late 1997, and "a slowdown in converted booked to billed sales, resulting in an order backlog exceeding $25 million of day-to-day business, as well as unexpected scheduling delays on several major contracts with large customers."

6. On July 15, 1999, Tucker Cleary Capital Markets, the successor in interest to Cleary Gull, issued a research report expressing disappointment with Anicom's pre-announcement of reduced second quarter prospects. Tucker Cleary lowered its 1999 estimates from $0.65 to $0.36 and its rating on Anicom common stock from #1-Strong Buy to #3-Hold in response to Anicom's reduced prospects. The analyst report concluded by stating that the "company needs to produce at least a couple of clean, in-line quarters before investors come back to this story."


Net sales for the second quarter of 1999 increased to a record $132 million, a 17 percent increase from net sales of $113 million in the second quarter of 1998. Net income for the quarter ended June 30, 1999 was $780,000 or $.03 per share. This includes a previously disclosed one-time charge of $1.4 million pre-tax, or $.03 per share for settlement of a lawsuit stemming from its 1997 disposition of a non-strategic product line.

Net sales for the six months ended June 30, 1999 rose by 25 percent to a record $269 million compared to net sales of $215 million reported for the first half of 1998. For the six months ended June 30, 1999, net income was $3.9 million or $.14 per share. Weighted average diluted shares outstanding increased approximately 14 percent versus the same period in 1998.
Scott C. Anixter, chairman and CEO, said, "While we still reported record net sales for the quarter and first half of 1999, we are disappointed that these results reflect slower growth than we had anticipated. We have already taken steps to address the situation. We have installed new regional management at the former IW locations, and we have instituted sales initiatives to diversify the business mix in order to take full advantage of Anicom's wide-ranging product line. The company's new centralized distribution centers should be fully operational by the end of this fiscal year, which will have a significant impact on our ability to reduce costs as a percentage of sales. We're also making significant inroads into our order backlog each and every day.

"In addition to the steps we have taken to improve the bottom line, we will continue to actively pursue additional markets and selected acquisition opportunities as they develop. Anicom has demonstrated an impressive growth performance, with five consecutive years of record sales, going from $18 million in 1994 to more than $470 million in 1998. We remain optimistic that this trend will continue in both the near and long term." [Emphasis added.]

1. Without the accounting fraud, the results would have been far worse and the stock price would have severely dropped.
2. On or about August 16, 1999, defendants filed their Second Quarter 1999 Form 10-Q reiterating the financial results disclosed in the Company's August 12, 1999 press release. The Form 10-Q was signed by defendant Welchko. The Form 10-Q again misrepresented the reasons for Anicom's sales and profitability.

G. The Material Omissions And Materially False And Misleading Statements Issued Concerning The Third Quarter Of 1999

1. On October 1, 1999, defendants announced an anticipated $12 million third-quarter charge relating to restructuring and acceleration of expenses, stating:

Scott C. Anixter, chairman of the board said, "Implementing the restructuring at this time will make Anicom a more nimble, profitable and efficient company. Anicom's growth during its first five years has given us the critical mass and financial strength necessary to be a North America leader in our industry. Now, we must bring these benefits to our bottom line."
Carl F. Putnam, president and chief executive officer, commented, "Our sales continued to grow during the third quarter.

In the fourth quarter of 1999, the company estimates that it will also incur up to $4.5 million of pre-tax one-time period costs associated with completing the implementation of this restructuring. As a result, the company expects to break even in the fourth quarter. Next year, the company anticipates generating approximately $580 million in sales and earnings per share of approximately $.34 to $.38.

"We have always felt that the strength of our balance sheet gave us a competitive advantage both operationally and in executing our acquisition strategy. This strength is now allowing us to take aggressive steps to make this investment in our franchise, which remains one of the most valuable in our industry." said Mr. Anixter. [Emphasis added.]

1. On or about November 4, 1999, Anicom issued a press release announcing 1999 third quarter and nine-month results. Defendants stated in the release that:

As a result of the restructuring and other one-time charges, the company reported a net loss of $12 million in the third quarter, for a net loss of $.50 per diluted share, and a net loss of $9 million for the nine months ended September 30, 1999, for a net loss of $.36 per diluted share. Anicom's net sales for the third quarter increased to $134 million, an eight percent increase from net sales of $124 million in the third quarter of 1998. Net sales for the nine months ended September 30, 1999 rose by 19 percent to a record $403 million, compared to net sales of $449 million reported for the first nine months of 1998.

Also as previously stated, in the fourth quarter of 1999 the company estimates that it will incur approximately $4.5 million of pre-tax, redundant expenses associated with completing the implementation of its company-wide restructuring. As a result, the company expects to break even in the fourth quarter. In the year 2000, the company anticipates generating approximately $580 million in sales and earnings per share of $.34 to $.38.
Scott C. Anixter, chairman of the board, said, "The strength of our balance sheet has allowed us to make sound investments in our franchise during 1999, which remains one of the most valuable in our industry. The combination of the efficiencies we expect from our new centralized distribution centers and our enhanced web presence should allow us to be a full service 'clicks and mortar solution to all or our customers multimedia technology product needs." [Emphasis added.]

1. On or about November 15, 1999, defendants filed their Third Quarter 1999 Form 10-Q reiterating the financial results disclosed in the Company's November 4, 1999 press release. The Form 10-Q was signed by defendant Welchko. The Form 10-Q falsely represented that Anicom's sales growth was "primarily attributable to acquisitions, which have led to new customers, new products, and expanded market penetration."

2. At the times they were issued, each of the foregoing statements was materially false and misleading because they misrepresented the true financial results of Anicom and failed to disclose that the reported results had been accomplished through the use of fictitious prebills and "Drop-Ship" orders and that the defendants lacked any reasonable basis for predicting Anicom's return to profitability.

H. The Material Omissions And Materially False And Misleading Statements Issued Concerning The Fourth Quarter Of 1999

1. Throughout 1999, Anicom was required to accelerate its fraudulent prebilling and Drop-Ship billing practices in order to recover the loss revenues from credits and front-ending revenues from prebillings and other fictitious transactions created in earlier periods. Anicom subsequently announced on November 13, 2000, that fiscal 1999 quarter revenues would be restated and reduced by $14,962,000. Fiscal 1998 revenues had been similarly inflated by $13,612,000. The fiscal 1998 revenue that had been improperly recognized was either credited against revenue in fiscal 1999 or was revenue that was accelerated into 1998 that would otherwise have been recognized in 1999. In either event, Anicom was required to prebill approximately $28,574,000 in fictitious revenue as of year-end in fiscal 1999 in order to generate incremental fictitious revenue of $14,962,000 in fiscal 1999.

1. On or about February 23, 2000, Anicom issued a press release announcing 1999 year-end and fourth quarter financial results. Defendants reported that Anicom experienced its "Sixth consecutive record year in sales." The Company further announced:
Net sales increased 14 percent to $537 million in fiscal 1999, from $470 million in 1998. Net sales for the quarter ended December 31, 1999 were $134 million, as compared to net sales of $131 million for the fourth quarter in 1998.

For the year ended December 31, 1999, the company had a net loss of $10 million producing a per share loss of $0.41. The loss in 1999 primarily resulted from the following previously announced restructuring charges and redundant expenses taken in the second, third and fourth quarters related to the implementation of Anicom’s platinum service distribution network, the settlement of a civil law suit in the second quarter, and first quarter expenses associated with the divestiture of Anicom’s broadband business unit.

Basic and diluted earnings per share for the three months ended December 31, 1999, resulted in a loss of $0.04 per share. The fourth quarter gross profit and core operating expenses were on target with management’s previously announced expectations.

Carl E. Putnam, president and chief executive officer, commented, "We are confident and excited about the prospects for 2000 and beyond. During 1999 we executed the following strategic initiatives.

* * *

Putnam added, "Our young company is playing an ever-increasing role in several explosive growth sectors, such as fiber optics, wireless networks and security systems. Our products interconnect and integrate the flow of information throughout the booming digital marketplace. In 2000, we expect to realize more efficiencies and such cost containment out of our integrated operations which should result in greater profitability."

* * *

Anixter added, "We are excited about the tremendous opportunities in our industry brought on by the explosive growth of the Internet. We are seeing increasing demand for fiber optics, wireless components and other traditional wire and cable products that are critical to building out the infrastructure needed for reliable and scalable electronic commerce and Internet communication. We are poised for long-term growth and profits and feel very comfortable about achieving our goals for 2000."
1. On or about March 30, 2000, defendants filed their 1999 Form 10-K reiterating the financial results disclosed in the Company's February 23, 2000 press release. The Form 10-K was signed by, among others, the Management Defendants. The 1999 Form 10-K stated that the financial statements and results shown therein were prepared in accordance with generally accepted accounting principles and accurately reflected the financial condition of the Company. The Management Discussion and Analysis section of the Form 10-K falsely stated the reasons for Anicom's alleged sales growth and other operating results, and failed to disclose that those results were inflated via the increasingly desperate accounting scheme. Anicom's Form 10-Q for both the second and third quarter of 1999 and Form 10-K for 1999 stated, "[t]hese increases [in net sales] are primarily attributable to acquisitions, which have led to new customers, new products, and expanded market penetration."

I. The Material Omissions And Materially False And Misleading Statements Issued Concerning The First Quarter Of 2000

1. On or about May 9, 2000, Anicom issued a press release reporting its First Quarter 2000 financial results. In the release the Company announced that:

   Net sales for the first quarter ended March 31, 2000 were a record $145.5 million. Net income for the first quarter was $1.1 million. Basic and diluted earnings per common share for the three month period ended March 31, 2000 were $0.04 per share.

   Carl E. Putnam, President and Chief Executive Officer, commenting on the company's results, said, "Anicom posted a sound first quarter. We are now starting to realize the benefits from the strategic improvements and investments we made last year."
1. On or about May 15, 2000, defendants filed their First Quarter 2000 Form 10-Q reiterating the financial results disclosed in Anicoms May 9. 2000 press release. The Form 10-Q was signed by defendant Welchko.

2. Anicoms Form 10-Q for the first quarter of fiscal 2000 stated, "[t]his increase [in net sales] is primarily attributable to internal growth, which has led to new customers, new products, increased market share, expanded market penetration and increased volume with existing customers."

3. Defendants statements regarding: (i) Anicoms 1998 and 1999 record financial results; (ii) the strength of the Companys balance sheet and financial condition; (iii) being on target for achieving quarterly results and analyst projections; and (iv) Anicoms ability to grow the business internally and through acquisitions were materially false and misleading because defendants knew or recklessly disregarded that the Companys impressive financial results and growth were attributable to overstatement of net assets and income, in violation of GAAP.

4. All of Anicoms Form 10-Q and Form 10-K filings filed by defendants during the Class Period contained financial results that were materially misstated due to the Companys overstatement of its net assets and income, despite the fact that the Company declared the financial information to be accurate and in conformity with GAAP.

HOW ANICOMS FINANCIAL STATEMENTS VIOLATED GAAP

1. Anicom has belatedly been forced to restate its financial statements for the years ended December31, 1998 and December31, 1999 and for the quarter ended March 31,2000 because those financial statements had not been prepared in accordance with GAAP and SEC accounting requirements.

2. GAAP are those principles recognized by the SEC and the accounting profession as the conventions, rules and procedures necessary to define accounting practice at a particular time. SEC regulation S-X (17 C.F.R. §210.4-01(a)(l)) requires that financial statements filed with the SEC be prepared in conformity with GAAP and those that are not in conformity with GAAP are presumed to be misleading and inaccurate, despite footnotes or other disclosures.

1. Anicom overstated earnings were achieved through repeated violations of GAAP as well as violations of Anicom's own stated revenue recognition policy as contained in its Form 10-Ks issued during the Class Period. Anicom's revenue recognition policy states that "[s]ales and the related cost of sales are recognized upon the shipment of products." Anicom clearly violated its own revenue recognition policy through its use of wrongful prebilling of invoices and fictitious invoicing.

2. In addition to violating its own stated revenue recognition policy, the Management Defendants fraudulent scheme violated, among others, the following GAAP provisions: Statement of Financial Accounting Concepts ("FASCON") No.5 (Recognition and Measurement in Financial
Statements of Business Enterprises); FASCON No. 6 (Elements of Financial Statements); Accounting Research Bulletin No. 43, Chapter 1, section A-i; and Financial Accounting Standards Board Statement ("FAS") No. 48 (Revenue Recognition When Right of Return Exists).

1. As just one example of how the defendants scheme violated GAAP, FASCON No.5 states that the recognition of revenues involves "(a) being realized or realizable and (b) being earned"

... FASCON No. 5 ¶83a provides that revenues can only be realized "when products (goods or services), merchandise, or other assets are exchanged for cash or claims to cash...." Further, FASCON No. 5 ¶83b states that "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." Clearly, the defendants fraudulent scheme of prebilling, fictitious invoicing, failure to issue credits, and deferred credit plan violated GAAP because the scheme caused Anicom to recognize revenue that was neither realized nor earned.

1. Anicom's restatement of its financial statements is an admission that its previously-issued financial statements were materially misstated. GAAP permits the restatement of previously issued financial statements in only certain limited circumstances and only where the misstatement is material. See APB Opinion No. 20. The only such circumstance applicable to Anicom's restatement is to correct the material falsity of its previously-issued financials, based on facts that existed at the time they were prepared.

INJURY AND DAMAGE TO THE SHAREHOLDERS

1. The Fraudulent Scheme Comes to a Crashing Halt

2. Anicom's accounting snowball finally collapsed under its own massive weight. On July 18, 2000, Anicom issued a press release announcing that it was investigating "certain accounting matters, including possible accounting irregularities, which, if confirmed, could result in revision of previously issued financial statements." Anicom further announced that Putnam and Welchko had taken administrative leave pending the completion of the investigation. Anicom, for the first time in over nine quarters, told the public the truth--not to rely on the 1998 and 1999 financial statements.

3. Anicom's use of the term "accounting irregularities" is significant because accounting irregularities are defined within the accounting literature as intentional misstatements of financial statements.

4. As a result of the July 18, 2000 announcement, NASDAQ has suspended trading of Anicom stock. Although Anicom stock trading has resumed over-the-counter on "pink sheets", it is now trading at a mere fraction of a dollar per share. Almost six months after announcing that potential accounting irregularities existed in its 1998 and 1999 financial statements, Anicom has yet to release audited, restated financials. The reason for Anicom's inability to release audited, restated financials is simple - it is taking longer than anyone could have imagined to unravel the pervasive prebilling, fictitious billing, and deferred credit plans.
B. The Shareholders Are Damaged

1. Shareholders who bought stock during the Class Period, such as State of Wisconsin Investment Board, unknowingly purchased their shares at wildly inflated prices. During the entire nine quarter period, Anicom reported record profits when in fact it was experiencing record losses. The picture that Anicom was painting for the world was exactly the opposite of what was actually happening. For shareholders who listened to and relied on what Anicom was telling the world, their investment is now worth only cents on the dollar. This equates to huge losses for the Class as well as the hardworking people who have their pension funds through SWIB.

2. On October 3, 2000, Anicom issued a press release disclosing that the accounting irregularities extended not only to revenue, but also to expense and balance sheet items such as vendor rebates, expense accrual and inventory accounting.

3. On November 13, 2000, Anicom released unaudited financial information showing that, for the nine quarters ending with the first quarter of 2000, the Company had overstated its gross revenue by approximately $39.6 million and its net income by approximately $34.4 million. (Exhibit 2.) Significantly, these restated results reveal that Anicom not only lied about its revenues, but also understated its expenses and costs of sales, including its accounts for vendor rebates, expense accruals, and inventory cost accounting.

4. The press release further stated that the Company had not yet filed results for the second and third quarter of calendar year 2000, but expected to report that its massive losses had continued in those quarters.

5. The November 13, 2000 press release also reported that the founding members from the Anixter family, Alan, William, and Scott, were retiring from the Company effective at the end of this year.

ANICOMS FRAUD ON THE MARKET

1. At all relevant times, the market for Anicom common stock was an efficient market for the following reasons, among others:
   1. Anicom common stock met the requirements for listing, and was listed and actively traded, on the NASDAQ National Market System, a highly efficient market;
   2. As a regulated issuer, Anicom filed periodic public reports with the SEC and the NASD;
   3. Anicom was followed by securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace. Among the securities firms that followed the Company during the Class Period were PaineWebber, B.C. Ziegler, Stifel Nicolaus, J.C. Bradford & Co., Credit Suisse First Boston, GS(2) Securities, and Tucker Cleary Capital Markets.
   4. Anicom regularly communicated with public investors by means of established market communication mechanisms, including through regular dissemination of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as
communications with the financial press and other similar reporting services. Each of these releases was publicly available and entered the public marketplace; and

5. As a result, the market for Anicom common stock promptly digested current information with respect to Anicom from all publicly-available sources and all such information was reflected in market prices of Anicom common stock. Under these circumstances, all those who acquired Anicom common stock during the Class Period suffered similar injury through their acquisition of such securities at artificially inflated prices and a presumption of reliance applies.

INAPPLICABILITY OF STATUTORY SAFE HARBOR

1. The statutory safe harbor provided for forward-looking statements pursuant to 15 U.S.C. § 78u-5 does not apply to any of the false statements pleaded in this Complaint. The statements alleged to be false and misleading herein all relate to then-existing facts and conditions known to defendants. In addition, to the extent that certain defendants may claim that the certain statements alleged to be false and misleading may be characterized as forward looking, (i) such statements were not identified as "forward-looking statements" when made; (ii) there was no statement made with respect to any of those representations forming the basis of this complaint that actual results "could differ materially from those projected"; and (iii) 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 does 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 false, and/or the forward-looking statement was authorized and/or approved by an executive officer of Anicom who knew that those statements were false when made. The statutory safe harbor provided for forward-looking statements under certain circumstances, moreover, does not apply to false financial statements purportedly prepared in accordance with GAAP.

DEMAND FOR TRIAL BY JURY

1. Lead Plaintiff demands a trial by jury.

CLASS ACTION ALLEGATIONS

1. Lead Plaintiff brings this action as a class action pursuant to Federal Rules of Civil Procedure 23(a) and 23(b)(3) on behalf of all persons or entities who purchased the common stock of Anicom on the open market during the period April 29, 1998 through July 18, 2000, inclusive (the "Class Period"). Excluded from the Class are the defendants, the subsidiaries, affiliates, officers and directors of Anicom, the Management Defendants heirs and members of their immediate families, and the successors or assigns of any defendant.
2. The members of the Class are so numerous that the joinder of all members is impracticable. While the exact number of Class members is unknown to Lead Plaintiff at this time and can only be ascertained through appropriate discovery, as of March 31, 2000, there were over 25 million shares of Anicom common stock outstanding, held by thousands of shareholders. The holders of these shares are believed to be geographically dispersed throughout the United States. Significantly more than 10 million shares of Anicom common stock were traded during the Class Period.

3. Lead Plaintiffs claims are typical of the claims of the Class, as plaintiff and all members of the Class purchased shares of Anicom common stock during the Class Period and sustained damages arising out of defendants conduct in violation of federal law as complained of herein.

4. Lead Plaintiff will fairly and adequately protect the interests of the members of the Class, and has retained counsel competent and experienced in class action and securities litigation.

5. A class action is superior to other available methods for the fair and efficient adjudication of this controversy. Since the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it virtually impossible for the Class members to seek redress for the wrongful conduct alleged. Lead Plaintiff knows of no difficulty that will be encountered in the management of this litigation that would preclude its maintenance as a class action.

6. 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:
   1. whether defendants violated Sections 10(b) of the Exchange Act, including SEC Rule 10b-5 promulgated thereunder;
   2. whether the Management Defendants are liable under Section 20(a) of the Exchange Act for violations of Section 10(b) of the Exchange Act;
   3. whether defendants participated in and pursued the concerted action or common course of conduct complained of herein;
   4. whether documents, filings, releases and other public statements disseminated to the investing public during the Class Period omitted and/or misrepresented material facts about the business and financial condition of the Company;
   5. whether the market price of Anicom common stock during the Class Period was artificially inflated due to the nondisclosures and/or misrepresentations complained of herein;
   6. whether defendants acted knowingly, willfully or recklessly in omitting to state and/or misrepresenting material facts; and
   7. whether the members of the Class have sustained damages and, if so, what is the proper measure of such damages.

   **COUNT I**

   Against All Defendants (Other Than Alan Anixter) For Violations Of Section 10(b) Of The Exchange Act And SEC Rule 10b-5
1. Lead Plaintiff repeats and realleges each and every allegation contained in all of the foregoing paragraphs as if fully set forth herein.

2. During the Class Period, defendants, directly or indirectly, engaged in a common plan, scheme and unlawful course of conduct, pursuant to which defendants knowingly or recklessly engaged in acts, transactions, practices and courses of business that operated as a fraud and deceit upon plaintiff and the other members of the Class and made various deceptive and untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading to plaintiff and the other members of the Class. The purpose and effect of said scheme, plan and unlawful course of conduct was to induce plaintiff and the other members of the Class to purchase Anicom securities during the Class Period at artificially inflated prices.

3. During the Class Period, defendants, pursuant to said scheme, plan and unlawful course of conduct, knowingly or recklessly issued, caused to be issued and/or participated in the preparation and issuance of deceptive and materially false and misleading statements to the investing public that were contained in or omitted from various documents and other statements issued by defendant, as particularized above.

4. Defendants knew and intended to deceive plaintiff and the other members of the Class or, in the alternative, acted with reckless disregard for the truth when defendants failed to disclose or cause the disclosure of the true facts to plaintiff and the other members of the Class.

5. As a result of the dissemination of the false and misleading statements set forth above, the market price of Anicom securities were artificially inflated during the Class Period. In ignorance of the false and misleading nature of the representations described above and the deceptive and manipulative devices and contrivances employed by said defendants, plaintiff and the other members of the Class relied to their detriment on the integrity of the market price of the investing public that were contained in or omitted from various documents and other statements issued by defendants, as particularized above.

6. Defendants knew and intended to deceive plaintiff and the other members of the Class or, in the alternative, acted with reckless disregard for the truth when defendants failed to disclose or cause the disclosure of the true facts to plaintiff and the other members of the Class.

7. As a result of the dissemination of the false and misleading statements set forth above, the market price of Anicom securities were artificially inflated during the Class Period. In ignorance of the false and misleading nature of the representations described above and the deceptive and manipulative devices and contrivances employed by said defendants, plaintiff and the other members of the Class relied to their detriment on the integrity of the market price of the stock in purchasing Anicom securities. Had plaintiff and the other members of the Class known of the materially adverse information misrepresented or not disclosed by defendant, they would not have purchased Anicom securities at the artificially inflated prices that they did.

8. As a result of the inflation of the price of Anicom securities during the Class Period caused by defendants material misrepresentations and omissions, plaintiff and the other members of the Class have suffered substantial damages as a result of the wrongs alleged.

9. By reason of the foregoing, defendants, directly or indirectly, violated the Exchange Act and Rule 10b-5 promulgated thereunder in that defendants:
1. Employed devices, schemes and artifices to defraud;
2. Made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and/or
3. Engaged in acts, transactions, practices and courses of business that operated as a fraud and deceit and a scheme to defraud upon plaintiff and the other members of the Class in connection with their purchases of Anicom securities during the Class Period.

COUNT II
Liability Pursuant To Section 20(a) Of
The Exchange Act Against The Management Defendants

1. Plaintiff repeats and realleges each and every allegation contained in all of the foregoing paragraphs as if fully set forth herein.
2. The Management Defendants, by virtue of their offices and specific acts described above, were, at the time of the wrongs alleged herein, controlling persons of Anicom within the meaning of §20(a) of the Exchange Act.
3. The Management Defendants had the power and influence and exercised the same to cause Anicom to engage in the illegal conduct and practices complained of herein.
4. By reason of the conduct alleged in Count I of the Complaint, the Management Defendants are liable for the aforesaid wrongful conduct and are liable to plaintiff and the other members of the Class for the substantial damages they suffered in connection with their purchases of Anicom securities during the Class Period.

PRAYER FOR RELIEF

Wherefore, plaintiff, on its own behalf and on behalf of the other members of the Class, respectfully requests that this Court enter judgment in their favor and against defendants as follows:

1. Declaring this action to be a proper class action maintainable pursuant to Fed. R. Civ. P. 23(a) and (b)(3) on behalf of the Class defined herein and declaring plaintiff to be a proper Class representative;
2. Awarding plaintiff and the other members of the Class the appropriate measure of damages;
3. Awarding plaintiff and the other members of the Class prejudgment and post-judgment interest, as well as their reasonable attorneys fees, expert witness fees and other costs and expenses; and
4. Awarding such other relief as this Court may deem just and proper.

Respectfully submitted,
SUSMAN GODFREY L.L.P.

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SPECIAL ADVISORY COUNSEL TO
STATE OF WISCONSIN INVESTMENT BOARD:

Paul O. Paradis
1. Anicom stock split two-for-one payable October 7, 1996.

2. Because there are so many customer names on Exhibit 6, they have been redacted, but Exhibit 6 is a true and correct copy of an Anicom business record.