SECOND AMENDED CONSOLIDATED CLASS ACTION COMPLAINT

GRANT & EISENHOFER, P.A.
Jay W. Eisenhofer
Sidney S. Liebesman (SL 8444)
Michael J. Barry
Eric Lechtzin
Sharan Nirmul
1201 North Market Street, Suite 2100
Wilmington, DE 19801
Telephone: (302) 622-7000
Facsimile: (302) 622-7100

Lead Counsel for Lead Plaintiffs
Public Employees’ Retirement System of Ohio
and State Teachers’ Retirement System of Ohio

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SECOND AMENDED CONSOLIDATED CLASS ACTION COMPLAINT

1. Lead Plaintiffs, the Public Employees' Retirement System of Ohio and the State Teachers’ Retirement System of Ohio, and plaintiffs Richard P. Kleinknecht, Staro Asset Management, the Bennett Funds, James F. Tucker, Bernie I. Shuster, Bella Pill, William Trachtenberg, Renee Trachtenberg, and Stephen Harrison on behalf of all persons and entities who purchased or otherwise acquired securities issued by Global Crossing Ltd., and its subsidiaries, including Global Crossing Holdings, Ltd. (Global Crossing Ltd. and its various affiliates, divisions and subsidiaries, are hereinafter referred to as "Global Crossing" or the "Company"), between and including February 1, 1999 and January 28, 2002 (the "Class Period"), and Lead Plaintiffs, Michael A. Bernstein Profit Sharing Plan and Roman Foltyn, on behalf of all persons and entities who purchased or otherwise acquired securities issued by Asia Global Crossing Ltd. ("Asia Global Crossing"), between October 6, 2000 and November 17, 2002 (the "AGX Class Period"), by and through the undersigned attorneys, allege the following upon information and belief, except as to those allegations concerning Plaintiffs, which are alleged upon personal knowledge.

2. For purposes of certain defendants who have executed a Stipulation of Settlement on or about March 18, 2004, to settle all claims asserted herein (defined below in Paragraph 75 as the “Settling Defendants”), the claims in this Second Amended Consolidated Class Action Complaint are asserted against each such defendant on behalf of all persons and entities who purchased, sold, exchanged, otherwise acquired or disposed of, transferred, or made any decision regarding Global Crossing Securities or Asia Global Crossing Securities (defined below) including, without limitation, a decision to hold Global Crossing Securities, a decision to allow options or other rights with respect to Global Crossing Securities to expire, or a decision not to
exercise options with respect to Global Crossing Securities from February 1, 1999 through December 8, 2003, inclusive. For purposes of this paragraph, the terms "Global Crossing Securities" and "Asia Global Crossing Securities" mean any securities (i) issued by Global Crossing or Asia Global Crossing, including but not limited to, stock, bonds, notes, employee stock options, commercial paper or other evidence of indebtedness, or derivative instruments or (ii) that trade in whole or in part based on the price or value of any security issued by Global Crossing or Asia Global Crossing, including but not limited to, put and call options and any other derivative instruments (including but not limited to, collars, hedges and straddles).

3. Plaintiffs' information and belief are based upon, among other things, their investigation into the events surrounding the demise of Global Crossing, including without limitation: (a) review and analysis of filings made by Global Crossing and Asia Global Crossing with the United States Securities and Exchange Commission ("SEC"); (b) review and analysis of press releases, public statements, news articles and other publications disseminated by or concerning the telecommunications industry, Global Crossing, Asia Global Crossing, and other defendants including, but not limited to, Gary Winnick, Dan Cohrs, Thomas Casey, Leo J. Hindery, Jr., and Joseph Perrone; (c) review and analysis of Global Crossing's analyst conference calls; (d) review and analysis of securities analysts' reports concerning Global Crossing and Asia Global Crossing; (e) in person and telephonic interviews with nearly 100 former Global Crossing employees, including Roy Olofson, the former Vice-President of Finance, Tony Palma, a former Vice President of Global Crossing's broadband market, Robert Barrett, a former Chief Information Officer, Donna Reeves, a former President of Media and Entertainment, Bernard Calissendorff, a former accounting manager, David Abruzzese, a former Controller, Michael Coghill, a former Vice President of Global Network Engineering, as well as other former
employees and customers of Global Crossing in the United States and abroad, some of whom requested that their identities remain confidential; (f) review and analysis of internal Global Crossing, and Asia Global Crossing documents such as e-mails, memoranda, financial reports and sales documents; (g) review and analysis of documents filed by Global Crossing, Asia Global Crossing, creditors of Global Crossing, Asia Global Crossing, and other entities in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"); and (h) other publicly available information concerning Global Crossing, Asia Global Crossing, and the defendants.

4. Plaintiffs believe that further substantial evidentiary support will exist for the allegations in this Second Amended Consolidated Class Action Complaint after a reasonable opportunity for discovery. Most of the facts supporting the allegations contained herein are known only to the defendants or are exclusively within their custody and/or control.

II. SUMMARY OF CLAIMS

5. The Global Crossing story is a story of a massive fraud and deception that cost investors over $40 billion while insiders and professionals enriched themselves out of the funds those investors were deceived into providing. During the Class Period, insiders sold over $1.5 billion in artificially inflated Global Crossing stock while in possession of material, non-public information and the outside advisor defendants reaped hundreds of millions of dollars in fees and profits. But the Company and its purported multi-billion dollar revenues and strong, substantial cash flow were a complete sham.

6. The defendants touted billions of dollars of "cash" transactions that were nothing more than illusory, paper transactions with no business substance or purpose. The only way in which the transactions involved "cash" was when funds were round-tripped to create the false appearance that there had been two independent transactions.
7. At the same time the defendants were frantically entering into more and more of these transactions, they blatantly lied to investors, telling the public there were "no swaps." In reality, the vast majority of Global Crossing's capacity sales were swaps and the only thing that eventually slowed the Company's fraudulent activity were the bankruptcies of an ever-increasing number of its swap partners.

8. Only after Global Crossing itself filed for bankruptcy was the fraud revealed by a former Company Vice-President, Roy Olofson ("Olofson"), who stepped forward and disclosed how he had sought to trigger an internal investigation at the Company of the swaps but had been derisively dismissed. The reason for this lack of interest in Olofson's allegations was that the entire senior level of the Company not only knew about the fraud but were actively orchestrating the scheme. In fact, Olofson himself did not realize the deep-seated and pervasive nature of the deception.

9. In an effort to continue the fraud, Global Crossing contributed overstated assets to one of its subsidiaries, Asia Global Crossing, and implemented the very same fraud at Asia Global Crossing, to raise even more capital from the public markets through additional securities offerings. Asia Global Crossing touted the prospects of its business plan, the demand for capacity in Asia, denied any negative impact from Global Crossing's problems, and hid its own dependence on fraudulent, illusory swap transactions.

III. JURISDICTION AND VENUE

11. The claims asserted herein arise under and pursuant to Sections 11, 12(a) and 15 of the Securities Act, 15 U.S.C. §§ 77k, 77l(2) and 77o and Sections 10(b), 14, 20(a) and 20A of the Exchange Act, 15 U.S.C. §§78j(b), 78n, 78t(a) and 78t-1(a), and Rule 10b-5 promulgated thereunder by the SEC, 17 C.F.R. §240.10b-5.

12. Jurisdiction and venue are proper in this District pursuant to Section 27 of the Exchange Act, 15 U.S.C. §78aa and 28 U.S.C. §1391(b) and (c). Venue is proper in this District because many of the acts and practices complained of herein occurred in substantial part in this District. Moreover, by Order dated September 6, 2002, the Judicial Panel on Multidistrict Litigation ("MDL Panel") transferred the related underlying Global Crossing securities fraud class actions to this District. Finally, the Company's bankruptcy filing was made in this District. On April 10, 2003, the MDL Panel transferred five securities fraud class action complaints filed on behalf of purchasers of Asia Global Crossing securities to this District. At a hearing on May 6, 2003, this Court ordered that the Asia Global Crossing securities cases be consolidated with the Global Crossing securities fraud class action. By Order dated May 29, 2003, this Court ordered Lead Plaintiffs to file an Amended Consolidated Class Action Complaint to add the claims of Asia Global Crossing shareholders.

13. In connection with the acts and omissions alleged in this Amended Consolidated Class Action Complaint, defendants, directly and/or indirectly, used the means and instrumentalities of interstate commerce, including without limitation, the mails, interstate telephone communications and the facilities of the national securities markets and exchanges.

IV. THE PARTIES

A. PLAINTIFFS

14. Lead Plaintiffs, the Public Employees Retirement System of Ohio ("PERS Ohio") and the State Teachers Retirement System of Ohio ("STRS Ohio"), operate pursuant to Chapters
145 and 3307 of the Ohio Revised Code, respectively, as enacted by the Ohio General Assembly, and provide for the retirement of state, county and municipal employees, teachers and faculty members in Ohio's public schools and colleges, and certain other Ohio employees. By Order dated December 13, 2002, the United States District Court for the Southern District of New York (the "Court") appointed PERS Ohio and STRS Ohio as lead plaintiffs in this case pursuant to 15 U.S.C. §78u-4. PERS Ohio and STRS Ohio purchased the publicly traded common stock of Global Crossing at artificially inflated prices during the Class Period as demonstrated by their respective certifications previously filed with the Court. Lead Plaintiffs also acquired shares of Global Crossing common stock from the Company's acquisition of Frontier Corp. in September 1999 at artificially inflated prices.

15. Plaintiff Staro Asset Management, LLC ("Staro") purchased the publicly traded 6 3/8% and 7% cumulative convertible preferred stock of Global Crossing at artificially inflated prices during the Class Period as demonstrated by its certification previously filed with the Court.

16. Plaintiffs Bennett Restructuring Fund, L.P., Bennett Restructuring Fund, II, L.P., and Bennett Offshore Restructuring Fund, Inc. (the "Bennett Funds") purchased the publicly traded senior notes of Global Crossing and purchased the 9.625% bonds issued in May 1998 by Global Crossing at artificially inflated prices during the Class Period as demonstrated by their certifications previously filed with the Court.

17. Plaintiff Richard P. Kleinknecht ("Kleinknecht") purchased the publicly traded common stock of Global Crossing during the Class Period and acquired shares of Global Crossing common stock pursuant to the Company's acquisition of IPC Communications, Inc. in
June 2000 at artificially inflated prices during the Class Period as demonstrated by his certifications previously filed with the Court.

18. Plaintiff James F. Tucker ("Tucker") acquired shares of Global Crossing common stock pursuant to the Company's acquisition of Frontier Corp. in September 1999 at artificially inflated prices as demonstrated by his certification previously filed with the Court.

19. Plaintiff Bella Pill ("Pill") purchased the publicly traded senior notes of Global Crossing at artificially inflated prices during the Class Period as demonstrated by her certification previously filed with the Court.

20. Plaintiff Bernie I. Shuster ("Shuster") purchased publicly traded 6 3/4 preferred stock of Global Crossing during the Class Period as demonstrated by his certification as previously filed with the Court.

21. Plaintiffs William Trachtenberg and Renee Trachtenberg purchased Global Crossing common stock in the April 10, 2000 Secondary Offering at $33.00 per share, as demonstrated by their certification filed with this Court. Plaintiff William Trachtenberg individually purchased publicly traded common shares in the April 10, 2000 Secondary Offering at $33.00 per share, as demonstrated by his certification filed with this Court.

22. Plaintiff Stephen Harris purchased publicly traded common stock of Global Crossing in the April 10, 2000 Secondary Offering, at $33.00 per share, as demonstrated by his certification filed with this Court.

23. Lead Plaintiff Michael A. Bernstein Profit Sharing Plan purchased the publicly-traded common stock of Asia Global Crossing at artificially-inflated prices during the AGX Class Period as demonstrated by its certification previously filed with the Court.
24. Lead Plaintiff Roman Foltyn purchased the publicly-traded common stock of Asia Global Stock at artificially inflated prices during the AGX Class Period as demonstrated by his certification previously filed with the Court.

B. GLOBAL CROSSING

25. Global Crossing is incorporated under Bermuda law with its former principal place of business in Hamilton, Bermuda. Global Crossing's executive offices were, at one time, located at 360 N. Crescent Drive, Beverly Hills, California, and later located at Seven Giralda Farms, Madison, New Jersey. Global Crossing provides integrated telecommunications services over a global fiber-optic network that reaches 27 countries and more than 200 major cities.

26. On January 28, 2002, Global Crossing filed for bankruptcy protection under Chapter 11 of Title 11 of the United States Bankruptcy Code, 11 U.S.C. §§101 et seq. in the Bankruptcy Court (Case No. 02-40188 (REG)). On August 9, 2002, the Bankruptcy Court approved Global Crossing's purchase agreement with Hutchison Whampoa Limited ("Hutchinson") and Singapore Technologies Telemedia Pte. Ltd. ("Singapore Tech.") for $250 million – $500 million less than they offered to buy the Company for three months earlier. On December 26, 2002, the Bankruptcy Court entered an order confirming the Company's Plan of Reorganization (the "Plan"). Under the Plan, the Company's common stockholders are not going to receive any money. This case is presently stayed as to defendant Global Crossing only pursuant to 11 U.S.C. §362(a).

C. ASIA GLOBAL CROSSING

27. Asia Global Crossing Ltd. was incorporated under Bermudian law with its former principal place of business in Hamilton, Bermuda. Asia Global Crossing's executive suites were, at one time, located at 360 N. Crescent Drive, Beverly Hills, California. Asia Global Crossing was formed as a wholly-owned subsidiary of Global Crossing on September 24, 1999. On
November 24, 1999, it became a wholly-owned subsidiary of a joint venture among Global Crossing, Softbank Corp. ("Softbank") and Microsoft Corporation ("Microsoft"), known as Asia Global Crossing Holdings Ltd. The shareholders of Asia Global Crossing Holdings Ltd. consisted of Global Crossing, Softbank, Microsoft and Goldman Sachs. Asia Global Crossing was a pan-Asian telecommunications carrier that provided Internet, data and voice services to wholesale and business customers.

28. On November 17, 2002, Asia Global Crossing announced that it had signed a definitive agreement to sell substantially all of its operations and assets to Asia Netcom Corporation Limited, a new company organized by China Netcom (Hong Kong) Limited. Pursuant to that agreement, on November 17, 2002, Asia Global Crossing and one of its subsidiaries filed for bankruptcy protection under Chapter 11 of Title 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (Case Nos. 02-15749 through 02-15750 (SMB)). On June 11, 2003, Asia Global Crossing's bankruptcy case was converted to a case under Chapter 7 of the Bankruptcy Code. This case is presently stayed as to Asia Global Crossing only pursuant to 11 U.S.C. § 362(a).

D. DEFENDANTS

Global Crossing And Asia Global Crossing-Related Defendants

29. Defendant Gary Winnick ("Winnick") was the founder of Global Crossing and, during the Class Period, served as Co-Chairman and a member of the board of directors. Winnick was also the Chairman of Asia Global Crossing. Winnick signed many of the Company's and Asia Global Crossing's false and misleading SEC filings. During the Class Period, Winnick sold approximately 24,305,908 shares of Global Crossing stock for proceeds of
approximately $860,237,000, almost double the amount that the Company received in its initial public offering. On December 30, 2002, Winnick resigned the positions he held at the Company.

30. Defendant Dan J. Cohrs ("Cohrs") has been the Senior Vice President and Chief Financial Officer of Global Crossing since May 1998 and remains employed by the Company. Cohrs signed the majority of the Company's materially false and misleading SEC filings. During the Class Period, Cohrs sold approximately 282,495 shares of Global Crossing stock for proceeds of approximately $7,627,045.

31. Defendant David L. Lee ("Lee") was a founder of Global Crossing and at relevant times was the President, Chief Operating Officer and a member of the board of directors. Lee left Global Crossing in May 2000. Lee signed certain of the Company's false and misleading SEC filings. During the Class Period, Lee sold approximately 2,454,006 shares of Global Crossing stock for proceeds of approximately $118,020,710.

32. Defendant Barry Porter ("Porter") was a founder, Senior Vice President and a member of the board of directors of Global Crossing between May 1998 and September 2000. Previously, Porter, an attorney, also served as a senior managing director in the investment banking department of Bear Stearns & Co. Porter signed certain of the Company's false and misleading SEC filings. During the Class Period, Porter sold approximately 2,404,953 shares of Global Crossing for proceeds of approximately $113,752,634.

33. Defendant Abbott L. Brown ("Brown") was a founder, Senior Vice President and a member of the board of directors of Global Crossing between May 1998 and March 2000. Brown signed certain of the Company's false and misleading SEC filings. During the Class Period, Brown sold approximately 740,661 shares of Global Crossing stock for proceeds of approximately $46,476,478.
34. Defendant Lodwrick M. Cook ("Cook") has been the Co-Chairman and a member of the board of directors of Global Crossing from April 1998 to present. In April 2000, Cook also became the Co-Chairman of Asia Global Crossing. Cook signed certain of the Company's false and misleading SEC filings. During the Class Period, Cook sold approximately 1,319,971 shares of Global Crossing stock for proceeds of approximately $34,924,392.

35. Defendant Jack M. Scanlon ("Scanlon") was the Chief Executive Officer of Global Crossing from April 1998 through March 1999, Vice-Chairman of Global Crossing from March 1999 through March 2000, Vice-Chairman of Asia Global Crossing since 1999, and a member of the board of directors of Global Crossing from April 1998 to June 2001. Scanlon signed certain of the Company's false and misleading SEC filings. During the Class Period, Scanlon sold approximately 796,635 shares of Global Crossing stock for proceeds of approximately $24,573,668. Scanlon also served as Vice Chairman of the Board of Directors of Asia Global Crossing since November 1999 and Chief Executive Officer from November 1999 to February 2000. Scanlon continued to receive a salary of $990,000 throughout Asia Global Crossing's bankruptcy proceedings.

36. Defendant Hillel Weinberger ("Weinberger") was a member of the board of directors of Global Crossing from June 1997 through 1999. Weinberger signed certain of the Company's false and misleading SEC filings. During the Class Period, Weinberger sold approximately 340,950 shares of Global Crossing stock for proceeds of approximately $21,394,613.

37. Defendant James C. Gorton ("Gorton") was the Senior Vice-President, General Counsel and Secretary of Global Crossing between July 1998 and September 2001. At the time Gorton joined Global Crossing, he was a partner in the corporate department of Simpson
Thacher & Bartlett. During the Class Period, Gorton sold approximately 487,310 shares of Global Crossing stock for proceeds of approximately $15,076,259.

38. Defendant Joseph P. Clayton ("Clayton") was a member of the board of directors of Global Crossing and was the President and a member of the board of directors of Global Crossing North America from September 1999 to May 2002. Clayton signed certain of the Company's false and misleading SEC filings. During the Class Period, Clayton sold approximately 545,382 shares of Global Crossing stock for proceeds of approximately $16,678,535.

39. Defendant Robert Annunziata ("Annunziata") was a member of the board of directors of Global Crossing from March 1999 through 2000 and Global Crossing's Chief Executive Officer from February 1999 to March 2000. Annunziata signed certain of the Company's false and misleading SEC filings. During the Class Period, Annunziata sold approximately 81,576 shares of Global Crossing stock for proceeds of approximately $5,118,894.

40. Defendant Leo J. Hindery, Jr. ("Hindery") was the Chairman of the Board and Chief Executive Officer of Global Center, Inc., a Global Crossing subsidiary, from December 1999 to January 2001 and was Global Crossing's Chief Executive Officer from March 2000 to October 2000. He was also a member of the board of directors of Global Crossing and Asia Global Crossing from approximately March to October 2000. Hindery signed certain of the Company's false and misleading SEC filings.

41. Defendant Thomas J. Casey ("Casey") was the Vice Chairman of Global Crossing's board of directors from December 1998 to November 2001 and was Global Crossing's Chief Executive Officer from October 2000 until October 2001. Prior to joining Global
Crossing, Casey was head of global communications investment banking at Merrill Lynch. Casey signed certain of the Company's false and misleading SEC filings. During the Class Period, Casey sold approximately 243,919 shares of Global Crossing stock for proceeds of approximately $8,998,907.

42. Defendant David A. Walsh ("Walsh") was the President and Chief Operating Officer of Global Crossing. In May 2001, during the Class Period, Walsh sold approximately 672,789 shares of Global Crossing for proceeds of approximately $8,678,978.

43. Defendant William B. Carter, Jr. ("Carter") was President of Global Crossing Development Co., a subsidiary of Global Crossing from September 1997 through November 1999 and then Chief Executive Officer of Global Marine Systems, a subsidiary of Global Crossing. During the Class Period, Carter sold approximately 801,185 shares of Global Crossing stock for proceeds of approximately $25,371,731.

44. Defendant S. Wallace Dawson, Jr. ("Dawson") was Chief Executive Officer of Atlantic Crossing Ltd., a subsidiary of Global Crossing and the Company's Atlantic subsea network, between August 1998 and December 2000, and the Executive Vice President of Global Network until January 2002. Dawson signed certain of the Company's false and misleading SEC filings. During the Class Period, Dawson sold approximately 121,642 shares of Global Crossing stock for proceeds of approximately $4,398,083.

45. Defendant John A. Scarpati ("Scarpati") was the Chief Administrative Officer of Global Crossing from December 1999 to October 2000. During the Class Period, Scarpati sold approximately 200,000 shares of Global Crossing stock for proceeds of approximately $4,687,600.
46. Defendant John M. Finlayson ("Finlayson") was President of Global Crossing International, Ltd., a Global Crossing subsidiary, from June 1998 through 1999. During the Class Period, Finlayson sold approximately 39,972 shares of Global Crossing stock for proceeds of approximately $2,508,243.

47. Defendant Jay R. Bloom ("Bloom") was a member of the board of directors of Global Crossing from March 1997 to June 2000. Bloom signed certain of the Company's false and misleading SEC filings. Bloom was placed on the Company's Board by the Canadian Imperial Bank of Commerce ("CIBC").

48. Defendant Dean C. Kehler ("Kehler") was a member of the board of directors of Global Crossing from March 1997 to June 2000. Kehler signed certain of the Company's false and misleading SEC filings. Kehler was placed on the Company's Board by CIBC.

49. Defendant Jay R. Levine ("Levine") was a member of the board of directors of Global Crossing from March 1997 to September 1999. Levine signed certain of the Company's false and misleading SEC filings. Levine was placed on the Company's Board by CIBC.

50. Defendant William D. Phoenix ("Phoenix") was a member of the board of directors of Global Crossing from March 1997 to September 1999. Phoenix signed certain of the Company's false and misleading SEC filings. Phoenix was placed on the Company's Board by CIBC.

51. Defendant Bruce Raben ("Raben") was a member of the board of directors of Global Crossing from March 1997 to June 2000. Raben signed certain of the Company's false and misleading SEC filings. Raben was placed on the Company's Board by CIBC.
52. Defendant Geoffrey J.W. Kent ("Kent") was a member of the board of directors of Global Crossing from August 1998 to November 2001. Kent signed certain of the Company's false and misleading SEC filings. Kent served on the Board's Audit Committee.

53. Defendant Eric Hippeau ("Hippeau") was a member of the board of directors of Global Crossing from September 1999 to November 2001. Hippeau signed certain of the Company's false and misleading SEC filings. Hippeau served on the Board's Audit Committee. Hippeau served as Softbank's designee and representative on the Asia Global Crossing board from November 1999 to November 2001. Hippeau has been President and Executive Managing Director of Softbank International Ventures since mid-2000. Hippeau signed certain of Asia Global Crossing's false and misleading SEC filings.

54. Defendant Douglas H. McCorkindale ("McCorkindale") was a member of the board of directors of Global Crossing from September 1999 through 2000. McCorkindale signed certain of the Company's false and misleading SEC filings.

55. Defendant William E. Conway, Jr. ("Conway") was a member of the board of directors of Global Crossing from August 1998 through 2001. Conway signed certain of the Company's false and misleading SEC filings. During the Class Period, Conway sold approximately 26,557 shares of Global Crossing stock for proceeds of approximately $400,214.

56. Defendant K. Eugene Shutler ("Shutler") was a Senior Vice President of Global Crossing and President of Asia Global Crossing in 1998 and 1999. During the Class Period, Shutler sold approximately 27,408 shares of Global Crossing stock for proceeds of approximately $1,719,852.

57. Defendant Joseph P. Perrone ("Perrone") was a Senior Vice President of Finance of Global Crossing from May 2000 to January 2001, when he was promoted to Executive Vice
President of Finance, his current position. Before joining Global Crossing, Perrone was a senior partner at Arthur Andersen’s Communications, Media and Entertainment Practice in New York.

58. Defendant John Legere (“Legere”) was a member of the Board of Directors of Asia Global Crossing from April 2000 to March 2002 and was its Chief Executive Officer from February 2000 to January 2002. At various times during the class period he served contemporaneously on the Board of Directors of Global Crossing and Asia Global Crossing and as CEO of both entities. Legere signed certain of Asia Global Crossing’s false and misleading SEC filings.

59. Defendant Pieter Knook (“Knook”) has been a member of the Board of Directors of Asia Global Crossing since February 2001. Knook is a vice president of Microsoft. Knook signed certain of Asia Global Crossing’s false and misleading SEC filings.

60. Defendant William S. Cohen (“Cohen”) was a Director of both Global Crossing and Asia Global Crossing from April 2001 to November 2001, resigning from both in November 2001. From January 1997 through January 2001, Cohen was Secretary of Defense in the Clinton Administration. Prior thereto, he was a three-term United States Senator after having served three terms in the U. S. House of Representatives. Cohen signed certain of Asia Global Crossing’s false and misleading SEC filings.

61. Defendant William E. Conway, Jr. (“Conway”) has been a member of the Board of Directors of Asia Global Crossing since August 2000. Conway has been a director of Global Crossing Ltd. since April 1998. Conway signed certain of Asia Global Crossing’s false and misleading SEC filings.

62. Defendant Geoffrey J.W. Kent (“Kent”) was a member of the Board of Directors of Asia Global Crossing from August 2000 to November 2001. Kent has been a director of
Global Crossing since August 1998. Kent signed certain of Asia Global Crossing's false and misleading SEC filings.

63. Defendant Steven J. Green ("Green") was a member of the Board of Directors of Asia Global Crossing from March 2001 to November 2001. Prior to March 2001, Green was the twelfth United States Ambassador to the Republic of Singapore, being sworn in November 1997. Green signed certain of Asia Global Crossing's false and misleading SEC filings.

64. Defendant Maria Elena Lagomasino ("Lagomasino") was a Director of Asia Global Crossing from April 26, 2001 to November 28, 2001. Lagomasino was a director of Global Crossing from April 2001 to January 2002 and currently is the CEO of the J.P. Morgan Private Bank, where she oversees one of the largest providers of wealth management services worldwide. During the AGX Class Period, Lagomasino was Winnick's private banker and signed certain of Asia Global Crossing's false and misleading SEC filings.

65. Defendant Walter Beran ("Beran") joined the Asia Global Crossing Board of Directors in December 2001. He is chairman of Pacific Alliance Group, which primarily focuses on Asia-related business transactions and relationships. Beran signed certain of Asia Global Crossing's false and misleading SEC filings.

66. Defendant Anthony Christie ("Christie") joined Asia Global Crossing as Vice President, Business Development and Strategic Planning, and at various times served as Global Crossing's COO, senior vice president of product management. Christie signed certain of Asia Global Crossing's false and misleading SEC filings.

67. Defendant Thomas U. Koll ("Koll") had been a member of Asia Global Crossing's Board of Directors since April 2000 and has acted as Microsoft's designee and
representative on Asia Global Crossing's Board of Directors. Koll is a vice president of Microsoft. Koll signed certain of Asia Global Crossing's false and misleading SEC filings.

68. Defendant Stefan C. Riesenfeld ("Riesenfeld") has been Asia Global Crossing's Chief Financial Officer since June 2000. Despite the fact that Asia Global Crossing is in Chapter 7 liquidation, Riesenfeld draws an annual salary of $368,000. From 1999 to 2000, Riesenfeld was Executive Vice President and Chief Financial Officer of Teledyne Technologies. From 1996 to 1999, Riesenfeld was the Director of Finance and Business Planning (Chief Financial Officer) of ICL PLC. From 1983 to 1996, Riesenfeld served in various positions at the Unisys Corporation, including Vice President and Corporate Treasurer and Vice President/Corporate Development. Riesenfeld signed certain of Asia Global Crossing's false and misleading SEC filings.

69. Defendants Winnick, Cohrs, Scanlon, Lee, Brown, Cook, Weinberger, Gorton, Clayton, Casey, Hindery, Walsh, Porter, Carter, Dawson, Conway, Scarpati, Finlayson, Annunziata, Bloom, Kehler, Kent, Levine, Phoenix, Raben, Hippeau, McCorkindale, Shutler and Perrone will be, at varying times, collectively referred to herein as the "Individual Defendants." Defendants Winnick, Cook, Scanlon, Hippeau, Clayton, Legere, Knook, Cohen, Conway, Kent, Green, Lagomasino, Beran, Christie, Koll and Riesenfeld will be, at various times, collectively referred to herein as the "Asia Global Crossing Individual Defendants."

70. By virtue of the Individual Defendants' and the Asia Global Crossing Individual Defendants' positions within the Company, and/or Asia Global Crossing, respectively, they had access to undisclosed adverse information about its business, operations, operational trends, finances, revenue recognition and backlog policies, markets and present and future business prospects. The Individual Defendants and the Asia Global Crossing Individual Defendants would
ascertain such information through Global Crossing's internal corporate documents (including the Company's operating plans, budgets and forecasts and reports of actual operations compared thereto), conversations and connections with other corporate officers and employees, conversations and connections with vendors and customers, attendance at sales, management, Office of the Chair and Board of Directors' meetings, including committees thereof, and through reports and other information provided to them in connection with their roles and duties as Global Crossing officers and directors.

71. It is appropriate to treat the Individual Defendants and the Asia Global Crossing Individual Defendants collectively each as a group for pleading purposes and to presume that the materially false, misleading and incomplete information conveyed in the Company's public filings, press releases and other publications as alleged herein was the result of the collective actions of the Individual Defendants identified above. The Individual Defendants and the Asia Global Crossing Individual Defendants, by virtue of their high-level positions within the Company and/or Asia Global Crossing, directly participated in the management of the Company, were directly involved in the day-to-day operations of the Company and/or Asia Global Crossing at the highest levels and were privy to confidential proprietary information concerning the Company and its business, operations, prospects, growth, finances, and financial condition, as alleged herein.

72. The Individual Defendants and the Asia Global Crossing Individual Defendants were involved in drafting, producing, reviewing, approving and/or disseminating the materially false and misleading statements and information alleged herein, including SEC filings, press releases, and other public documents, were aware of or recklessly disregarded the fact that materially false and misleading statements were being issued regarding the Company and/or Asia
Global Crossing, and approved or ratified these statements, in violation of the federal securities laws.

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

74. The Individual Defendants and the Asia Global Crossing Individual Defendants, by virtue of their positions of control and authority as officers and/or directors of the Company and/or Asia Global Crossing, were able to and did control the content of the various SEC filings, press releases and other public statements pertaining to the Company and/or Asia Global Crossing during the Class Period and the AGX Class Period. The Individual Defendants and the Asia Global Crossing Individual Defendants were provided with copies of the documents alleged herein to be misleading prior to or shortly after their issuance and/or had the ability and/or opportunity to prevent their issuance or cause them to be corrected. Accordingly, they are responsible for the accuracy of the public reports and releases detailed herein.
75. A group of Defendants and Asia Global Crossing Individual Defendants has agreed to settle all claims raised in this Second Amended Complaint and are identified herein as the “Settling Defendants” solely for the purpose of releasing these Settling Defendants from these claims. The Settling Defendants are: Gary Winnick, Dan J. Cohrs, David L. Lee, Barry Porter, Abbott L. Brown, Lodwrick M. Cook, John M. Scanlon, Hillel Weinberger, James C. Gorton, Joseph P. Clayton, Robert Annunziata, Leo J. Hindery, Jr., Thomas J. Casey, David A. Walsh, William B. Carter, Jr., S. Wallace Dawson, Jr., John A. Scarpati, John M. Finlayson, Jay R. Bloom, Dean C. Kehler, Jay R. Levine, William D. Phoenix, Bruce Raben, Geoffrey J.W. Kent, Eric Hippeau, Douglas H. McCorkindale, William E. Conway, Jr., K. Eugene Shutler, Joseph P. Perrone, Mark Attanasio, Thomas U. Koll, Maria Elena Lagomasino, John J. Legere Stefan C. Riesenfeld, Pacific Capital Group, GKW Unified Holdings, LLC, the Winnick Family Foundation, Inc., Galenight Corp., Ridgestone Corporation, and the Brown Living Trust. These Settling Defendants are all current and former officers, directors and/or employees of Global Crossing and/or Asia Global Crossing.

76. Non-defendants Michael R. Steed (“Steed”), James F. McDonald (“McDonald”), Canning Fok Kin-ning (“Fok Kin-ning”), Norman Brownstein (“Brownstein”), Mark Attanasio, Alice T. Kane, Jeremiah D. Lambert and Myron E. Ullman, III, served on the Company's and/or Asia Global Crossing's Board at various times during the Class Period.

77. Defendants GKW Unified Holdings LLC (“GKW”) and the Winnick Family Foundation, Inc., (“Winnick Family”), are entities owned and/or controlled by Winnick that were formed for the benefit of Winnick and members of his family. These defendants owned, directly and/or beneficially, over 6.9 million and over 1.4 million shares of Global Crossing stock respectively that was sold to the public as part of the Company's Secondary Offering in April.
2000. In addition, on or about June 29, 1999, GKW sold approximately 5,587,978 shares of Global Crossing stock for proceeds of over $350.6 million.

78. Defendant Galenight Corp. ("Galenight"), a corporation in which Porter is the sole shareholder, sold 100,000 shares of Global Crossing stock to the public as part of the Company's Secondary Offering in April 2000.


The Andersen Defendants

80. Defendant Andersen Worldwide S.C. ("Andersen Worldwide") was a Swiss partnership organized as a Société Cooperative under the Swiss Federal Code of Obligations and was comprised of member firms, including defendant Arthur Andersen LLP, defendant Arthur Andersen & Co., defendant Arthur Andersen Asahi & Co., and the individual and collective partners of the member firms (collectively "Andersen"). At all times relevant hereto, Andersen Worldwide consisted of more than 4,800 individual partners from 390 offices in 84 countries. Various individuals who were partners of Andersen Worldwide participated in the audits of Global Crossing from 1998 through 2001, and prepared, reviewed, approved, and directed the production of financial statements, reports and releases issued or disclosed by Global Crossing throughout the Class Period and derived $14.3 million in fees from Global Crossing. Throughout the Class period, Andersen Worldwide and Arthur Andersen LLP dictated the policies and procedures that were used by Andersen.

81. Andersen also served as Asia Global Crossing's "independent auditor" from its inception through 2002 and prepared, reviewed, approved, and directed the production of
financial statements, reports and releases issued or disclosed by Asia Global Crossing throughout the AGX Class Period. In 2000 alone, Andersen derived $1.5 million in fees from Asia Global Crossing for audit and tax-related services.

82. At all times relevant hereto, Andersen maintained offices in various states and places, including New York, California, Illinois, and Bermuda, and its individual partners resided in various states across the country and throughout the world. Andersen served as Global Crossing's "independent auditor" from 1997 through 2002, and issued clean and unqualified audit opinion letters in connection with Global Crossing's financial statements from 1998, 1999, and 2000, which were incorporated with Andersen's approval in Global Crossing's public filings. Andersen and various individual partners of the firm participated in the audits of Global Crossing from 1998 through 2001, and prepared, reviewed, approved, and directed the production of financial statements, reports and releases issued or disclosed by Global Crossing throughout the Class Period.

83. Andersen was at all relevant times, according to Andersen, part of a single, unified international accounting firm. At all relevant times, Andersen Worldwide served as an umbrella organization that coordinated the activities of the Andersen member firms, the individual Andersen partners and Andersen's offices around the globe, which together operated as a single global partnership. Each member firm had a contract with Andersen Worldwide called a Member Firm Interfirm Agreement which controlled that firm's relationship with Andersen Worldwide. The governance structure of Andersen Worldwide provided for control of Andersen Worldwide and, in turn, its member firms, by the "Meeting of the partners," the "Board of Partners" (the "Board") and the Administrative Council. The "Meeting of the partners" was the general assembly of the Andersen Worldwide partners and had various powers
including the ability to elect or remove members of the Board and the Administrative Council, to elect or remove partners, and to amend the Articles and Bylaws. The Board included partners of the Andersen member firms, the chief executive of Andersen Worldwide and the managing partner of Arthur Andersen LLP. The three-member Administrative Council consisted of the Chief Executive and two other individuals. The Administrative Council was the executive body responsible for managing the affairs of Andersen Worldwide and was vested with the authority to decide all matters not delegated to the partners in general or to the Board. This organizational structure was adopted by Andersen in order to strengthen the “one firm” concept and was intended to foster the belief that Andersen operates as a single entity. Andersen Worldwide achieved this goal through: (1) partner overlap; (2) sharing of costs and profits; (3) global setting of professional standards; and (4) maintenance of a global infrastructure and administration.

84. Partner overlap was a prominent feature of the “one firm” concept. Simultaneously, the partners of Andersen Worldwide also served as partners of the Andersen member firms, including Arthur Andersen LLP. Thus, each of the member firm offices were managed and supervised by individuals who were both Andersen Worldwide partners and member firm partners. Andersen partners on the Global Crossing and Asia Global Crossing engagements were partners of both Andersen Worldwide and Andersen member firms including Arthur Andersen LLP and Arthur Andersen Asahi & Co. Cost and revenue sharing was also a feature of the “one firm” concept. Specifically, Andersen Worldwide coordinated the sharing of costs and revenues among its partners and member firms throughout the world. Furthermore, Andersen Worldwide established professional standards for the Andersen member firms through an agreement entered into with each member firm which states that the member firm will be bound by those professional standards. The Andersen Professional Standards Group had the
responsibility and authority to ensure that the member firms followed Andersen Worldwide’s professional standards. With respect to infrastructure and administration, Andersen Worldwide handled all of the borrowing for its international offices, and maintained the financial records, payroll and employee benefits records for those offices, which allowed the various Andersen offices around the world to function and appear as a unified entity. In order to hold its global network of partners and member firms together, Andersen Worldwide requires each member firm to enter into a membership agreement that requires the member firms pay Andersen Worldwide a severance fee equal to 1.5 times its annual revenue should a member firm wish to withdraw from the worldwide organization.

85. At all relevant times, Andersen was the purported “independent” auditor of and provided other tax and accounting services to Global Crossing. Andersen audited Global Crossing’s and Asia Global Crossing’s materially false and misleading financial statements during the Class Period and the AGX Class Period and issued materially false and misleading opinions on these financial statements. Andersen also consented to the use of its unqualified opinion on Global Crossing’s financial statements and reports filed with the SEC and otherwise disseminated to the investing public during the Class Period. These financial statements were incorporated into and made a part of the Company’s public filings and offering memoranda with the knowledge and express consent of Andersen.

86. Andersen, under the direction of audit partners Perrone, Mark Fagan, and others, audited Global Crossing’s and Asia Global Crossing’s materially false and misleading financial statements during the Class Period and the AGX Class Period and issued materially false and misleading opinions on those financial statements. Andersen reviewed, prepared, directed and controlled all public financial disclosures, including public filings, statements to the press and
investing public, earnings releases, and press releases relating to financial issues of Global Crossing, made by the Company during the Class Period. Andersen thus participated in the scheme, plan and common course of conduct described herein.

87. Defendant Mark Fagan ("Fagan") was, at all relevant times herein, a partner of Andersen and at least as of August 2, 2001 also an Andersen Worldwide Partner, who became the Andersen partner on the Global Crossing account after Defendant Perrone left Andersen to join Global Crossing. Fagan was in charge of and maintained direct supervisory and decision making control over every aspect of Andersen's relationship with Global Crossing from at least May 2000 through the end of the Class Period. Fagan personally reviewed and controlled Global Crossing's accounting policies from at least May 2000 through the end of the Class Period, and materially assisted in the preparation of all public financial disclosures, including public filings, statements to the press and investing public, earnings releases, and press releases relating to financial issues of Global Crossing, made by the Company during the Class Period. Fagan thus participated in the scheme, plan and common course of conduct described herein.

88. Defendant Joseph F. Berardino ("Berardino") was at all times during the Class Period, a partner of both Andersen LLP and Andersen Worldwide, and served as the chief executive officer of Andersen LLP from January 2001 until March 2002. In addition, Berardino served as chief operating officer of Andersen Worldwide from early 2001 until his resignation in March 2002. Prior to January 2001, Berardino served as the managing partner for Andersen's assurance and business advisory practice in North America. In his capacities as CEO and managing partner of Andersen's North American business advisory practice and chief executive officer of Andersen Worldwide, Berardino directed, controlled, and established Andersen's
conduct as alleged herein and thus participated in the scheme, plan and common course of
dconduct described herein.

89. Defendant Thomas L. Elliott ("Elliott") was, at all times during the Class Period,
a partner of Andersen and the head of Andersen's business consulting practice in the United
States. At least as of January 10, 2001, Elliot was also a partner of Andersen Worldwide. In his
capacity as head of Andersen's business consulting practice in the United States, Elliott directed,
controlled, and established Andersen's conduct as alleged herein and thus participated in the
scheme, plan and common course of conduct described herein.

90. Defendants Anthony J. Amoruso, Scott Taub, Benjamin Neuhausen, Carl E. Bass,
Amy Ripepi, John Stewart (who is also a partner of Andersen Worldwide), Dorsey L. Baskin Jr.,
Michael Crooch, Rick Peterson, Thomas Hoey and Donald L. Weeks (collectively, "Andersen
PSG"), at all times during the Class Period, served on Andersen's Professional Standards Group,
which was based in its Chicago headquarters and which gave advice on complex questions for
audit teams assigned to specific audit clients, including Global Crossing. Andersen PSG was
consulted by Andersen's Global Crossing audit team during the Class Period with respect to the
same accounting issues underlying this consolidated complaint.

91. Andersen and all individual defendants identified above under the heading
"Andersen Defendants" shall be referred to collectively as the "Andersen Defendants."

Citigroup Defendants

92. Defendant Salomon Smith Barney, Inc. ("SSB"), now known as Citigroup Global
Markets, Inc., a subsidiary of Defendant Salomon Smith Barney Holdings, Inc. ("SSB
Holdings"), now known as Citigroup Global Markets Holdings, Inc., at all times during the Class
Period, was one of the largest securities brokers in the United States, providing brokerage,
investment banking and asset management services to corporations, governments and individuals
worldwide. Its principal executive offices are located at 388 Greenwich Street, New York, New York. SSB is a subsidiary of SSB Holdings, which, in turn, is a subsidiary of Defendant Citigroup, Inc. ("Citigroup"). SSB Holdings operates primarily through, SSB, its registered broker-dealer subsidiary and agent, which according to SSB Holdings's 2001 Form 10-K “provides investment banking, securities and commodities trading, capital raising, asset management, advisory, research, brokerage and other financial services to its customers, and executes proprietary trading strategies on its own behalf.” SSB is the investment banking/broker unit of Citigroup and claims to be one of the world's leading financial management and advisory companies. In 2001, SSB earned $3.88 billion from its investment banking activities, up from $3.55 billion in 2000.

93. Furthermore, in its published analyst reports, SSB, SSB Holdings and Citigroup held themselves out as a single "Firm", providing comprehensive financial services, as follows: "Salomon Smith Barney ("SSB"), including its parent, subsidiaries and/or affiliates ("the Firm"), usually makes a market in the U.S.-traded over the counter securities recommended in this report and may sell to or buy from customers, as principal, securities recommended in this report."

94. Over the past seven years, SSB became the preeminent investment banking firm in the telecommunications sector of the stock market. Since 1996, SSB has worked with over 80 telecommunications companies to raise approximately $190 billion in debt and equity. In return, according to Thomson Financial, SSB collected from telecommunications companies approximately $809 million in fees relating to underwriting services and approximately $178 million in fees relating to financial advice in connection with mergers and acquisitions in the period between 1997-2001. SSB's fees for that period were well over 40% greater than those of its closest rival in the telecommunication industry, Merrill Lynch. SSB served as co-manager of
the initial public offering of 22 million shares of Global Crossing in August 1998 and a secondary offering of 43 million shares in April 2000, the joint book running manager of the Asia Global Crossing IPO in October 2000, one of the selling agents for the Asia Global Crossing Notes (defined below), one of the arrangers of a $2.25 billion credit facility employed by Global Crossing. These positions enabled SSB to enjoy a close working relationship with Global Crossing and Asia Global Crossing and to collect lucrative investment banking fees during the AGX Class Period, including approximately $7,181,650 in connection with the Asia Global Crossing IPO alone.

95. Defendant Jack B. Grubman ("Grubman") was, at all times during the Class Period, the primary telecommunications industry analyst at SSB. Grubman worked at SSB from the fall of 1994 until 2002. Grubman was one of the most powerful men on Wall Street. As observed by Time Magazine on August 5, 2002, "every big investor knew Grubman was the 'ax,' the one man who could make or break any stock in [the telecommunications] industry with a thumbs-up or thumbs-down." SSB held out Grubman out as SSB's resident guru on telecommunications stocks. During the Class Period, Grubman regularly urged investors to buy shares of untested telecommunications firms and to stay with them after they plummeted in value. Grubman was one of the highest paid analysts in the securities industry, with total compensation over the past four years that averaged approximately $20 million per year. On August 15, 2002, Grubman resigned from SSB and received a compensation package worth approximately $32 million.

96. Due to Grubman's undisclosed close ties to Global Crossing and Winnick, Grubman was privy to non-public information concerning Global Crossing. Because of this access, Grubman knew that the adverse facts specified herein were being concealed. Grubman's
deceptively positive analyst reports about Global Crossing were based, not on his, or SSB's belief in the fundamentals of the company, but upon Grubman's desire to win and retain investment banking business for SSB. Throughout the Class Period, SSB and Grubman repeated their optimistic estimates for Global Crossing's business and its stock price. In each of these reports, SSB and Grubman failed to disclose that their recommendations for the purchase of Global Crossing common stock and their price targets for Global Crossing common stock and other securities were made without any reasonable factual basis and that SSB and Grubman had significant material conflicts of interest because of the investment banking business they were trying to garner. On December 20, 2002, Grubman agreed to pay a fine of $15 million and to a lifetime ban from the securities industry.

97. Defendant Michael Carpenter ("Carpenter") was, at all times during the Class Period, the head of SSB and, as such, was Grubman's superior. Defendant Carpenter was the Chairman and Chief Executive Officer of SSB, and Chairman and CEO of SSB Holdings during the Class Period, and reported directly to Weill, Chairman and CEO of Citigroup. Carpenter was also described as "Chairman and CEO, Citigroup Corporate and Investment Bank and Salomon Smith Barney," according to SEC filings issued by Citigroup. During the Class Period, defendant Carpenter was listed as the second highest compensated executive officer in defendant Citigroup's 2002 Proxy, preceded only by Weill, Chairman and CEO of Citigroup. For the years ended 2001 and 2000, Carpenter received $800,000 in base compensation each year coupled with "Bonuses" of $8,406,250 and $8,805,520 for the years ended 2001 and 2000, respectively. In addition, Carpenter received the second largest (again only exceeded by Weill) grants of defendant Citigroup stock options. According to Grubman, all of his superiors were fully aware of the circumstances surrounding the issuance of his research opinions (i.e., that they were being
determined entirely by investment banking considerations and not by the fundamentals of the particular company).

98. Defendant Kevin McCaffrey ("McCaffrey") was, at all times during the Class Period, the head of the SSB stock research department. As the head of that department, McCaffrey approved of and directed Grubman and his assistants to produce overly optimistic research reports on Global Crossing and other telecom companies. In addition, he assisted in determining the allocation of "hot" IPO shares to select SSB clients who had the authority to retain SSB to perform investment banking services for lavish banking fees.

99. Defendant Christine Gochuico ("Gochuico") was, at all times during the Class Period, Grubman's research assistant in the telecom sector, and she issued, along with Grubman, virtually every research report relating to Global Crossing during the Class Period.

100. Defendant Citigroup was, at all times during the Class Period and the AGX Class Period, a diversified global financial services holding company whose businesses provided a broad range of financial services to consumer and corporate customers with 192 million customer accounts in over 100 countries and territories. The principal executive offices of Citigroup are located at 399 Park Avenue, New York, New York. In 2001, Citigroup generated revenues of $112 billion and recorded net income of $14.1 billion. Through its position of control and authority as: (a) the 100% owner of SSB; (b) Grubman's employer, and (c) the principal of its agents and employees, including SSB, SSB Holdings, and Grubman,

101. Citigroup was able to and did control, directly and indirectly, the content of the public statements disseminated by SSB and Grubman. Citigroup also was able to and did control, directly and indirectly, the context of analyst reports issued by Grubman. With knowledge of the falsity of the statements contained therein, or in severely reckless disregard of
the truth about the analyst reports issued by Grubman, Citigroup and SSB caused the false and misleading statements and omissions of material facts as alleged herein.

102. Citigroup, SSB and all individuals identified above under the heading "Citigroup Defendants" shall be referred to collectively as the "Citigroup Defendants."

**Other Financial Institutions Defendants**

103. Defendant J.P. Morgan Securities Inc. is a subsidiary of Defendant J.P. Morgan Chase & Co., and is also the successor to Chase H&Q and Chase Securities Inc. (collectively referred to herein as "J.P. Morgan"). J.P Morgan has its principal place of business at 270 Park Avenue, New York. New York. J.P Morgan and J.P Morgan Chase & Co. provide equity research, sales, and trading services, merger and acquisition advisory services, private banking services, and underwriting services including underwriting. J.P Morgan was an underwriter of certain Global Crossing securities. During the Class Period, Winnick sat on J.P. Morgan's National Advisory Board. After making J.P. Morgan one of his personal bankers, in 2001 Winnick appointed the co-head of the private banking group, Lagomasino, to Global Crossing's board. J.P. Morgan negotiated a $3 billion line of credit in conjunction with Global Crossing's acquisition of Frontier. In 2000, J.P. Morgan and SSB advised Global Crossing on its acquisition of IPC/IXnet and split the $23.3 million in fees for the deal, and in October 2000 defendants Chase Securities, Inc. and Chase H&Q acted as underwriters for the Asia Global Crossing IPO and one of the selling agents for the Asia Global Crossing Notes, earning underwriting commissions of approximately $1.07 million while also acting as a syndicator on Global Crossing's $1 billion revolving credit facility. In addition, J.P. Morgan made extensive personal loans to Global Crossing directors and/or executives, such as defendant Cook, secured by a credit facility that J.P. Morgan itself provided to Global Crossing with other financial institutions. As a senior lender and participant in the credit facility, J.P. Morgan had extensive
access to Global Crossing’s financial and accounting records, in addition to the access it was provided in conducting due diligence as part of its underwriting activities. Also, by virtue of Lagomasino’s position on the Global Crossing board, J.P. Morgan had access to and actual knowledge of Global Crossing’s accounting practices, and specifically Global Crossing’s improper accounting for economically worthless reciprocal IRU swaps with other telecom companies. For example, at an April 11, 2001 meeting of Global Crossing’s board, Lagomasino specifically reviewed and approved of a series of worthless IRU swaps during the first quarter of 2001, which Global Crossing engineered with no purpose other than to generate the appearance of fake revenue.

104. Defendant Canadian Imperial Bank of Commerce, a Canadian financial institution based in Toronto, through a variety of subsidiaries, affiliates and divisions, including Defendant CIBC Oppenheimer Corp., now known as CIBC World Markets Corp. (“CIBC World Markets”), CIBC Capital Partners, and CIBC Capital Partners (Cayman), each with a principal place of business at 425 Lexington Avenue, New York, New York (collectively, “CIBC”), provided commercial and investment banking services, underwriting services, and advisory services to Global Crossing.

105. CIBC invested $41 million in Global Crossing and in return for its investment, CIBC received 48,625,622 shares of stock, or 25% of its outstanding stock, and 5 seats on the Global Crossing Board of Directors, through which CIBC exercised control over the operations of the Company. CIBC ultimately parlayed their $41 million investment in Global Crossing into at least $1.7 billion through the sale of Global Crossing shares. CIBC sold the first of their Global Crossing shares in June 1999 in a public tender offer, reaping net proceeds in the amount of $553 million. They next diminished their holdings in Global Crossing in February 2000 when
CIBC Argosy distributed 12.9 million shares of Global Crossing stock to its limited partners, including defendants Kehler and Bloom. CIBC Argosy was an affiliate of CIBC at the time, and CIBC acted as general partner and managing member of CIBC Argosy. In April of 2000, CIBC and other Global Crossing insiders sold over 43 million shares of Global Crossing stock worth $425 million directly to the investing public as part of a Secondary Offering. CIBC alone sold over 6.7 million shares of stock, which were reportedly owned by an affiliate known as CIBC Capital Partners (Cayman). Based upon an offering price of $33, CIBC reaped proceeds of $221.1 million in the Secondary Offering.

106. CIBC World Markets also acted as one of the underwriters for the Asia Global Crossing IPO earning underwriting commissions of approximately $1,071,000, while CIBC also acted as a syndicator on Global Crossing’s $1,000,000,000 revolving credit facility earning additional fees.

107. In exchange for its substantial investment in Global Crossing, CIBC received the power to control the Company through the right to appoint five members to Global Crossing’s Board of Directors, and a stockholder agreement that essentially gave CIBC veto power over key decisions of the Company. Canadian Imperial Bank of Commerce owns 100% of the voting shares of CIBC World Markets. CIBC World Markets was an initial purchaser of notes and preferred stock that Global Crossing issued and which were ultimately sold to the investing public. Defendants Bloom, Kehler, Phoenix, Levine, and Raben—the individual CIBC employees appointed to the Global Crossing Board—were also managing directors of CIBC World Markets throughout their tenure on Global Crossing’s Board.

108. CIBC Capital Partners and CIBC Capital Partners (Cayman) are CIBC controlled affiliates of the CIBC Defendants through which the CIBC Defendants sold over 6.7 million
shares of stock in Global Crossing's Secondary Offering. Other CIBC controlled entities provided significant funding for Global Crossing.

109. Defendant Goldman, Sachs & Co. ("Goldman Sachs") is a subsidiary of The Goldman Sachs Group, and is a global investment banking, securities and investment management firm with a principal place of business at 85 Broad Street, New York, New York. Goldman Sachs' investment banking segment provides underwriting services, which includes public offerings and private placements of equity and debt securities. Goldman Sachs was an underwriter of certain Global Crossing securities. Goldman Sachs was one of the principal architects of the creation of Asia Global Crossing and one of the four initial shareholders of Asia Global Crossing. Goldman Sachs and SSB were the joint book-running managers for the Asia Global Crossing IPO, with each agreeing to purchase 20,519,000 Class A Common shares for resale and each earning underwriters fees and commissions of approximately $7.18 million. Goldman Sachs' initial interest in Asia Global Crossing was converted into Class B Common Stock, which held 10 times the voting power of Class A Common Stock.

110. Defendant Merrill Lynch & Co., Inc., is a financial management and advisory company with a principal place of business at 4 World Financial Center, New York, New York, and which through a variety of subsidiaries and divisions, including defendant Merrill Lynch, Pierce, Fenner & Smith, Incorporated (collectively, "Merrill Lynch"), provided commercial and investment banking services, underwriting services, and advisory services to Global Crossing, including the Asia Global Crossing IPO with respect to which it served as the representative of the underwriting group, earning underwriters fees and commissions of approximately $1.29 million and as one of the selling agents for the Asia Global Crossing Notes.
111. Defendant Morgan Stanley Dean Witter, is a financial management and advisory company with a principal place of business at 1585 Broadway, New York, New York, and which through a variety of subsidiaries and divisions including defendant Morgan Stanley & Co., Incorporated (collectively, “Morgan Stanley”), provided commercial and investment banking services, underwriting services, and advisory services to Global Crossing.

112. Defendant Donaldson Lufkin & Jenrette, Inc., through a variety of subsidiaries and divisions including defendant Donaldson, Lufkin & Jenrette Securities Corporation (collectively, “DLJ”) provided commercial and investment banking services, underwriting services, and advisory services to Global Crossing during the Class Period. In November 2000, DLJ was acquired by Defendant Credit Suisse First Boston, Incorporated (“CSFB”), a subsidiary of Credit Suisse Group, which separately provided commercial and investment banking services, underwriting services, and advisory services to Global Crossing during the Class Period. CSFB has its principal place of business at 11 Madison Avenue, New York, New York. CSFB also served as an underwriter with respect to the Asia Global Crossing IPO earning underwriters fees and commissions of approximately $1,071,000.

113. Defendant Bear Stearns & Co., Inc., provides investment banking, trading and other services and has a principal place of business at 383 Madison Avenue, New York, New York (“Bear Stearns”). Bear Stearns was an underwriter in the IPO of Asia Global Crossing's IPO.

114. Defendant Pacific Capital Group (“PCG”) is an investment firm that was formed by Winnick in 1985. Defendants Winnick, Lee, Porter and Brown were partners in PCG at all material times hereto.
115. Defendant Microsoft is a global developer, manufacturer, licensor and supporter of a wide range of software products for a multitude of computing devices. Microsoft maintains its corporate headquarters at One Microsoft Way, Redmond, Washington 98052. Microsoft, at certain relevant times, was a significant stakeholder of Asia Global Crossing through its ownership of approximately 15.8% of the outstanding shares of common stock of Asia Global Crossing at the time of its IPO, having designated its representative, defendant Thomas U. Koll, to serve on Asia Global Crossing's Board of Directors. Microsoft was also a party to a shareholder agreement with, among others, Global Crossing, giving Microsoft substantial control over significant corporate transactions of Asia Global Crossing.

116. Defendant Softbank is a Japanese Internet and technology conglomerate. Softbank, at certain relevant times, was a significant stakeholder of Asia Global Crossing through its ownership of approximately 15.8% of the outstanding shares of common stock of Asia Global Crossing at the time of its IPO, having designated its representative, defendant Eric Hippeau, to serve on Asia Global Crossing's board of directors. Softbank was also a party to a shareholder agreement with, among others, Global Crossing, giving Softbank substantial control over significant corporate transactions of Asia Global Crossing.

117. Defendant Deutsche Bank Securities Inc. ("Deutsche Bank"), provides investment banking, commercial banking and other services and has a principal place of business in the U.S. at 280 Park Avenue, New York, N.Y. Deutsche Bank served as one of the underwriters in connection with the Asia Global Crossing IPO, earning underwriters fees and commissions of approximately $1.07 million, served as one of the selling agents for the Asia Global Crossing
Notes and also served as a syndicator on Global Crossing's $1 billion revolving credit facility, collecting even more fees.

118. Defendant ABN AMRO Rothschild LLC ("ABN AMRO") is an investment banking, securities and investment management firm with a principal place of business at 1290 Avenue of the Americas, New York, NY 10104. ABN AMRO acted as one of the underwriters for the Asia Global Crossing IPO and one of the selling agents for the Asia Global Crossing Notes.

119. Defendant Lehman Brothers, Inc. ("Lehman Brothers") is an investment banking, securities and investment management firm with a principal place of business at 745 Seventh Avenue, New York, NY 10019. Lehman Brothers was an underwriter in the IPO of Asia Global Crossing's IPO.

120. Defendant A.G. Edwards & Sons, Inc. ("A.G. Edwards") is an investment banking, securities and investment management firm with a principal place of business at One North Jefferson Avenue, St. Louis, Missouri 63103. A.G. Edwards was an underwriter in the initial public offering of Asia Global Crossing's stock.

121. Defendant First Union Securities, Inc. ("First Union"), now known as Wachovia Securities, is an investment banking, securities and investment management firm with its principal place of business at Riverfront Plaza, 901 East Byrd Street, Richmond, Virginia 23219. First Union was an underwriter in the IPO of Asia Global Crossing's IPO.

122. Defendant RBC Dominion Securities Corporation ("RBC Dominion Securities") is an investment banking, securities and investment management firm with its principal place of business at 165 East Broadway, New York, New York 10002. RBC Dominion Securities was an underwriter in the IPO of Asia Global Crossing's IPO.
123. Defendant Wasserstein Perella Securities, Inc. ("Wasserstein Perella") is an investment banking, securities and investment management firm with a principal place of business at 31 West 52nd Street, New York, New York 10019. Wasserstein Perella was an underwriter in the IPO of Asia Global Crossing's IPO.

124. Defendant Advest, Inc. ("Advest") is an investment banking, securities, and investment management firm with a principal place of business at 90 State House Square, Hartford, Connecticut 06103. Advest was an underwriter in the IPO of Asia Global Crossing's IPO.

125. Defendant Gerard Klauer Mattison & Co., Inc., now known as Harris Nesbitt Gerard, ("Gerard Klauer Mattison") is an investment banking, securities and investment management firm with a principal place of business at 360 Madison Avenue, New York, New York 10017. Gerard Klauer Mattison was an underwriter in the initial public offering of Asia Global Crossing's stock.

126. Defendant Guzman & Company ("Guzman & Co.") is an investment banking, securities and investment management firm with a principal place of business at 101 Aragon Avenue, Coral Gables, Florida 33134.. Guzman & Co. was an underwriter in the IPO of Asia Global Crossing's IPO.

127. Defendant Kaufman Bros., L.P. ("Kaufman Bros.") is an investment banking, securities and investment management firm with a principal place of business at 800 Third Avenue, New York, New York 10022. Kaufman Bros. was an underwriter in the IPO of Asia Global Crossing's IPO.

128. Defendant McDonald Investments Inc., a KeyCorp Company ("McDonald Investments") is an investment banking, securities, and investment management firm with a
principal place of business at 127 Public Square, Cleveland, Ohio 44114. McDonald Investments was an underwriter in the IPO of Asia Global Crossing's IPO.

129. Defendant Monness, Crespi, Hardt & Co., Inc. ("Monness, Crespi, Hardt & Co.") is an investment banking, securities and investment management firm with principal place of business at 767 3rd Avenue, New York, New York 10017. Monness, Crespi, Hardt & Co. was an underwriter in the IPO of Asia Global Crossing's IPO.

130. Defendant Samuel A. Ramirez & Co., Inc. ("Ramirez & Co.") is an investment banking, securities and investment management firm with a principal place of business at 61 Broadway, 29th Floor, New York, New York 10006. Ramirez & Co. was an underwriter in the IPO of Asia Global Crossing's IPO.

131. Defendant Raymond James & Associates, Inc. ("Raymond James") is an investment banking, securities and investment management firm with a principal place of business at The Raymond James Financial Center, 880 Carillon Parkway, St. Petersburg, Florida 33716. Raymond James was an underwriter in the IPO of Asia Global Crossing's IPO.

132. Defendant Scott & Stringfellow, Inc. ("Scott & Stringfellow") is an investment banking, securities and investment management firm with a principal place of business at 909 East Main Street, Richmond, Virginia 23219. Scott & Stringfellow was an underwriter in the initial public offering of Asia Global Crossing's stock.

133. Defendant Stephens Inc. ("Stephens") is an investment banking, securities and investment management firm with a principal place of business at 111 Center Street, Little Rock, Arkansas 72201. Stephens was an underwriter in the IPO of Asia Global Crossing's IPO.

134. Each of the defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit upon purchasers of Global Crossing securities and
Asia Global Crossing securities, by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme deceived the investing public regarding Global Crossing's business and Asia Global Crossing's business, and their present and future prospects, growth, operations and the intrinsic value of Global Crossing's securities and Asia Global Crossing's securities and induced the Class to purchase Global Crossing securities at artificially inflated prices.

135. At all times during the Class Period, the market for Global Crossing securities was an efficient market that promptly digested current information regarding the Company from all publicly available sources and reflected such information in the price of Global Crossing's securities. Under these circumstances, all purchasers of Global Crossing's securities during the Class Period suffered similar injury through their purchase of securities at artificially inflated prices and a presumption of reliance applies.

136. Likewise, at all times during the AGX Class Period, the market for Asia Global Crossing securities was an efficient market that promptly digested current information regarding Asia Global Crossing from all publicly available sources and reflected such information in the price of Asia Global Crossing's securities. Under these circumstances, all purchasers of Asia Global Crossing's securities during the AGX Class Period suffered similar injury through their purchase of securities at artificially inflated prices and a presumption of reliance applies.

V. THE DEFENDANTS' FRAUDULENT SCHEME

A. The Formation of Global Crossing

137. Following passage of the Telecommunications Act of 1996, a host of start-up telecommunication companies, such as Global Crossing, were formed to take advantage of the provisions of the Act. Global Crossing, originally called Global Telesystems, was founded in
March 1997 by Winnick, Lee, Porter and Brown, who were partners in PCG, the investment firm founded by Winnick in 1985.

138. Prior to forming PCG, Winnick worked at Drexel Burnham Lambert ("Drexel Burnham") between 1972 and 1985. Winnick initially worked as a salesman in Drexel Burnham's New York office, but in 1978, Winnick left New York to work for Michael Milken ("Milken") in Drexel Burnham's Beverly Hills office. Winnick became a Senior Vice President in Drexel's High Yield and Convertible Bond Department, working alongside and for Milken. Winnick eventually received immunity to become a witness in the criminal prosecution of Milken, who was sentenced to 10 years in jail for committing securities violations during the time period he and Winnick worked together. Milken also agreed to pay $600 million in fines and restitution.

139. Winnick left Drexel Burnham to form PCG. Winnick has been the Chairman and Chief Executive Officer of PCG since its inception in 1985. Winnick hired Lee in 1989, Porter in 1993, and Brown in 1994. In or about late 1996, after speaking with William B. Carter, Jr., a former president and chief executive officer of AT&T Submarine Systems, Inc. – AT&T's unit that laid telecommunications cables under the ocean – and Dawson of the same AT&T unit, Lee and PCG began planning the financing of a fiber optic cable under the Atlantic Ocean between the United States and Europe.

140. The Company's original business plan was to build an international fiber optic telecommunications network and lease capacity on that network, starting with the trans-Atlantic cable. Fiber-optic networks originally competed with metal wire and satellite communications, and because they were less expensive than the older methods of transmitting voice and data, quickly garnered significant market share. Global Crossing's ultimate business plan was to be a
"carrier's carrier" and sell capacity on its fiber-optic network to carriers who would, in turn, sell that capacity to end users or other carriers. Global Crossing's customers were expected to benefit from this service because it eliminated their need to commit the substantial capital required to build undersea cable networks and decreased the risks associated with forecasting the industry's future capacity requirements. Instead, those costs and risks were shifted to Global Crossing.

141. Soon after being formed, Global Crossing designed and built global long distance telecommunications facilities and services using a network of undersea digital fiber-optic cables and terrestrial backhaul capacity, segment by segment, starting with a transatlantic cable system called Atlantic Crossing ("AC-1"), a system connecting the United States and Europe; then Pacific Crossing ("PC-1"), a system connecting the United States and Asia; Mid-Atlantic Crossing ("MAC"), a system connecting the eastern United States, Bermuda, the Caribbean and Central America; and Pan American Crossing ("PAC"), a system connecting the western United States and Central America. The cables making up the Company's network were either laid on the ocean floor (subsea) or underground (terrestrial). The subsea cables arrive on shore at landing stations from which they must be connected to Points-of-Presence ("POPs") where the cables then typically connect with a local exchange carrier.

142. As observed in the financial press such as Forbes Magazine in an October 2000 article entitled "Doing It With Mirrors" and Fortune Magazine in a June 2002 article entitled "Emperor of Greed," Global Crossing's original business model was a modest one, not much different from a utility. It planned to sell capacity – typically for 25-year periods – on its network and then those sale proceeds and the incidental service revenues would generate the returns on its investment. It could have been a safe, conservative investment with predictable returns. But that was not Winnick's goal. He wanted to leverage the early success of fiber-optic
networks into a telecommunications giant. That could only be done if the market received a completely distorted view of the Company and its finances. For that, Winnick needed help. As described below, there were many who were only too happy to provide that help in return for lavish fees. In total, the Company eventually raised more than $20 billion in the debt and equity markets in just three years. At its peak, Global Crossing had a market capitalization of $47 billion in February 2000.

B. Winnick Looks For Capital

143. Conveniently, Winnick's son and several of Winnick's former Drexel Burnham associates had gone to work at CIBC, a Canadian retail and investment bank that was looking to enter the telecom field. Winnick thus turned to CIBC early on for help raising capital.

144. After Winnick contacted CIBC, CIBC led the syndication of a $482 million loan for the Company in late 1997 and an additional $850 million round of financing shortly afterward. CIBC also invested $41 million and received 48,625,622 shares of Global Crossing stock or 25% of the outstanding common stock. CIBC's initial investment was provided through CIBC-affiliated junk-bonds managed by Defendants Bloom, Kehler, and Levine (Defendants Bloom and Kehler were also limited partners in these funds.) CIBC was also given five seats on Global Crossing's board. As described below, CIBC ceased involvement with the Company shortly before Global Crossing's crash, but not until CIBC had turned its initial investment of approximately $41 million into $1.7 billion, a figure that does not even include the $135 million in advisory fees CIBC earned during its involvement in twelve deals with Global Crossing.

145. CIBC served as an underwriter and co-led the initial public offering of Global Crossing's common stock. Among other deals, CIBC was an initial purchaser in connection with the issuance of $800 million in restricted senior notes and the lead agent under the $240 million bank credit facility. CIBC also acted as an arranger for the $600 million ten-day demand note
issued by the Company's Global Marine Systems, acted as an arranger for the $3 billion senior secured credit facility entered into in July 1999, was an initial purchaser of the $2 billion aggregate principal amount of unsecured senior notes in November 1999, and was an initial purchaser of Global Crossing's $650 million aggregate liquidation preference 7% cumulative convertible preferred stock issued in December 1999.

146. CIBC's five representative directors on the Board of Global Crossing, Bloom, Kehler, Levine, Phoenix, and Raben, also profited handsomely. Each of Bloom, Kehler, Levine, Phoenix, and Raben received cash compensation of approximately $45,000 annually and options to purchase approximately 510,000 shares of Global Crossing common stock for their service as directors, and each prospered by selling Global Crossing stock. According to an April 29, 2002 Canadian Business article, CIBC's representative directors resigned from Global Crossing's Board so they could sell their stock without publicly reporting the sales, reportedly realizing over $1 billion in connection with those sales.

C. Global Crossing Becomes A Public Company

147. On August 13, 1998, Global Crossing became a public company. On the day of the initial public offering (the "IPO"), 21 million shares of common stock were offered at $9.50 per share. That same day, the price of Global Crossing stock rose as high as $13.40 per share. The lead underwriters for the IPO were SSB and Merrill Lynch, who received estimated fees of over $10.5 million. As a result of the IPO, Global Crossing raised approximately $399 million and its market capitalization exceeded $2.7 billion. By the end of 1998, Global Crossing's market value had almost doubled to approximately $4.9 billion as its stock price reached $24 per share. Winnick's own stake was worth $1.4 billion.

148. Global Crossing's initial financing was so successful that it continued to sell securities to the public throughout the Class Period, raising over $20 billion in just a few years
through a series of public and private common and preferred stock and bond offerings. In November 1998, Global Crossing announced a $500 million preferred stock offering. In November, 1999, Global Crossing completed a $2 billion senior note offering. The following month, Global Crossing issued $500 million in preferred stock and soon after, the Company announced plans to issue another $1.23 billion in convertible preferred stock. In sum, between 1997 and 2000, the Company’s short-term borrowings and long-term debt increased exponentially, from $312 million in 1997 to $7.2 billion in 2000. In or about April 2000, an additional 43 million shares of Global Crossing common stock were sold in a secondary offering at $33.00 per share (the “Secondary Offering”) and 4 million additional shares of preferred stock were offered to the public.

D. A Select Few Profit Handsomely

149. Winnick lived lavishly on the money he was raising from the public, and through a pattern of self-dealing, he and his cronies treated Global Crossing as their own personal piggy-bank.

150. In March 1997, PCG entered into a consulting agreement with a Global Crossing subsidiary, Atlantic Crossing. Under the terms of the agreement, PCG Telecom was to receive 2% of Atlantic Crossing’s gross revenue over a 25-year period in return for advice on the development and marketing of the network. PCG later allocated a portion of the advisory fees it was entitled to receive to Winnick, Cook, Brown, Lee and Porter. Consequently, in return for performing the very duties Winnick, Cook, Brown, Lee and Porter were already being paid for as Company officers, they received $7.2 million for 1997 alone. In June 1998, a little over one year after the consulting agreement was signed, Global Crossing terminated the agreement and paid a contractual termination fee of $135 million to Winnick, Cook, Brown, Lee and Porter.
In October 1999, Global Crossing agreed to pay North Crescent Realty, a subsidiary of PCG, $400,000 a month to lease office space in Beverly Hills. The headquarters included two buildings, one of which was modeled as an Italian villa. Winnick's personal office was a replica of the Oval Office at the White House. Global Crossing also paid $2.3 million towards PCG's renovations of its building. PCG also billed Global Crossing $2 million during 1999 alone for the use of airplanes.

Winnick lived lavishly off Global Crossing's funds. In total, Winnick's proceeds from the sale of Global Crossing stock exceeded $800 million. Winnick repeatedly made the Forbes list of the richest people in the United States. In September 2000, Winnick paid $65 million in cash for a 12,000 square-foot, 15 bedroom mansion in Bel Air on 4 acres. At the time of the purchase, Winnick's home was the most expensive single family dwelling ever purchased in the United States.

Global Crossing's CEOs shared in the bounty. For example: (a) Scanlon was hired on April 1, 1998 at an annual salary of $622,500. He received a $504,000 bonus, 3.6 million stock options, and sold stock for $24.5 million by May 2001. And just ten months after he was hired, he received a severance package reportedly worth $170 million. (b) Annunziata replaced Scanlon on February 24, 1999 with a pay package consisting of: a $10 million signing bonus and 2 million stock options at $10 a share below market price. On or about June 1999, Annunziata sold 81,576 of the 2 million shares for $5,118,894. Annunziata also got a guaranteed bonus of at least $500,000 per year; a new Mercedes SL 500; use of the corporate jet for commuting until he moved to the Beverly Hills area; and first class airfare for his entire family between Los Angeles and New Jersey, including his mother, to visit him once a month. His severance agreements included a payment of at least $2 million. Annunziata resigned in early
March 2000, having received one year compensation of at least $18 million. (c) On March 2, 2000, Hindery became CEO with a salary of $995,000 and 2 million options. Global Crossing also paid $20,000 in monthly rent on Hindery's New York City apartment. Hindery resigned on October 11, 2000. As part of his severance agreement, Global Crossing agreed to continue to pay the rent on his New York City apartment, plus $1 million a year through the end of 2002. (d) Casey became CEO on October 11, 2000. Casey's three year employment agreement included a base salary of $1.1 million, a bonus targeted at 100% of salary, 2 million stock options and an $8 million loan which was later forgiven. Global Crossing also forgave $336,828 in interest on the $8 million loan and paid Casey $328,183 to cover taxes on the loan. He left in October of 2001, but not until after he had received approximately $13 million for his one-year tenure, excluding his stock options. (e) Legere became CEO on October 9, 2001. He received a signing bonus of $3.5 million, $3 million in severance for leaving Asia Global Crossing, and a salary of $1.5 million and forgiveness of a $10 million loan.

154. Nepotism was also rampant at Global Crossing. Cook's daughter, Sherri Cook, was hired as an in-house attorney at Global Crossing. A company controlled by Perrone's son, Joseph Perrone, Jr., was paid approximately $1.2 million for technology and consulting services even though insiders, like Mike Antonucci, a metro network designer, thought that the project was worthless “from a business standpoint.” Perrone's son-in-law, Steven Scro, who had no telecommunications background or skills, served as a high paid gopher in the Company's Madison, New Jersey office.

155. In order to make sure that the Company's Board did not interfere with Winnick's self-dealing, he staffed the Board's audit committee with friends and associates. Hippeau, who served on the audit committee in 1999 and 2000, was a managing director of Softbank Capital
Partners, a unit of Softbank. Softbank was an early substantial investor in Asia Global Crossing, and eventually controlled 16% of the company. Conway, who served on the audit committee between 1999 and 2001, was a managing director of the Carlyle Group, which received over 2.2 million shares of Global Crossing stock. Lagomasino, a friend of Winnick's who served on the audit committee in 2001, was a co-head of the J.P. Morgan Private Bank, a unit of J.P. Morgan, which was an underwriter on several Company offerings, receiving tens of millions of dollars in fees.

156. Winnick put other friends on the Board and allowed them to prosper to "stay in line." Brownstein, a Denver lawyer who was a personal friend of Winnick, received 150,000 shares of Global Crossing in 1997 at an undisclosed low price. He was then elected to the Board of Global Crossing on May 1, 2000. Seven days later, he sold 40,000 shares of Company stock, netting $1.4 million. His law firm, Brownstein, Hyatt & Farber, provided legal and lobbying services to Global Crossing. According to the Company's Form 10-Ks for the years 1999 and 2000, Brownstein's law firm collected $7.8 million in fees from Global Crossing during those two years.

157. Winnick also spent heavily on politicians and those he deemed politically connected. Former President George Bush received approximately $80,000 worth of Global Crossing stock options for speeches he made in Barcelona and Tokyo in 1997. The shares were eventually sold for a reported $4.5 million. During the 1999-2000 election cycle, Global Crossing ranked No. 23 on the list of top overall donors to federal parties and candidates, giving more than $2.8 million in contributions. In August 1997, Terry McAuliffe, the Democratic National Committee chairman, received stock in return for a $100,000 investment. McAuliffe later sold the shares in 1999 for a reported $18 million.
158. In July 2001, Global Crossing won a Defense Department contract worth up to $450 million to build a secure network connecting laboratories and other research locations working on government projects. The controversial contract caused an outcry when outraged observers complained that Global Crossing lacked the ability to provide the required services and only won the contract because Global Crossing put former Defense Secretary William Cohen on its board of directors in April 2001.

E. **Andersen and Global Crossing Are a Natural Fit**

159. Winnick and Global Crossing were equally generous to Andersen, Global Crossing's supposed independent auditors. The Company paid Andersen $14 million in year 2000 alone.

160. Conveniently, at the same time Global Crossing needed to create the misperception that it was a tremendously successful, fast-growing company rather than a low-return, boring, utility-like peddler of cable space, Andersen's national telecom accounting practice, headed by Mel Dick of the firm's Denver office, was aggressively moving to represent the telecom industry.

161. Andersen sought to distinguish itself from its competitors in the consulting industry by marketing aggressive accounting policies that Andersen claimed more appropriately reflected the “value” in the telecom industry. In doing so, Andersen not only structured deals and instructed its clients to account for transactions that abused traditional methods of accounting, but helped create an industry based on economically worthless “swap” transactions that duped investors into believing that telecom companies were making billions of dollars, when they were not, and drove the stock market to astronomical, and fraudulently inflated, levels.

162. Andersen's now infamous "White Paper" guided its clients in presenting false financial results that presented the appearance of healthy, thriving businesses when the reality
was far different. One struggling start-up after another was able to obtain billions in financing that was unjustified and unsupportable had their true financial picture been presented. Andersen and others, like SSB, created a web of interrelated transactions between their clients that had no economic substance but which were used to fool investors into believing that the industry and these companies were growing much faster than the reality. Once the truth could no longer be concealed, the entire infrastructure tumbled like a house of cards because each company’s false results were predicated on the other companies in the chain.

F. Andersen’s Clients Used Accounting for IRU Sales to Artificially Inflated Revenue and Profitability

163. Generally Accepted Accounting Principles ("GAAP") are those principles recognized by the accounting profession as the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. Those principles are the official standards adopted by the American Institute of Certified Public Accountants (the "AICPA”), a private professional association, through three successor groups it established: the Committee on Accounting Procedure, the Accounting Principles Board (the "APB"), and the Financial Accounting Standards Board (the "FASB").

164. Under GAAP, and particularly FASB Statement No. 13, a company may account for certain kinds of long term leases of equipment as sales, recognizing the entire value of the lease payments due under the lease agreement immediately upon the execution of that agreement. Under FASB Statement No. 13, a lease of equipment can qualify as a sales-type lease if any one of the following four criteria is met: (a) the lease transfers ownership of the property to the lessee by the end of the lease term, (b) the lease period extends for 75% or more of the economic useful life of the leased asset, (c) if the lessee is given the option to purchase the leased asset at a bargain price at the expiration of the lease term, or (d) if the present value of the
minimum lease payments, excluding executory costs such as insurance, maintenance and taxes to be paid by the lessor, including any profit thereon, equals or exceeds 90% of the fair value of the leased property.

165. All leases that do not qualify for sales-type treatment under FASB Statement No. 13 are called operating leases. For operating leases, GAAP requires the lessor to allocate the revenue generated by the lease agreement over the lease term, even if the payments are made up front. Thus, under GAAP, if a lessor enters into an operating lease for a term of 20 years, and the lessee pays all of the payments due under the lease up front, lessor can only recognize 1/20th of the payment as revenue for each year of the lease term, and must book the remainder of the payment as "deferred revenue."

166. An "Indefeasible Right of Use" ("IRU") is a right to use a specified capacity, or bandwidth, over a designated communications cable owned by a telecommunications company for a set period of time. In an IRU sale, the purchaser pays a set amount of money, usually up front, and receives the right to use that IRU for a particular length of time.

167. FASB Statement No. 66, Accounting for Sales of Real Estate, states that if a seller sells property improvements and leases the underlying land to the buyer, the transactions are interdependent and it is impracticable to distinguish between profits on the sale of the improvements and the profits under the related lease. This section of the pronouncement would apply directly to an IRU lease which is the combination of an equipment lease and an implicit lease of the underlying land.

168. In addition, FASB Statement No. 98, Accounting for Leases, Sales-Type Leases of Real Estate, defines property improvements as any physical structure or equipment attached to the real estate that cannot be removed and used separately without incurring significant cost.
SFAS No. 98 further states that a lease involving real estate shall be classified as a sales-type lease only if it meets the criterion of SFAS No. 13, paragraph 7(a), which says that in order to qualify as a capital lease, the lease must transfer ownership of the property to the lessee by the end of the lease term. SFAS No. 13 also states that if the original lease is an operating lease, then any sub-lease must also be classified as an operating lease.

169. Global Crossing and Asia Global Crossing's network assets are integral to the underlying land and therefore, an IRU lease should be accounted for as a real estate transaction. Because the underlying land lease is accounted for as an operating lease and title to the land cannot be transferred to another party, the IRU transaction must be accounted for as an operating lease.

170. Although accounting for leases in accordance with GAAP is quite clear when the requirements of SFAS No. 13, 66 and 98 are considered, Global Crossing and Asia Global Crossing were not satisfied with their financial results when they complied with these accounting standards. Instead, they chose to ignore GAAP and classified transactions as Capital Leases so that they could record all the revenue immediately up-front.

171. Andersen's telecom practice realized the benefits that treating IRU sales as sales-types leases could have on telecoms' bottom lines. By treating an IRU sale as a sales-type lease under FASB Statement No. 13, a telecom company could recognize as revenue the entire value of the IRU sale in the period when the sale is made, regardless of the fact that the IRU extended for a period of up to 25 years, while deferring the costs associated with the IRU over the entire period.

172. Andersen Global Crossing, Asia Global Crossing, and Andersen's other telecom clients (including WorldCom, Level 3 Communications, FLAG Telecom Holdings, Qwest, CMS.
Energy and Genuity) concocted a plan to allow them to treat each IRU sale as a sales-type lease under FASB Statement No. 13. Accordingly, for every IRU sold, Andersen colluded with its clients, including Global Crossing and Asia Global Crossing, to recognize the revenue on the sale immediately. At the same time, however, the costs associated with the IRU were being amortized over the term of the agreement, typically up to 25 years, which is a direct violation of GAAP, specifically the “Matching Principle,” under which revenues and expenses that result from the same transaction are required to be recognized in the financial statements at the same time.

173. Global Crossing and Asia Global Crossing, with Andersen's approval, used IRU sales as a significant source of revenue. Specifically, from at least April 1998 through June 30, 1999, and from December 1999 through December 31, 2000, respectively, Global Crossing and Asia Global Crossing treated each IRU sale as a sales-type lease under FASB Statement No. 13, thus recognizing the entire amount of the payments as immediate revenue:

a. During 1998, Global Crossing recognized $418 million in revenue from IRU sales that the Company recognized as sales-type leases. This 1998 revenue represented 98.8% of the Company's entire revenue for the year;

b. In 1999, Global recognized $728 million in revenue from IRU sales that it booked as sales-type leases. This amount represented 48.8% of Global Crossing's total revenue for the year. Moreover, all of Global Crossing's other reported revenue for 1999 resulted from mergers and acquisitions;

c. During 2000, Asia Global Crossing recognized $138 million in revenue from IRU sales that the Company recognized as sales-type leases. This 2000 revenue represented 90% of Asia Global Crossing's entire revenue for the year; and
d. Further, these figures were also inflated because they did not defer recognition of that portion of the revenue from IRU sales that were attributable to service relating to the cables.

174. Treating IRU sales as sales-type leases gave investors a misleading picture of Global Crossing's and Asia Global Crossing's profitability. For example, by recognizing the revenue on IRU sales up-front instead of recognizing the revenue over the term of the IRU (typically 25 years), Global Crossing and Asia Global Crossing essentially boosted their revenue by 25 times. In other words, had Global Crossing and Asia Global Crossing not recorded the sale of IRUs as sales-type leases under FASB Statement No. 13, they would have recorded the IRU transactions as operating leases, deferring the revenue over the term of the IRU. This method of accounting is more reflective of the true economics of the transaction and is far less misleading to those who rely on financial statements. Assuming all of the IRU sales in 1998 through 2000 were recognized on a pro-rata basis as operating leases and not sales-type leases, Global Crossing's reported revenue for 1998 and 1999 would have been $7.3 million and $28.2 million, far less than the $418 million and $728 million the Company reported to shareholders. Asia Global Crossing's reported revenue for 2000 would have been approximately $5.5 million, far less than the $138 million Asia Global Crossing reported to shareholders.

G. Winnick Befriends An Analyst

175. The other key piece of the Global Crossing puzzle was Jack Grubman of SSB and Citigroup. Grubman was the most powerful man in the telecom business. He befriended Winnick, who made Grubman part of the Global Crossing inner circle. Grubman advised Winnick on deals, personnel and financial matters. He attended board meetings and helped prepare roadshows and financial presentations. He reviewed and advised Winnick on capital expenditure plans. As described in a March 25, 1997 Wall Street Journal Interactive Edition article:
Mr. Grubman, one of Wall Street's most respected securities analysts, is much more than that: He also is a swashbuckling deal broker who can sometimes make or break a telecom merger or stock offering. This dual role isn't always easy for either his clients or his bosses to swallow. But they had better get used to it, because Mr. Grubman is emblematic of a new breed of Wall Street analyst. Analysts increasingly play a central role in snaring investment-banking business. This isn't simply a matter of accentuating the positive -- toning down negative comments about clients of the firm and using euphemisms like "hold" for "sell." Some investment bankers have long expected that much of analysts, regarding them as weapons they can use in making pitches to potential underwriting or merger clients. But because the bankers are chock full of inside data about the client, a "Chinese wall" has, by tradition, separated them and their information from the research analysts who recommend stocks. Much of this is changing now. Michael Holland, a securities-industry veteran says flatly that "the primary function of research analysts at top investment-banking houses is to promote the firm's investment banking product."

Dual Role-- Often companies considering a merger will call an analyst before calling a banker. And once a securities firm has been hired to do an investment banking deal, it may bring one of its analysts part way over the Chinese wall, to do financial calculations and gauge the likely reception from investors. This dual role obviously is fraught with complications and potential conflicts; it is a role that is hard to police and is dependent on the analyst's integrity.

*  *  *

Last year, he helped bring in about $60 million in investment-banking revenue, according to a SSB executive. This included $7.5 million in fees for the $14 billion merger of WorldCom Inc. and MFS Communications Co., a deal that helped propel SSB to a seventh-place perch in the worldwide merger standings for the year.

176. Most importantly, Grubman counseled Winnick on how to accomplish a growth by acquisition strategy. He advised Winnick to emulate another Grubman client: Bernie Ebbers of WorldCom. Grubman told Winnick that he should acquire the revenues he needed to become the company Global's financials portrayed it to already be by using its inflated stock as currency to buy other companies with real, substantial profits and assets. Over the next four years, with the help of Grubman and SSB, Global Crossing purchased at least five companies for an
aggregate price of $17.5 billion. SSB received well over $120 million in banking fees and Grubman consistently touted the stock in his purportedly, objective “research” reports.

H. Storm Clouds Begin To Gather Unbeknownst To The Public

177. By the end of 1999, Global Crossing had already acquired three companies and raised over $20 billion in debt and equity. However, storm clouds were gathering as the Company's apparent success drew a host of competitors. In late 1999, the FCC amended the Submarine Cable Landing License Act to streamline approval. As a result, trans-Atlantic and trans-Pacific capacity increased significantly.

178. Global Crossing's business model prior to it becoming a public company took into account that the prices of cable would decrease. Cohrs testified before the Energy and Commerce Committee of the United States Congress (sometimes referred herein as “Congress”) that, “We always projected prices to be declining. The nature of our business was that every business case ever prepared in the history of Global Crossing showed declining prices for capacity because of technological advances. And so the typical business case would have annual price declines of from 15 to 30 percent per year.”

179. Competitors piled in as expectations soared for demand for data via high-speed lines. Prices for bandwidth to Europe and Asia from North America fell more than 50% in both 2000 and 2001. Unbeknownst to investors, Global was poorly positioned to deal with these developments since it was not the highly successful, financially sound company presented in its financial statements but was really a company with actual cash revenues that were barely a sliver of its reported revenues.

180. There was another consequence to Global Crossing's having raised billions in capital based upon its misleading financials. The Company found itself burdened with a level of debt service that might have been appropriate if it was truly a billion dollar company but that was
far beyond Global Crossing's ability to deal with considering its actual, far more modest revenues. As Fortune Magazine described, by the Spring of 2000 the "air came out of the telecom bubble" and Internet companies began to "implode." Thus, cash flow became an undisclosed problem early in 2000.

181. In an e-mail dated March 7, 2000 entitled "It's tough to build a European business without money," Charles Mancini wrote to three other Global Crossing employees begging for their assistance in trying to get Cohrs to finally approve a spending plan in Europe so the Company could sign leases for data centers and offices in various European locations in order to develop its business. Mancini warned that if the Company did not obtain a particular site in London, the Company would have to stop working on the project. Mancini advised the recipients that Global Crossing's European Chief Financial Officer, Donald Muir, refused to sign off on the leases because Cohrs would not allow it. However, Mancini confided that he was already spending "Global Crossing money under the radar screen . . . [t]hat would raise a red flag at corporate at some point, and will need to be addressed." Mancini concluded the e-mail by warning, "Please guys, this is getting pretty serious."

182. On March 15, 2000, Charlene Shelley, a Client Services Consultant at Global Center, sent an e-mail to Maria Funkhouser entitled, "We Are Losing Customers," in which she advised that Global Center was "losing customers left and right" as a result of its cash problems and identified several of the more recent customers the Company had lost because they were "sick of [Global Crossing's] network problems and the poor service they have received over the past year." Funkhouser responded by advising, "I want you to know that Scott and I are aware of these issues, they are nationwide!" Funkhouser suggested Shelley "keep your head up and realize that we will make it through this."
The Company's declining, but undisclosed fortunes led to a rash of insider selling.

In April 2000 alone, as part of a secondary offering of common stock, insiders sold over $425 million worth of Global Crossing stock. Winnick alone sold over $296 million. Porter and Lee sold Company stock in April for proceeds in excess of $79.8 million, and Winnick's co-chairman, Cook, sold over $10 million in Company stock.

I. Insiders Recognize that Global Crossing's Business Plan is Doomed

Global Crossing's original business plan, as well as that for Asia Global Crossing involved building bandwidth capacity and selling the capacity to wholesale carriers at multiples of the cost to construct the capacity. By early-2000, Global Crossing's management, in their internal discussions, had reached the conclusion that the Company's business plan could not be sustained because of increasing competition among wholesale providers of capacity and the resulting oversupply of such capacity. Furthermore, an attempt to reduce Global Crossing's reliance on wholesale capacity sales to carriers by increasing retail sales of bandwidth was problematic and unpromising because it required Global Crossing to compete with its own wholesale customers.

The nature of these internal discussions is revealed by a June 5, 2000 confidential memorandum Hindery sent to Winnick, Casey and Cook. After identifying what Hindery believed to be the "four notable participants" in the telecommunications industry at the time (Global Crossing, Level 3 Communications, Qwest and 360 Networks), Hindery wrote, "never has any industry group been formed more quickly nor signaled more quickly its willingness to be absorbed." Hindery added:

For the past three months I have thought long and often about this phenomenon, and I have wrestled with whether the transiency of the four companies' strategies is born out of the uncertainty which is often associated with a short industry and/or corporate history, or whether it is a
candid look at the realities of the broadband transport world, especially the impending new transport-related technologies, most notably including the Ethernet-based technologies. I am now convinced it is the latter, and thus like the resplendently colored salmon going up river to spawn, at the end of our journey, our niche too is going to die rather than live and prosper.

The stock market can be fooled, but not forever, and it is fundamentally insightful and always unforgiving of being misled.

187. In the memorandum, Hindery suggested that Global Crossing must dispose of certain of its assets, “talk publicly everyday about how better run [Global] Crossing is, and then meet or exceed near-term financial expectations” or sell the company.

188. As Hindery’s memo indicated, Global Crossing’s business plan of building capacity for carriers and selling that capacity in the form of long term leases could be nothing more than a “transient” strategy. Indeed, as the supply of capacity increased due to more competition, and demand for and the price of capacity declined because of changing market conditions and oversupply, Global Crossing found it increasingly difficult to sustain its wholesale capacity sales. Moreover, Global Crossing was incapable of competing with its wholesale customers for retail sales of capacity to end users.

189. Danuta McLennan, a former executive assistant in the Company’s Madison headquarters during the Class Period, said that between August 2000 until the end of 2001, she and others observed that Global Crossing’s completed sales figures routinely fell short of projected quarter-end numbers. “Two weeks before the end of the quarter, we were not making [in sales] a quarter of what we were supposed to,” however, within the last few days of each quarter, the numbers miraculously matched expectations. “Financially, there was a lot of finagling.”

190. Despite the sentiment within the Company that Global Crossing’s business plan was unsustainable, and clear signals, internally, that wholesale capacity sales to carriers were
declining together with the price that could be obtained for that capacity, Global Crossing
continued to represent to investors, through its public filings and announcements, that its
business plan was sound.

191. For example, in two Post-Effective Amendment Supplements to Form S-3, filed
with the SEC on May 16, 2000 and on September 21, 2000, each signed by Hindery, Global
Crossing stated, with respect to its business plan:

The international telecommunications industry is highly competitive. We
compete primarily on the basis of price, availability, service quality and
reliability, customer service and the location of our systems and services. .
. In addition, much of our planned growth is predicated upon the growth
in demand for international telecommunications capacity and services. We
cannot assure you that this anticipated demand growth will occur.

We are growing rapidly in a changing industry.

Our strategy is to be the premier provider of global broadband
telecommunication services for both wholesale and retail customers. As a
result of this aggressive strategy, we are experiencing rapid expansion
and expect it to continue for the foreseeable future . . . In order to further
implement our aggressive growth strategy, we anticipate that we will
require substantial additional equity and debt financing . . . We face
price declines that could adversely affect our business . . . If there is less
demand than we project or a bigger drop in prices than we project, there
could be a material adverse effect on our business, financial condition and
results of operations. We cannot assure you, even if our projections with
respect to those factors are realized, that we will be able to implement our
strategy or that our strategy will be successful in the rapidly evolving
telecommunications market.

(Emphasis added)

192. Although these statements purported to warn investors of certain risks, they were
utterly fraudulent because they flatly contradicted what was known within Global Crossing. As
evidenced in the Hindrey memo, the Company was not, in fact, "experiencing rapid expansion"
nor did Company insiders expect any such rapid expansion "to continue for the foreseeable
future.” Their claim that they could not “assure” this growth was fraudulent since they knew it would not continue.

193. As it would become obvious after the fact, Global Crossing’s mounting financial problems were the cause of its revolving door of key executives. In March 2000, Annunziata resigned as the Company’s chief executive and was replaced by Hindery, who had been heading Global Center, Global Crossing’s Internet services unit. Hindery’s promotion made him Global Crossing’s fourth chief executive in three years. Brown also resigned in March 2000. The following month, both Porter and Lee left the Company.

194. In the wake of this turmoil and insider knowledge of the impending collapse of Global Crossing, CIBC quietly decided to extricate itself from its association with the Company. Unbeknownst to the investing public, the CIBC Defendants carefully engineered the quiet departure of their appointed board members so that the CIBC Defendants and the CIBC-related board members could sell their Global Crossing holdings without publicly reporting the sales. In September 1999, Phoenix and Levine had resigned from the Global Crossing board. Their resignations were never disclosed to the investing public. Rather, on May 8, 2000, the Company issued a proxy statement calling for, inter alia, the election of directors, although there was no mention of the board positions that Phoenix and Levine surreptitiously abandoned. That same proxy statement made no mention of any plan by Bloom, Kehler or Raben to resign. However, they did so the next month. Bloom, Kehler and Raben, CIBC’s designated board members, left in June 2000.

195. According to an April 29, 2002 Canadian Business article, CIBC’s representative directors resigned from Global Crossing’s Board so they could sell their stock without publicly reporting the sales. After its executives resigned from the Global Crossing’s Board, the CIBC
Defendants discreetly sold or hedged their remaining shares of Global Crossing stock, reportedly receiving over $1 billion for their stock. Thus, CIBC ultimately parlayed their $41 million investment in Global Crossing into at least $1.7 billion.

196. In October 2000, Hindery resigned, having served only seven months. Tom Casey then became Global Crossing's fifth chief executive officer in its short history. That same month, Asia Global Crossing was spun off.

197. According to Roy Olofson, the former vice-president of finance of Global Crossing, in November or December 2000, Global Crossing had a meeting in Ireland of its top financial staff members, including Cohrs and Perrone. At the meeting, the participants were told that there was a $1 billion shortfall between Global Crossing's projected targets shared with the public and its internal numbers. The participants discussed ways to reduce the shortfall, including cutting the Company's hiring plans in half.

198. According to Bernard Calissendorff, a former accounting manager at Global Crossing during the Class Period, by the end of 2000, the Company's cash burn rate was excessively high, especially in Europe. At that time, employees in Global Crossing's Treasury Department were concerned that the Company was going to run out of money. To them, it was obvious that there was no way the Company was going to survive. According to Calissendorff, this was evident from the monthly cash flow projections that were prepared by Tom Robeshaw in the Treasury Department. Those projections were circulated to, among others, Cohrs and Susan Dullabh. There were substantial concerns within the Treasury Department that the Company would run out of cash by the end of the year. According to Calissendorff, employees in the Treasury Department spoke frequently about these concerns.
According to Michael Liacko, a vice president of sales who was involved in the creation of Media and Entertainment Division, in December 2000, he could not buy brochures or business cards because vendors started to require Global Crossing to pay COD. Corcille Williams, a Cost of Access Auditor, confirmed that there was "a lot of stuff" that Global Crossing was not able to pay for.

**J. The Formation of Asia Global Crossing**

Asia Global Crossing was originally formed on September 24, 1999 as a holding company within Global Crossing for Global Crossing's Asian operations. Two months later, on November 24, 1999, Asia Global Crossing became a wholly-owned subsidiary of a joint venture among Global Crossing, Softbank, and Microsoft. Global Crossing owned a majority of the joint venture's outstanding stock, and defendants Microsoft, Softbank and Goldman Sachs each owned a minority interest.

On May 23, 2000, Asia Global Crossing filed with the SEC a registration statement on Form S-1 for the initial public offering of its common stock.

The Asia Global Crossing IPO was underwritten by Goldman Sachs, SSB, Merrill Lynch, J.P. Morgan, CIBC, CSFB, Deutsche Bank, Lehman Brothers, ABN AMRO, Bear Stearns, A.G. Edwards, First Union, RBC Dominion, Wasserstein Perella, Advest, Gerard Klauer Mattison, Guzman & Co., Kaufman Bros., McDonald Investments, Monness, Crespi, Hardt & Co., Samuel A. Ramirez & Co., Raymond James, The Robertson-Humphrey Company, Scott & Stringfellow, Stephens, and Williams Securities. As a result of the IPO, 68 million shares of Asia Global Crossing's common stock were sold to - or, more appropriately, unloaded on - the unsuspecting investing public at an offering price of $7.00 per share, with an additional 500,000 shares being sold approximately one month later at $7.00 per share pursuant to an underwriters' over-allotment, for total proceeds of $479.5 million. Of those proceeds, the underwriters
received $0.35 per share as an underwriting discount, allowing them to earn a total of more than $25.4 million in connection with the IPO.

203. Concurrently with the IPO, Asia Global Crossing also raised approximately $400 million through the sale of senior notes (the “AGX Notes”) to certain of the underwriters of the IPO, which, pursuant to a written agreement, were to be registered with the SEC so as to facilitate their sale to members of the investing public. Chase Securities Inc., Merrill Lynch, Deutsche Bank Securities Inc., Goldman Sachs, SSB, ABN AMRO and Barclays Capital Inc. sold AGX Notes, earning substantial commissions through subsequent sales to investors.

204. In total, Asia Global Crossing sold over $875 million of securities to the investing public at a time when Asia Global Crossing and Global Crossing knew, as Leo Hindery had concluded in June 2000, that the underlying business model of the enterprise was not viable and that Global Crossing would be unable to deliver on financing commitments which were vital to the success of Asia Global Crossing.

K. The Asia Global Crossing Shareholder Agreement

205. Global Crossing, Softbank and Microsoft entered into a Shareholder Agreement (the “Shareholder Agreement”) that cemented their control over Asia Global Crossing. This Shareholder Agreement gave each of the parties substantial control over Asia Global Crossing and the right to appoint one or more directors of Asia Global Crossing.

206. Pursuant to the Shareholder Agreement, both Microsoft and Softbank invested $175 million in Asia Global Crossing and each made a commitment to purchase $100 million in capacity from AGX over a period of three years.

207. Following Asia Global Crossing's IPO in November 2000 Microsoft and Softbank each became owners of 15.8% of AGX's common stock.
Pursuant to the Shareholder Agreement, both Microsoft and Softbank each had the right to designate one individual to serve as an director on Asia Global Crossing's Board of Directors, and were given control over significant business decisions including reviewing and approving Asia Global Crossing's annual business plans, its budget, certain significant capital expenditures, the sale or disposition of significant Asia Global Crossing assets, and related party transactions. Specifically, both Microsoft and Softbank, through their representatives and agents, were given the right to approve, inter alia, Asia Global Crossing's initial business plans and any changes or amendments thereto, significant capital expenditures and acquisitions by Asia Global Crossing, any material changes in Asia Global Crossing's bylaws, and any effort of Asia Global Crossing to incur significant levels of debt. Thus, both Microsoft and Softbank held an effective veto power over those transactions that required their approval.

L. Underwriter Defendants' Incestuous Relationship With Asia Global Crossing

Had the underwriter defendants conducted any sort of reasonable investigation into the financial health of Asia Global Crossing, they would have discovered, inter alia:

a. that Asia Global Crossing materially overstated the value of its assets, which were impaired because of price declines caused by increased competition, technology advances and strategic alliances;

b. that Asia Global Crossing overstated its revenue by booking IRU sales as sales-type lease transactions where revenue for the full term of the lease was improperly recognized up front rather than amortized over the term of the lease, in violation of FIN 43.

c. that Asia Global Crossing was engaging in reciprocal transactions that had little or no economic value, but Asia Global Crossing recognized revenue from such transactions and thereby materially overstated its revenue.
d. that Asia Global Crossing used and relied upon false and misleading pro forma financial information that improperly depicted Asia Global Crossing’s revenue and growth
e. that Asia Global Crossing falsely represented that its business plan was fully funded, based in part upon the availability of a $400 million standby credit facility with Global Crossing, when the overlapping officers and directors of Asia Global Crossing and Global Crossing knew that Global Crossing was not financially capable of meeting this obligation;
f. that there was a glut of network capacity that was causing significant declines in wholesale bandwidth pricing;
g. that Andersen, Asia Global Crossing’s “independent auditor,” had become so invested in the company through fees generated by its consulting business that Andersen’s independence was non-existent; and
h. that at least as early as the June 5, 2000 Hindery memo, it was known that Asia Global Crossing’s business model was no longer viable and was doomed to failure.

210. Numerous Asia Global Crossing Underwriter Defendants were intimately involved with Global Crossing as lenders, business advisors, and underwriters of multiple securities offerings. As such, these underwriters knew or should have known, among other things, about the false and misleading nature of Asia Global Crossing’s financial reports and the dire condition of its failing business model.

**Canadian Imperial Bank of Commerce**

211. In addition to underwriting the Asia Global Crossing IPO, CIBC was intimately involved in the formation and financing of Asia Global Crossing. CIBC was an initial purchaser of Global Crossing notes and preferred stock, which were ultimately sold to the investing public. Defendants Bloom, Kehler, Phoenix, Levine, and Raben – the individual CIBC employees
appointed to Global Crossing's board in 1999 — were also managing directors of CIBC's investment banking arm, CIBC Oppenheimer and its predecessors, during their tenure on Global Crossing's board.

212. In 1997, CIBC invested $41 million in Global Crossing, and in return received 25% of the Company's outstanding stock — 48.6 million shares — and the right to appoint five directors to serve on Global Crossing's board. CIBC arranged for a $482 million loan for Global Crossing in late 1997, and an additional loan of $850 million shortly thereafter. Prior to August 1998, when Global Crossing became a publicly-traded company, CIBC and PCG, collectively owned over 51% of Global Crossing's common stock.

213. CIBC solidified its control of Global Crossing through a Stockholders Agreement, which gave CIBC the right to participate in any transaction initiated by PCG or other large stockholders that would transfer more than 5% of Global Crossing's outstanding securities or result in a change of control of the Company.

214. In May 1998, CIBC Oppenheimer served as an initial purchaser of $800 million of Senior Notes issued by one of Global Crossing's wholly-owned subsidiaries. CIBC received a $5.8 million commitment and structuring fee and a portion of the $24.75 million underwriting fee paid to the initial purchasers.

215. As of May 18, 1998, an affiliate of CIBC Oppenheimer, CIBC Wood Gundy Capital (SFC) Inc. (“CIBC Wood Gundy”), held a 35.72% equity interest in Global Crossing. As of June 30, 1998, CIBC had received $19 million in interest and fees under Global Crossing's credit facilities.

216. CIBC was to receive a percentage of fees generated under a lucrative "Advisory Services Agreement" that Global Crossing entered into with PCG Telecom, an affiliate of PCG,
and shared in an arbitrary $135 million "termination fee" when that agreement was canceled in June of 1998.

217. In 1998, CIBC's investment banking arm, CIBC Oppenheimer, served as a lead underwriter for Global Crossing's Initial Public Offering (the "IPO"). After the IPO was completed, the CIBC Defendants' 25% ownership interest in Global Crossing, which it received for its initial investment of $41 million, was worth $926 million. Together with PCG, the CIBC Defendants controlled almost 50% of the Company's outstanding stock.

218. By March 1999, after a 2-for-1 stock split, the CIBC Defendants held over 97 million shares of Global Crossing stock, which were then collectively valued at approximately $4.5 billion. As the Company's largest shareholder, CIBC had the power to and did in fact materially impact Global Crossing's transactions.

219. In or about April 2000, the CIBC Defendants sold 6.7 million shares in Global Crossing's Secondary Offering for proceeds exceeding $221 million.

220. The CIBC Defendants and their affiliates also acted as an arranger for $3.6 billion in demand notes and credit facilities for Global Crossing and its subsidiary, Global Marine Systems, in July 1999. CIBC World Markets was an initial purchaser of the unsecured Senior Notes issued by Global Crossing in a $2 billion offering in November 1999, and also was an initial purchaser of the 7% Cumulative Convertible Preferred Stock issued in a $650 million offering in December 1999. Global Crossing paid the CIBC Defendants $5.6 million in fees in connection with these transactions.

221. Based upon its close relationship with Asia Global Crossing's parent, Global Crossing, and its participation in numerous public securities offerings and financing deals, CIBC knew or should have known that the Asia Global Crossing falsely overstated its reported
revenues and misrepresented its ability to fund its business plan. Nonetheless, CIBC underwrote Asia Global Crossing securities and made false and misleading statements and/or omissions in the registration statements and prospectuses issued in connection with these offerings and in analyst research reports, which strongly recommended Asia Global Crossing stock and listed the stock with a "BUY" rating.

**Salomon Smith Barney**

SSB’s and Global Crossing’s relationship dates back to May 1998 when SSB, along with Merrill Lynch, arranged the sale of more than $700 million of the Company’s debt security. Thereafter, SSB participated in at least the following offerings (including Global Crossing’s IPO and Asia Global Crossing’s IPO) of both stock and debt securities through the end of the Class Period:

- **May, 1998**
  - Offering of Global Crossing 9 5/8% Senior Notes (private sale valued at $800,000,000)

- **August, 1998**
  - Global Crossing IPO (total value of $458,850,000)

- **December, 1998**
  - Offering of Global Crossing Holdings 10.5% Senior Convertible Preferred Stock (private sale valued at $500,000,000)

- **November, 1999**
  - Offering of Global Crossing 6-3/8% Preferred Stock (private sale valued at $1,000,000,000)

- **November, 1999**
  - Offering of Global Crossing Holdings 9½ % and 9-1/8% Senior Notes (private sale valued at $2,000,000,000 combined)

- **December, 1999**
  - Offering of Global Crossing 7% Preferred Stock (private sale valued at $650,000,000)

- **March, 2000**
  - Exchange Offering of Global Crossing 6-3/8 % Preferred and Common (preferred shares previously privately placed on 11/5/99 now registered with SEC)
• April, 2000  Secondary Offering of Global Crossing Common Stock (valued at $1,419,000,000)
• April, 2000  Offering of Global Crossing 6-3/4% Cumulative Convertible Preferred Stock (public sale valued at $1,000,000,000)
• October, 2000  Asia Global Crossing IPO (valued at $476,000,000)
• January, 2001  Offering of Global Crossing 8.7% Senior Notes (private sale valued at $1,000,000,000)

223. SSB also served as an adviser to Global Crossing in connection with the following transactions, earning substantial fees as a result:

• May, 1999  Aborted attempt by Global Crossing to acquire US West
• September, 1999  Global Crossing's acquisition of Frontier, valued at over $10,000,000,000
• November, 1999  Formation of $1.2 billion joint venture between Global Crossing and Hutchinson Whampoa
• February, 2000  Global Crossing's acquisition of Ixnet/IPC
• July, 2000  Aborted effort to register common stock relating to GlobalCenter

224. Thus, over a two-year time period, SSB purportedly performed "due diligence" on Global Crossing's operations no less than fifteen times. Through its underwriting activities, SSB earned $121 million in investment banking fees from Global Crossing alone. In addition, Citigroup provided commercial banking services to Global Crossing. These lending agreements provided the lenders essentially unlimited access to Global Crossing's books and records.

225. Based upon its close business relationship with Global Crossing and Asia Global Crossing, its participation in the above-referenced transactions and its access to material non-
public information, SSB knew or should have known that the Asia Global Crossing improperly overstated its reported revenue and issued false and misleading statements regarding its ability to fund its business plan and its long-term prospects. Nonetheless, SSB underwrote Asia Global Crossing securities and issued false and misleading analyst research reports.

**Merrill Lynch & Goldman Sachs**

226. Goldman Sachs and Merrill Lynch also participated in the following Global Crossing and Asia Global Crossing transactions:

- **November 1999**
  Goldman Sachs and Merrill Lynch were initial purchasers in a private placement of 6 3/8% preferred stock;

- **December 1999**
  Goldman Sachs and Merrill Lynch were initial purchasers in a private placement of 7% preferred stock;

- **April 2000**
  Goldman Sachs served as Joint Book-Manager and Underwriter for Global Crossing's Secondary Offering and purchased 12.9 million shares, for which Global Crossing paid Goldman Sachs $.99 a share and Merrill Lynch served as the Joint Lead Manager; and

- **October 2000**
  Goldman Sachs served as Joint Book-Manager and underwriter in Asia Global Crossing's IPO; Merrill Lynch served as an underwriter. In addition, each of Goldman Sachs and Merrill Lynch was an initial purchaser of the AGX Senior Notes

227. Goldman Sachs also was one of the four original stakeholders of Asia Global Crossing. In total, Global Crossing paid Goldman Sachs $45 million in investment banking fees since 1996.

228. Additionally, Merrill Lynch conducted a multi-step due diligence review of Global Crossing when it issued a fairness opinion to the Global Crossing Board of Directors on
March 6, 1999 in connection with the Frontier Merger. As described in Global Crossing's July 12, 1999 Registration Statement, from November 1998 through January 1999, Merrill Lynch participated in multiple meetings with Global Crossing management and consultants to discuss Global Crossing's valuation in anticipation of the Frontier merger.

229. Goldman Sachs was also involved in "spinning" IPO shares to Global Crossing and Asia Global Crossing executives. Defendant John Legere received shares in nine IPOs from Goldman Sachs; defendant Leo Hindery received 5,000 shares in Goldman Sachs' own IPO; and defendant Stephen Green received shares in more than 75 IPOs from Goldman Sachs.

230. Based upon their close relationships with Global Crossing and Asia Global Crossing, their participation in the above-referenced transactions and their access to material non-public information, Merrill Lynch and Goldman Sachs knew or should have known that Asia Global Crossing improperly overstated its reported revenue and issued false and misleading statements regarding its ability to fund its business plan.

231. In underwriting Global Crossing and Asia Global Crossing public offerings, Goldman Sachs intentionally concealed their internally held concerns about the validity of Global Crossing's guidance and financial reporting. An email exchange between Frank Governali, Frank Pomeroy and Stephen Scherr, analysts at Goldman Sachs illustrates the extent of Goldman Sachs skepticism about Global Crossing's performance, none of which was disclosed to prospective purchasers of Global Crossing or Asia Global Crossing securities. On March 26, 2000, Robert Pomery wrote to Frank Governali, cc'ing Stephen Scherr in an email titled "GBLX—I think they are bullshitting us":

I am now convinced, more than ever, that their guidance does not make any sense. You asked why. GBLX booked more capacity sales in 4Q than we expected. I think the answer is they wanted to obscure something
sucking cash flow out of the company. When you strip our capacity sales from 4Q-cash flow from all segments collapsed year over year.

Excluding fiber capacity sales in 1999, Frontier's ILEC operations ($383 mil) Global Marine ($85 mil), and Wholesale LD ($80 mil) together produced $550 mil in EBITDA—now the company is saying that they will produce less than $200 mil EBITDA in 2000, excluding capacity sales. Something will suck at least $350 mil on positive cash flow out of this company in 2000 (at a minimum). But the company won’t identify it. They are hiding behind the complexity of their accounting. I am convinced there is now an X factor that is sucking cash flow out of GBLX. That’s the only way I can model expectations. This X factor could be unanticipated integration costs or just tremendous SG&A.

Frank Governali responded:

Bob—their guidance for 2000 must be wrong for these three units. I can’t see how the cash flow from the non-ILEC business turns negative. If the ILEC business produced $383 mil in 1999—at minimum it should be flat. Wholesale LD cash flow shouldn’t be negative, although year over year decline is definitely possible given the state of pricing. And Global Marine can’t lose that much money. So how do they respond to this logic?

To which Pomery responded:

I agree—the guidance does not make sense even if we assume flat to slightly declining cash flow in all businesses excluding capacity sales. I will have to come back at them with this. I was hoping I was making some kind of mistake. The bankers don’t seem to understand as much as we do. There are other things supporting the X factor. According to guidance, non fiber cash flow bounces back quickly—from just $200 mil in 2000 – to $858 mil in 2001. I actually hit the number without guidance in 2002 and 2003. I don’t think they are making a mistake with guidance—there is a logic to what they are saying, but they are covering something up.

M. The Manipulation of Global Crossing's Financials

As the Internet took global markets by storm in the mid-1990's, the IRU sale became an increasingly attractive method by which telecom companies booked revenue. The treatment of IRU sales as sales-type leases with immediate, up-front revenue recognition was the
subject of increasing criticism in the financial industry, as participants worried that the accelerated booking of revenue on IRU sales resulted in misleading earnings reports to investors.

233. During this same time period, Global Crossing's ability to manipulate its public financial results was coming under increasing pressure. The approach taken by Global Crossing and Andersen and other Andersen clients in booking IRU sales as a sales-type lease entitled to immediate, up-front revenue recognition was the subject of increasing controversy in the accounting industry. Other Big Five firms pressured the FASB to clarify that accounting for IRUs as Global Crossing was doing was improper.

234. In response, in May of 1998, the FASB Emerging Issues Taskforce asked the FASB Board to review the accounting rules relating to the transfer of real estate. The FASB Emerging Issues Taskforce specifically sought clarification regarding the appropriate treatment of transfers of real estate with property improvements or integral equipment (i.e., manufacturing facilities, power plants and, of particular relevance, fiber-optic cable).

235. In October of 1998, FASB published an "exposure draft" of its proposed statement on the subject, indicating that FASB would require that, for purposes of GAAP, any purported transfer of improvement or integral equipment on land would have to be accounted for as a transfer of real estate, requiring a transfer of title.

236. The impact of the anticipated FASB pronouncement on Global Crossing and Andersen's other telecom clients was going to be devastating. Both Global Crossing and its "independent" accountant Andersen immediately recognized that the pronouncement would severely restrict the Company's ability to recognize revenue from IRU sales for GAAP purposes. Because title to real estate did not normally transfer in connection with an IRU sale, Global Crossing and Andersen realized that the proposal would effectively preclude the Company from
treated IRU sales as sales-type leases of equipment with the accompanying immediate recognition of revenue.

1. FIN 43 and the Birth of the Swap Deal

237. Global Crossing and Andersen then decided to exploit a practice known in the industry as "swaps." As global telecommunications networks had developed, it became common for competitors in the industry to buy and sell IRUs among themselves. This practice permitted participants in the industry to expand their networks, and to fill gaps in existing networks, while avoiding the cost of laying new fiber-optic cables or constructing new networks. Eventually, Asia Global Crossing also participated in capacity swaps and reciprocal transactions.

238. Although IRU sales between and among members of the telecommunications industry were not uncommon, historically the parties to these trades did not treat the transactions as "sales," and did not purport to book revenue from the deals. In fact, from 1975 on, telecom executives met annually at the Global Traffic Meeting in Washington, and often made deals to exchange capacity to carry millions of minutes of voice traffic. Until the late 1990's, however, telecom companies did not treat these exchanges as sales and usually did not record revenue from the trades.

239. Global Crossing had used swaps since the inception of the Company and consistent with its disregard of proper accounting practices, had always booked revenue from the transactions. For example, in a press release dated April 7, 1998, Global Crossing announced "Qwest and Global Crossing to Swap Transatlantic High Capacity Fiber Between U.S. Cities and Europe." In its Form 10-K for the year-ended December 31, 1998, filed March 31, 1999, Global Crossing disclosed that it booked revenue for IRU sales using sales-type lease accounting, and listed Qwest as one of its biggest capacity purchasers.
240. In the Fall of 1998, FASB published a proposed guideline that would prevent telecom companies from treating IRU sales as sales-type leases. Andersen, however, realized that its telecommunications clients could continue to recognize immediate revenue through IRU sales by exchanging capacity among each other. By treating each transaction as an independent sale, Andersen’s telecom clients could book increasing amounts of “revenue” without actually paying any money.

241. From at least 1997 through May of 2000, Andersen’s partner in charge of the Global Crossing account was Perrone. In a memo dated February 10, 1999, Perrone specifically counseled Global Crossing on how two telecom companies could both recognize revenue growth by exchanging like amounts of capacity.

242. However, the very reason companies had not done this historically, is that accounting rules are designed to prevent precisely this type of chicanery and misrepresentation. Perrone, therefore, needed to create a roadmap to circumvent these rules.

243. Accounting Principles Board Opinion No. 29, *Accounting for Nonmonetary Transactions*, sets forth the GAAP guidelines for accounting for transactions in which an asset is exchanged for another, nonmonetary, asset. Generally, under APB No. 29, the seller of an asset can record revenue based on the fair value of the asset received or given up, whichever is more reliably determinable. For example, if a company sells a widget in exchange for an asset with a market value of $20,000, the company can recognize revenue from the carrying amount of the widget. However, if the assets that are exchanged in the transaction are similar in nature, the exchange must be accounted for based on the cost basis, or book value, of the asset relinquished. Thus, if the company sells its widget in exchange for another widget, the company cannot
recognize any revenue in connection with that “sale” at all, because it has not realized any economic gain in the transaction.

244. According to a Perrone memo of February 10, 1999, Andersen's telecom clients, and specifically Global Crossing, could realize revenue by exchanging network capacity among themselves, with each party treating the transaction as a “sale” by recording the transfer based on the fair value of the IRU it relinquished.

245. Recognizing that APB No. 29 required companies to book the exchange of similar assets based on the book value of the asset relinquished, Perrone's February 10, 1999 memo provided a recipe by which Global Crossing could attempt to evade this requirement either by obscuring the reciprocal nature of the transactions (and thus making it look like two separate sales for cash), or by making the network capacity appear sufficiently “dissimilar” as to render the book value requirement in APB No. 29 inapplicable. The memo concluded:

The following is tentative (If there is an integrated planned transaction, that includes the following characteristics:

- separate contracts,
- separate cash settlements,
- independent determination of fair market value,
- would either party independently enter into the transaction and
- the contracts are at least 60 days apart

Global Crossing might be able to recognize this transaction at fair value.)

Thus, Perrone's memo provided a guide for creating the false impression that swaps were independent transactions rather than reciprocal, dependent exchanges.

246. As expected, effective July 1, 1999, FASB issued "FASB Interpretation No. 43" (or "FIN 43"), an interpretation of FASB Statement No. 66, Accounting for Sales of Real Estate, which provided final clarification of GAAP's requirements for accounting for the sale of real estate. FIN 43 provides that, for all sales after June 30, 1999, the definition of "real estate" for
purposes of GAAP includes any interests in property improvements or integral equipment present on that property that cannot be removed and used separately from the real estate without incurring significant cost. Thus, in order to qualify as a sale of real estate under GAAP, and thus to qualify for immediate revenue recognition, there must be an actual transfer of title, as opposed to merely a transfer of use.

247. As anticipated, the effect of FIN 43 on IRU sales was to require that in order for an IRU sale to qualify for immediate revenue recognition, there must be a transfer of title of real estate, not just a transfer of use of the fiber-optic cable or some designated wavelength within that cable.

248. On August 4, 1999, Global Crossing represented to investors that compliance with FIN 43 would not have any "material effect" on the Company's financial position:

Under FIN 43 fiber optic cable system sales are required to be accounted for under SFAS 66. Management does not expect the adoption of FIN 43 to have a material impact on the Company's financial position or results of operations.

249. Thus, Global Crossing and Andersen compounded their original fraud by misrepresenting the effect of FIN 43. They knew that, contrary to the disclosures, FIN 43 would have a devastating effect on Global Crossing's reported financial performance.

250. Shortly thereafter, on September 30, 1999, Andersen published a report entitled *Accounting by Providers of Telecommunications Network Capacity* (which became known simply as the "White Paper"), which was distributed widely among members of the telecom industry.

251. The White Paper summarized FIN 43's requirement of a title transfer in order to qualify an IRU sale as a sales-type transaction, but concluded that telecom firms could continue
to recognize immediate revenue in connection with IRU sales if the transactions were papered properly.

252. The White Paper repeated Andersen's guidance, originally set forth in Perrone's February 1999 memo, that telecom firms could book revenue simply by exchanging network capacity among themselves. Andersen explained that network providers could exchange capacity in reciprocal transactions and recognize revenue based on the "fair value" of the capacity each party relinquished by carefully structuring the transaction. Indeed, during a two-day meeting in Chicago attended by Global Crossing and Andersen's other telecom clients, Andersen explained how to carefully structure an IRU swap with the specific intent of avoiding APB No. 29's requirement of accounting for the exchange of similar assets using the cost basis, or book value, of the assets exchanged. Notably absent from Andersen's guidance was any suggestion that the parties to the IRU swap disclose the reciprocal nature of the carefully structured transaction to the public.

253. Nevertheless, Andersen's "White Paper" became a "must read" in the telecom industry, and Andersen actively marketed it as a method of dealing with FIN 43 through personal meetings with clients, prospective clients, and other participants in the telecom industry. In fact, according to a report in the Wall Street Journal on December 23, 2002, Andersen created an hour-long Powerpoint presentation that the firm used to market its accounting strategies to lawyers who served the telecom industry and to telecom companies directly, including those who eventually served as swap partners for Global Crossing and Asia Global Crossing, as well as other Andersen clients.

254. After publication of the White Paper, Andersen and Global Crossing determined that Global Crossing could not transfer title in connection with an IRU sale relating to land-based
cable, and therefore could not, under FIN 43, immediately recognize revenue on an IRU sale where the cable was based on land. Nevertheless, Global Crossing continued to maintain that it could transfer title in connection with an IRU sale on ocean-based cable, because there is no landowner of the seabed. Accordingly, Global Crossing determined that, following July 1, 1999 (the effective date of FIN 43), it would not recognize GAAP revenue in connection with IRU sale relating to land-based (or terrestrial) cable, but that it would continue to immediately book revenue in connection with IRU sales relating to oceanic cable. The Company's Form 10-Q for the third quarter of 1999, filed November 15, 1999, stated as follows:

As a result of Financial Accounting Standards Board (FASB) Interpretation No. 43, "Real Estate Sales, an interpretation of FASB Statement No. 66" (FIN 43), which became effective July 1, 1999, certain sales of capacity may no longer be recognized as revenue at the time the circuits are activated. We believe that our sales of subsea capacity will continue to be recognized as revenue upon activation of those circuits, because we believe that subsea capacity contracts meet the conditions for sales type lease accounting. Beginning July 1, 1999, revenues from the sale of terrestrial backhaul circuits are being amortized over the terms of the contracts.

The fundamental problem with Global Crossing's representation regarding its efforts to adopt FIN 43, however, was that it ignored the economic realities of the IRU swap transactions, and did not properly apply APB No. 29, which should have precluded Global Crossing from recording revenue on any IRU swap deal, terrestrial or subsea. Further, Global Crossing's continued treatment of IRUs on subsea cables as sales type leases under FASB Statement No. 13 continued the material inflation of Global Crossing's revenue as set forth above.

In January, 2000, Global Crossing abandoned any pretense of exchanging different "kinds" of capacity, and commenced what it called its Global Network Offering ("GNO"). Capacity sold pursuant to Global Crossing's GNO was not permanently designated
capacity on any particular fiber, but was general capacity that allowed the "purchaser" to use a certain unit of capacity anywhere on Global Crossing's global network. The entire, but undisclosed, purpose of the GNO program, according to Calissendorff, was to facilitate future swaps. By no longer requiring a particular physical section of the network to be swapped, the Company would, in effect, be trading rights of future use, similar to options.

257. Global Crossing's adoption of the GNO had two primary impacts from an accounting perspective. First, by allowing the "purchaser" to direct capacity over any portion of Global Crossing's network, the Company could no longer even pretend that it was selling a designated "asset" as part of an IRU. Accordingly, even under the most liberal interpretation, of FASB Statement No. 13, Global Crossing could no longer account for IRU sales as sales-type leases. Thus, on February 18, 2000, the Company announced that, as of January 1, 2000, in addition to terrestrial IRUs, it had stopped treating the majority of IRU sales in connection with oceanic cables as sales-type leases, although it still maintained sales-type treatment for certain oceanic IRU sales:

As a result of an accounting standard that became effective July 1, 1999, revenue from terrestrial circuits sold after that date have been amortized over the terms of the related contracts. Previously, these sales had been recognized as current revenue upon activation of the circuits. This deferral in revenue recognition has no impact on cash flow.

With the consummation of the Frontier acquisition on September 28, 1999, service offerings became a significant source of revenue. Consequently, the Company initiated service contract accounting for its subsea systems during the fourth quarter, because the Company, since that date, no longer holds subsea capacity exclusively for sale. As a result, since the beginning of the fourth quarter, investments in both subsea and terrestrial systems have been depreciated over their remaining economic lives, and revenue related to service contracts have been recognized over the terms of the contracts. Revenue and costs related to the sale of subsea circuits have been recognized upon activation if the criteria of sales-type lease accounting have been satisfied with respect to those circuits.
Second, because Global Crossing offered generic "capacity" as part of the GNO, any capacity it swapped with other telecommunications companies for GNO capacity was, by definition, similar to the capacity acquired. As a result, Global Crossing's "Global Network Offering" heightened the requirement that the Company should have recorded capacity exchanges using the book value pursuant to APB No. 29.

Of course, none of this was disclosed to investors. The Company's purported justification for the GNO program was a complete sham.

FIN 43 had the expected impact on Global Crossing's and Asia Global Crossing's financial statements. Because under FIN 43, Global Crossing and Asia Global Crossing was no longer were permitted to book their IRU sales as sales-type leases, and they could not record the fair market value of the IRUs they sold as revenue in the periods when the agreements were reached. In addition, because a significant portion of Global Crossing's and Asia Global Crossing's reported revenue was generated through IRU sales that were immediately recognized as revenue, compliance with FIN 43 caused a considerable drop in Global Crossing's and Asia Global Crossing's reported revenues. For example, the amount of GAAP revenue Global Crossing recognized on IRU sales dropped from $418 million and $728 million in 1998 and 1999, respectively, to $350 million in 2000 and $18 million for the first three quarters of 2001. Asia Global Crossing recognized GAAP revenue on IRU sales of $138 million for the year ended December 31, 2000 as compared to $0 for the nine months ended September 31, 2001. Amazingly, Asia Global Crossing continued to violate FIN 43 throughout 2000 by treating IRU sales as sales-type leases, despite the fact that title did not pass to the leasee.

This precipitous drop in reported revenue from IRU sales, however, still did not accurately reflect the true financial position of the Company. Indeed, notwithstanding the
Company's purported adoption of FIN 43, Global Crossing still accounted for IRU swaps with other telecommunications companies using the fair value of the capacity exchanged, in violation of APB No. 29. Its sole concession to the accounting rules followed by other public companies was that it no longer booked all of that revenue – of which it should have been booking none – immediately. Global Crossing soon devised a solution to that problem as well.

2. **Joseph Perrone Takes Over Accounting at Global Crossing And the Swap Deals Flourish**

262. On May 1, 2000, Global Crossing hired Perrone, the Andersen partner who was responsible for the White Paper, as Global Crossing's Senior Vice President in charge of finance. At Andersen, Perrone had served as the partner in charge of Global Crossing's account since 1997, and served as the accounting firm's partner in charge of the metro communications, media and entertainment practice.

263. Perrone's employment package with Global Crossing was lavish. It included a signing bonus of $2.5 million on top of an annual target bonus of $400,000, a base salary of $400,000, and 500,000 stock options. Global Crossing's then-CEO Leo J. Hindery, Jr., announced Perrone's hiring as follows:

> Joe Perrone has been in charge of our relationship with Arthur Andersen since before our IPO. He has a financial understanding of our company and our industry which is second to none. Joe is a recognized leader in communications financial reporting and accounting. He will help us quickly install the financial reporting and administrative controls necessary for the most exciting company in telecommunications to be the best run company in its industry.

264. Six months after he was hired, Perrone was promoted to Executive Vice President in charge of finance for Global Crossing.

265. According to published reports, "Perrone joined Global Crossing from Arthur Andersen and was instrumental in shaping the controversial accounting practices that later
sparked investigations by the Securities and Exchange Commission and others." Elizabeth Douglass, In Brief/Communications Global Reorganizes Finance Department, Los Angeles Times (Nov. 9, 2002).

266. Indeed, Perrone immediately took over Global Crossing's finance department, moving the entire department from Beverly Hills to Madison, New Jersey, firing every employee — save one — who previously worked in Beverly Hills, replacing the accounting staff with former colleagues he lured over from Andersen with generous compensation packages, and ensuring that all accounting decisions and contact with Andersen went through him.

267. Although Global Crossing, Asia Global Crossing, and Andersen had circumvented APB No. 29 and were recording the fair value of swapped revenue in violation of that rule, under FIN 43 they could not record all of the revenue immediately as had been their practice. To remedy this, Perrone and the telecommunications team at Andersen and Dan Cohrs, Global Crossing's CFO, created the concepts of "Cash Revenue" and "Adjusted EBITDA". Not only did Asia Global Crossing use these terms in their disclosures, but also added two additional terms referred to as "Proportionate Cash Revenue" and "Proportionate Adjust EBITDA."

268. Global Crossing and Asia Global Crossing began to report the total "value" of each IRU sale they made in so-called "pro forma" disclosures that the Companies said portrayed a more accurate picture of Global Crossing's and Asia Global Crossing's financial health. Rather than advising investors to accept the Companies' GAAP reported revenues, Global Crossing and Asia Global Crossing concocted "pro forma" numbers by adding revenue, which it defined as the "cash portion of deferred revenues," to the Companies' reported revenues under GAAP. They called this combined figure "Cash Revenue." And using the same method of calculation on the Companies' GAAP numbers (i.e., adding in the deferred revenue from IRU sales that did not
qualify as GAAP revenue under FIN 43), they created what they called “Adjusted EBITDA,” a figure that they portrayed as more accurately representing the Companies’ cash flow:

“These accounting treatments have no effect on the Company’s cashflow. . . . The adoption of service contract accounting is expected to result in significant deferral of revenues from capacity sales for which cash may have already been received. Therefore, the Company has modified its reporting of Adjusted EBITDA to include the cash portion of the change in deferred revenue,” said Global Crossing in its Third Quarter 1999 Earnings Release.

269. Asia Global Crossing created the additional pro-forma measurements of Proportionate Cash Revenue and Proportionate Adjusted EBITDA noted above. These purportedly represented the sum of Asia Global Crossing’s ownership percentages of Cash Revenue and Adjusted EBITDA of its joint ventures.

270. Asia Global Crossing defined “Proportionate Cash Revenue” as “the sum of our ownership percentage of the Cash Revenue of each member of the Combined Entities (on a pro forma-basis, includ[ing] Asia Global Crossing, Hutchison Global Crossing, and Global Access Limited) after eliminating certain inter-company transactions. Cash Revenue not assigned to specific systems is excluded.” Proportionate Cash Revenue is not a GAAP term, but Asia Global Crossing presented this metric as a better measure of the Company’s performance “given the importance of joint venture operations in achieving our business objectives.” To the contrary, “Proportionate Cash Revenue” misleadingly added deferred revenue to cash receipts to GAAP revenue (which is not cash-based), and therefore, misleadingly overstated the Company’s cash flows from operations.

271. Asia Global Crossing defined the term “Proportionate Adjusted EBITDA” as “the sum of our ownership percentage of the Adjusted EBITDA of each member of the Combined Entities after eliminating certain inter-company transactions. Cash Revenue not assigned to
specific systems is excluded." Although "Proportionate Adjusted EBITDA" is not a GAAP term, Asia Global Crossing misleadingly presented this pro forma metric as the best method for evaluating the Company's cash flows from operations while hiding the truth about its deteriorating financial condition. In fact, the measurement was completely fraudulent since it actually double-counted already fictitious revenues.

272. Andersen was instrumental in helping Global Crossing and Asia Global Crossing create these "pro forma" numbers. Indeed, Andersen helped install the exact same method of dual-reporting at Level 3 Communications, Inc., another one of Andersen's clients and a historical IRU swap partner to Global Crossing.

273. Global Crossing's and Asia Global Crossing's statements that investors should rely on their "pro forma" financial statements were false and misleading for five principal reasons:

a. Global Crossing's and Asia Global Crossing's "pro forma" disclosures gave the false impression that they reflected the company's cashflow. The Companies called revenue they supposedly generated through IRU swaps as "Cash Revenue," and defined "Cash Revenue" as "revenue plus the cash changes in deferred revenue." However, in an IRU swap, Global Crossing and Asia Global Crossing would simply exchange capacity for capacity. Although Global Crossing and Asia Global Crossing and their IRU swap partners would, in some instances, trade equal amounts of cash in a given transaction, the Companies would realize absolutely no economic benefit in the transaction. Thus, the use of the term "Cash Revenue" improperly gave investors a false impression that Global Crossing's and Asia Global Crossing's capacity sales were generating cash, when in fact they were not. Similarly, claiming that the
number included "cash changes" in deferred revenues misrepresented that there was a positive cash flow component to the deferred revenue when there was no net gain in cash.

b. Global Crossing's and Asia Global Crossing's "pro forma" disclosures violated SEC Regulation S-X. Regulation S-X requires that any financial statements issued by a Company shall contain, in addition to the required disclosures, "such further material information as is necessary to make the required statements, in light of the circumstances under which they are made, not misleading." Global Crossing's and Asia Global Crossing's financial statements that included the "pro forma" disclosures failed to disclose the following material facts:

i. That the IRU swaps essentially exchanged capacity for capacity and, as such, constituted non-monetary exchanges under APB No. 29; and

ii. That the IRU sales that the Companies recorded as sales were, in fact, part of reciprocal transactions pursuant to which the Companies were obligated to purchase a like amount of capacity with the same market value as the capacity sold;

c. The "pro forma" disclosures were false and misleading because the Companies misrepresented to investors that their "pro forma" disclosures would have complied with GAAP prior to the effective date of FIN 43. Global Crossing and Asia Global Crossing represented to investors that their "pro forma" disclosures were comparable to the Company's prior method of accounting in which they treated IRU sales as sales-type leases under GAAP and recognized revenue from each IRU sale in the period the sale was made. However, in calculating the "pro forma" numbers, Global Crossing and Asia Global Crossing added the increase in the amount they reported as deferred revenue (which constituted revenue they booked through IRU sales but deferred over the length of the IRU pursuant to FIN 43 to the Companies' reported GAAP revenue. Because each IRU sale included, in addition to the IRU itself, service
obligations of Global Crossing and Asia Global Crossing in connection with the cable, GAAP required a portion of the revenue from each IRU sale to be recorded as "deferred revenue" even prior to FIN 43. By simply including the entire amount of each IRU sale in the Companies' pro forma "Cash Revenue," Global Crossing and Asia Global Crossing included "revenue" in their pro forma disclosures that would not have qualified as revenue for GAAP purposes, even prior to the effective date of FIN 43;

d. The Companies' use of the terms "Cash Revenue" and "Proportionate Cash Revenue" were false and misleading because it gave investors the false impression that the pro forma figures disclosed reflected the Companies' cash flow. According to Global Crossing and Asia Global Crossing, "Cash Revenue" was comprised of its reported GAAP revenue plus the "cash portion of deferred revenue." Accepting this definition, the Companies' use of the term "Cash Revenue" was false and misleading because the principal component—GAAP revenue—is not cash based revenue. As a result, the term "Cash Revenue" does not accurately reflect the Companies' cash flow; and

e. The Companies' pro forma accounting allowed them to flout the very purpose of FIN 43, which was to force the alignment of revenues and costs. They were now free to again book revenues immediately and amortize costs over the life of the capacity lease.

274. Winnick and other senior Global Crossing officers enthusiastically bought into the use of swaps and the resulting freedom to continue falsifying the Company's financial picture to investors. Under Perrone's guidance, Global Crossing's and Asia Global Crossing's use of swaps flourished. By the fall of 2000, both Global Crossing and Asia Global Crossing were regularly using swap transactions with no business purpose to boost revenue at the last minute of each financial quarter as a means of meeting projected earnings.
3. The Swap Frenzy Grows

275. John McCauley, the former Director of Taxes of Global Crossing during the Class Period, recalled that even by the end of 1999, a significant number of IRU swap deals were being done on the last day of the quarter and that a significant number of the deals came from Global Crossing sales representatives around the world, primarily from sales offices in Japan, Europe, Miami and New Jersey.

276. After Global Crossing acquired Frontier in September 1999, Frontier's swap deals, which historically had taken place without a cash exchange were, according to Thomas Haelen, Director of Finance, reworked by Global Crossing so that equivalent cash changed hands and Global Crossing therefore could report revenue from the deals where Frontier had never done so.

277. Deborah Maust, a former employee who worked in Global Crossing's Treasury Department, specifically recalled a swap deal with Lucent in early 2000. The swap came to light when Lucent accidentally wired money to the Company's Beverly Hills office instead of the Bermuda office. Maust and her colleagues in the Treasury Department became suspicious because Lucent had wired Global Crossing the exact amount of money that the Beverly Hills office had wired to Lucent earlier that same day. Several of the finance employees, including Susan Dullabh, the Company's Treasurer for its Beverly Hills office, who already were suspicious of the round tripping deals Global Crossing was entering into, questioned Cohrs about the exchange of exact amounts of cash. Cohrs told them it was "none of their business."

278. Maust added that Dullabh had "real concerns" about Global Crossing's swap deals and that Dullabh complained about the ethical issues surrounding the swaps. According to Maust, Dullabh one commented, "This isn't right. I don't want to be a part of this." Maust
confirmed that the swap deals, also known as round tripping, typically occurred on the last day of each quarter. She added the deals were done "to hide the fact that there really wasn't a demand."

279. Each swap deal was reviewed in a meeting or over the telephone immediately prior to the closing of the deal by a group of employees, which included Casey, David Walsh, Joggerst, Dawson, Cohrs, Carl Grivner, the Chief Operating Officer of North America, and Tony Palma, Vice President of Global Crossing's broadband markets. According to Palma, each participant in the review process had a specific role: Joggerst reported the contents of the contract; Casey and Walsh addressed how the deals would be spun to the public; Dawson discussed the need for the capacity; Palma discussed the prices; and Cohrs and Grivner participated in executive roles.

280. According to David Abruzzese, a former controller with Global Crossing's Internet division and carrier sales, Company executives often flew to Global Crossing's Rochester office at the end of the quarter to review internal company reports and determine which customers might participate in "24th hour" swap deals before the quarter ended. Once the executives selected the customers to approach about the swaps deals, a Global Crossing executive would fly to the customer's headquarters for a face-to-face meeting.

281. Global Crossing salespeople were encouraged to do swaps, especially at the end of a quarter. According to Jack Schaeffner, a manager of IP data services, sales people received full commission on swap deals even though there were no real sales. On May 31, 2001, Gorton sent an e-mail to Casey, Cohrs, Walsh, and Perrone, expressing concern that salesman were being paid the same amount of commission for closing a swap deal as they were for straight IRU sales. Casey, noting the increasing payment of commissions on swaps responded by reminding Gorton that the swap deals were necessary to make the Company's quarterly projections.
282. Joggerst described for Congress the process by which Global Crossing managed what it referred to as its "sales funnel" which included weekly conference calls until the end of the quarter, at which time there would be daily conference calls. During those calls, the sales team would review their "primary targets," which were deals very likely to be completed before the end of the quarter and "secondary targets," which were less likely to close. As time went on, "particularly in 2001," in order for the Company to meet its revenue targets, the sales team had to close all of the secondary targets. Moreover, according to Joggerst, instead of having weeks to negotiate the deals, "sometimes those transactions need[ed] to be completed within 48 hours because we would literally watch the clock as it ticked down for the end of the quarter." Joggerst also admitted, "one thing that was clear . . . during that period of time at Global Crossing, it was not acceptable to miss your end of quarter number."

283. According to Calissendorff, the Company's method of announcing swap deals to the public was misleading to the shareholders. Also, according to Calissendorff, the Company's Treasury Division, which was responsible for wiring checks for the swap deals, regularly joked about the requests to wire money to a swap partner noting, "Here it is, it must be quarter end." According to Donna Reeves, the former president of Media and Entertainment, Walsh and Joggerst were behind many of the IRU swap deals conducted solely for meeting the projected financial numbers. Reeves added that "Walsh would come alive at the end of each quarter. He'd boast about spending the last two weeks of each quarter pulling all-nighters and pulling in the numbers."

284. Global Crossing's swap deals started causing problems with the Company's computer billing system in 2000 when the Company decided to switch its billing system from the Unified Billing System ("UBS") to the "Arbor System," a Lucent product. The Company sent
Lenora Crowley Young, a former Global Crossing project manager, to Lucent for training on the Arbor System. Phase I of the installation of the Arbor System began in 2000 with Global Crossing's carrier sales group. According to Young, a former Global Crossing project manager, the swaps had not been properly integrated in UBS and the Company could not figure out how to incorporate the swaps into the Arbor System. In the end, Global Crossing had to jettison the Arbor System because of the swaps problem.

285. Global Crossing continued doing swap deals through the rest of 2000. In an e-mail from Trish Dougherty of Global Crossing United Kingdom, to Tim Granger and Frits Bosch regarding a swap deal with Cable & Wireless in third quarter 2000, Dougherty made clear that despite the 60 day restriction imposed by Perrone, the swaps were reciprocal and everyone inside Global knew it:

Spoke briefly with Robert [Yaremko] this morning to see if there was any news regarding the Global Crossing policy regarding swap deals.

I am doubtful that Arthur Andersen will remove any of the current 60 day restrictions and therefore put the C&W deal in jeopardy.

If we do not get any relief on the [Andersen] policies, then C&W must sign their deal with us on or before 30 September - they do not need any cash. Therefore, our deal would be signed 60 days later (4Q) and we would only receive money for 4Q. If C&W cannot sign this deal by 30 September, then there is no deal for EAC. That has been made quite clear from the beginning as Global Crossing and not C&W has US accounting rules to abide by. C&W offered to do whatever would help us to be able to close both deals on or before 30 September. They offered to sign a letter of intent with a down payment, to back-date their contract for the purchase of S. Cross capacity. Due to our accounting rules, none of these are allowed.

I realize Asia Global Crossing is anxious to announce a deal with C&W for their IPO this quarter, but unless we get relief from the accounting policies, I do not know how to work around this issue. I will now assume that [Global Crossing] also wants to see revenues (down payment) from C&W this quarter, but the structure of the deal will give us the revenue in 4Q and not 3Q.
Perrone's requirement that cash be exchanged was widely known as a similar sham. On November 9, 2000, Juan Secilla, a Sales Director at Global Crossing Spain, sent an e-mail to seven other Global Crossing employees concerning a meeting Global Crossing had with Telefonica the prior day concerning an exchange in capacity. In the e-mail, Secilla wrote:

Telefonica agreed to studying a potential equal increase of the size of the deal on both sides (I got a call from Fernando Lombart yesterday evening and he told me they are studying to make the size 40M$ approx). . . .

We agreed to have a single contract for the transaction and that each party should bill each other. However, Telefonica must check with their finance people whether they can accommodate our request to have cash actually change hands. Their problem seems to be more an impact on budget that [sic] their ability to [sic] do it . . .

Telefonica asked [Global Crossing] to keep the agreement fully confidential. We agreed not to disclose the strategic agreement but still asked them to be able to reference Telefonica as one of our key customers in Europe . . .

IMPORTANT: given the importance of sending cash for revenue recognition purposes, if Telefonica's position tomorrow is that they cannot do it, I think we should stress the importance of this for us and make it a condition to proceed. In order to be positive, we can suggest them to have a meeting with our finance/tax people to find out a suitable formula that satisfies both parties. Remember that their problem would not be that they may not do it, but rather an internal budget constraint that they should be able to circumvent it at the same time we send them cash for the same amount of money.

Richard Arnold responded to Secilla's e-mail by instructing various employees to ensure that the Telefonica deal is completed "as soon as possible as we desperately need this deal this quarter," including requests that Global Crossing evaluate the pricing of the capacity being swapped with Telefonica to see if it can be "supportable."

Moreover, the swapped capacity was being sold at prices in excess of fair market value. According to James Call, a former Executive Vice President of Sales and Marketing, the
prices for swapped capacity were not market prices. Call said, "I know it wasn't market pricing. You can apply any price to them you want." Call pointed out that the fact that Global Crossing resold capacity it had acquired at a dramatically reduced price demonstrated that the capacity was overpriced to begin with and that Global Crossing had no use for it. "A lot of inventory (purchased in swaps) was sold off quarters later for pennies." As an example, Call used one of Global Crossing's swaps with Qwest where the Company had already owned capacity on Qwest's network. Call, who worked at Qwest before joining Global Crossing asked rhetorically, "Why would you buy capacity on the same network? Why would you buy it if you didn't need it? I know [Global Crossing didn't need the capacity], I came from Qwest."

289. According to Michael Coghill, a former vice president of global network engineering, capacity Global Crossing acquired in a swap with Qwest between the Northwest and Los Angeles was not worth what the Company paid and was not necessary. Global Crossing already had excess capacity in that route. Coghill recalled an e-mail from the sales team saying that the price to be paid by Global Crossing for that capacity had been increased from $15 million to $60 million. Coghill had been convinced that $15 million was too much for the capacity, let alone $60 million.

290. According to Coghill, Global Crossing's sales team presented an increasing number of IRU swaps in which the value of the swap was inflated, "Global Crossing was paying too much for the swapped capacity." Coghill began disputing "every swap. All of them."

291. Finally, the capacity was unnecessary from a business perspective. Robert Barrett, Global Crossing's former Chief Information Officer, recalls David Walsh pushing IRU swaps in December 2000 in order to book large amounts of revenue. Barrett conceded that
Global Crossing was acquiring capacity through swaps deals that the Company "didn't need or use."

292. Global Crossing employees readily admitted in testimony given before Congress that the Company entered into swap agreements at the end of a quarter solely for the purpose of meeting revenue targets. According to Joggerst's testimony before Congress:

[N]ot meeting the number was absolutely unacceptable at Global Crossing. We had to make the quarterly number. Whether people would get fired, shuffled aside, given a non-important task, I mean, I'm not sure what the specific penalties might be. But I do contrast it with the early days at Global Crossing when there was much more of a collegial atmosphere where deals' pros and cons were discussed openly.

293. In addition, Joggerst testified that the Company regularly engaged in a practice called "upscoping" where Global Crossing and its swap partner increased the size of a swap deal at the very end of a quarter to enable the Company to meet its revenue numbers for the quarter. Joggerst testified that he recalled Global Crossing upscoping on several occasions, "particularly with Flag and with Cable & Wireless."

294. According to William Mitchell, a Vice President of Global Real Estate, Dawson openly questioned the swaps. Palma recalled Dawson and others complaining on numerous occasions about Global Crossing's lack of need for the acquired capacity in a significant number of the swap transactions beginning in the last half of 2000 and continuing until the third quarter of 2001. Finally, according to Palma, Dawson refused to sign-off on the deals because they had become so egregious, exclaiming at one of the swap review meetings, "You guys have backed me into a corner. I can't sign." In addition, Dinneen Jordan, an operating engineer at Global Crossing, recalled numerous e-mails from other Global Crossing engineers in opposition to the end of quarter swap deals. Cohrs, Dawson and other executives received these e-mails from the engineers, some of which read: "Why the hell are we doing this swap? We don't need this" or
"We can't maintain it. How are we going to sell it?" Jordan added that the typical response to such e-mails was, "It sold already." Jordan specifically recalled e-mails opposing Global Crossing swaps with Qwest, 360Networks, Emergia, Cable & Wireless and Telecom Italia which were all "even swaps." Olofson also advised that there was no business purpose for the capacity Global Crossing acquired in the 360Networks swap because the Company simply purchased additional Atlantic capacity where Global Crossing already had two, upgradable networks. According to Jack Schaeffner, a manager of IP data services, "I heard all the time, we got more fiber we can't use."

295. Deb Guancione, a former Vice President of the Operations Group, left Global Crossing because she "hated" what she saw Global Crossing doing in the swap deals. According to Guancione, operations staff routinely complained about the capacity Global Crossing was acquiring in the swap deals, "I remember people sending e-mails back and forth saying, 'This is B.S.'" These e-mails were in response to announcements of swap deals circulated within Global Crossing. Operations engineers, upon learning about the deals, asked sales staff: "Did you even do a business case to prove this thing because this is really ridiculous." Several employees complained directly to Guancione, including Arat, Collen Capen and Michael Mulvey. Capen once complained to Guancione about Global Crossing purchasing capacity where the Company did not even have a network. In one case, Global Crossing acquired capacity running to Moscow, where Global Crossing would have had to make a tremendous capital expenditure to actually make use of the capacity.

296. As the Company increased its swaps activity, the controversy increased within Global Crossing. According to Timothy Hallowell, a vice president of OSS Development, by the end of 2000, many insiders commented that the IRU swaps were "not a legitimate accounting
practice.” According to Michael Nighan, a former director of regulatory affairs, the swaps Global Crossing entered into regularly involved different Global Crossing entities in as many as 15 different countries. This made it difficult to track what Global Crossing was doing. “We could never get specific numbers on what company sold what service and for how much.” Nighan said that he questioned whether the money was being counted correctly or reflected accurately on the books.

297. As the internal complaints increased from operations people, Barrett reviewed several of the swaps. According to Barrett, the fiber obtained by Global Crossing in the swaps he looked at in his initial review was “absolutely useless.” Barrett recalled commenting at the time, “We can't even connect to some of this without spending tens of millions of dollars.”

298. In many cases, the documented agreement itself was a complete sham. After communicating with a Qwest representative and being advised that Global Crossing would have to pay for additional capacity, Peter Alavanja, the Director of Product Management and business development at Global Broadband Services, sent an e-mail to Jackie Armstrong at Global Crossing asking her to clarify exactly what Global Crossing had acquired from Qwest. In responding to Alavanja's request, Armstrong wrote: “This is a little unusual because what the agreement actually says and what we very clearly agreed with Qwest is not the same.”

299. In an attempt to track Global Crossing's swaps, Barrett suggested to Carl Grivner that the Company conduct a study of the capacity obtained in the various IRU swap deals that included what the contract said Global Crossing acquired in the swap, the precise route of the fiber acquired by Global Crossing and what the distance was between the swap partner's POP and Global Crossing's POP. Palma added that part of the Company's plan in doing the study was to determine which swaps Global Crossing should instruct its wholesale division sales
representatives to try to resell. Carl Alu and David Carey conducted the study and presented the results of the study in one of Grivner's staff meetings attended by: Grivner, Dawson, Colleen O'Keefe, Director of Customer Services, Laura Ponticello, Matthew Gutierrez, Vice President of Capital and Integration, Robert Klug, senior vice president and Grivner's finance arm and Coghill, Senior Vice President of Global Network Engineering in the second quarter 2001. The study concluded with the creation of a multi-page spreadsheet outlining the details of each swap transaction. The study concluded that 85% of the capacity obtained was not needed by Global Crossing. Barrett said, "Either we didn't need [the capacity] at all or it was too costly to light." According to Barrett, the meeting lasted for hours. After much discussion, the participants agreed that the study was accurate. Grivner directed Alu and Carey to present the study immediately to Perrone. Despite the analysis, the company's swap activity actually increased greatly over the next several months.

300. Meanwhile, SSB's Grubman continued to heap praises upon Global Crossing. In a report issued April 10, 2001, Grubman said:

We continue to be bullish on GX and we believe that during the course of 2001 GX will show increasing visibility on getting service contracts. We reiterate again that GX is one of our favorite names and reiterate our 1S rating.

301. Later, after Global Crossing filed for bankruptcy, it would be revealed that Global Crossing booked over $230 million in false revenue during 2000.

N. The Fraud Escalates And Deepens

302. By the beginning of 2001, unbeknownst to the public, Global Crossing and Asia Global Crossing were in dire straits. They barely had any cash to keep the Companies going, had an abundance of excess network capacity, and the prices for the capacity they could sell continued to fall. The industry was not faring much better as other telecommunication
companies had begun to file for bankruptcy. Global Crossing and Asia Global Crossing, however, failed to disclose the truth of their financial condition and just how close they were to becoming bankrupt themselves. Instead, Global Crossing and Asia Global Crossing continued to mislead the public that all was well.

303. Meanwhile, Global Crossing took extreme measures in an attempt to raise cash. It sold off its most valuable assets, thereby reversing most of the benefit it had received from having used its inflated stock to acquire assets in the first place. On January 10, 2001, the Company announced the sale of its Global Center to Exodus Communications for $1.8 billion. Then, in June 2001, Global Crossing sold the local phone business it acquired as part of the Frontier acquisition to Citizens Communications Company ("Citizens"). The purchase price under the amended purchase agreement was $3.5 billion, subject to certain adjustments for closing date liabilities and working capital balances. During the process, Global Crossing tried to keep Frontier's $700 million pension plan, but state regulators blocked the attempt.

304. At Global Crossing's Office of the Chair meeting on February 26, 2001, typically attended by the most senior people at the Company including Winnick and Cook, there were discussions of Global Crossing's financials for the first quarter of 2001. According to the meeting notes, the participants discussed that the financial numbers were "coming in low" for the first quarter, and that the Company was $200 million short of its quarterly target. At the meeting, a decision was made to accelerate and expand swaps activity. The meeting notes state that the "IRU business needs to be bigger deals and strategic."

305. During a quarterly revenue review meeting in Rochester, New York, held in the first quarter 2001 and attended by all executive sales staff, Joseph Pickel, a Senior Vice President of Strategic Alliances, who was attending the meeting because his supervisor was not able to
attend, recalled reports from various divisions complaining about customers filing for bankruptcy or not making payments.

306. On March 19, 2001, there was a management meeting at Global Crossing attended by Defendants Cook, Walsh, Gorton, Cohrs, Clayton, Casey, Dawson and others. During the meeting, participants discussed that even if Global Crossing were to get $525 million of sales for the quarter, the Company would still be $100 million off of its projected revenue.

307. Joggerst testified before Congress as follows:

It is my belief that the pressure to make the numbers became really the overriding factor in the company at the time. The pressure was uncomfortable. I can tell you myself and a number of the sales people literally did not sleep for several nights toward the end of a quarter, receiving phone calls. I can recall in the case of the 360Networks deal receiving many phone calls, including one from Tom Casey at about 11:35 the night before... the quarter closed, making sure that the transaction with 360Networks was done.

308. Wright also testified before Congress that she felt pressured to meet quarterly target numbers and that the increasing number of swaps Global Crossing entered into was the result of that pressure.

309. According to Joggerst's testimony, Global Crossing's revenue target for 2001 was $2 billion from IRU sales ($550 million for the first quarter and $650 million for the second quarter of 2001) and $3 billion for the carrier wholesale business overall. Meeting those targets "would have been a record number, by any stretch of the imagination." When asked whether the Company's revenue targets for 2001 were "too high and aggressive, given the forecasted market, Joggerst agreed, admitting that he "had some concern that that would be an overly aggressive target to put to the sales force."

310. Joggerst testified that he had a conversation with Casey before the end of the first quarter 2001 that the Company's projected revenue was well below target. As a result of that
discussion, a "mini task force" was formed "to try and come up with some very large, very aggressive outsourcing deals from some of our major customers to try and bridge what was really a very large gap." As a result of that effort, Global Crossing did large swap deals with 360Networks at the end of the first quarter and Flag and Cable & Wireless at the end of the second quarter of 2001. Joggerst conceded to Congress that those and other deals were done for "the express purpose" of meeting the Company's end of quarter numbers. When Joggerst was asked during the hearing if Global Crossing would not have met its revenue targets without the swap deals, he responded by saying, "absolutely correct."

311. Swap transactions were so critical to the Company meeting its financial projections that Global Crossing did not tolerate employees who failed to complete the transactions. After finding out that an analysis of a swap between Global Crossing and Qwest would not be completed at the earliest until just before the end of the first quarter 2001 – too close to the deadline – Robin Wright sent an e-mail to Amy Brauch on March 8, 2001, advising her that Global Crossing intended to do the swap transaction with Qwest by the end of that quarter and that the deal was "one of our highest priorities for the quarter." Unhappy with Brauch's response that Wright's deadline could only be met if Brauch stopped working on other projects, Joggerst sent an e-mail to David Carey entitled "Help – attitude adjustment" in which he advised that the Qwest deal was "in the MUST DO category to make th[e] quarter's numbers" and that Brauch's response was not acceptable. Joggerst ended the e-mail by writing, "There are a few people that work 24 hours a day to get the numbers in – is [Brauch] among them? If not, lets get her with the program."

312. At this point, the Company's swaps reached a frenetic pace. According to Olofson, Global Crossing did the following swap transaction in that quarter: 360Networks (§150
million); Emergia ($23 million); Qwest (approximately $100 million). In fact, in the first quarter of 2001, Global Crossing, according to Olofson, did few, if any, real IRU sales and any such sales were for small amounts.

313. According to David Abruzzese, a former Global Crossing controller, he had a conversation with Pete Juroe, a network operations engineer, about the Company’s swap with Qwest in the first quarter of 2001. Juroe was diagraming the capacity to be obtained by Global Crossing and said to Abruzzese, “There’s no way we can use this capacity. It’s worthless.” Juroe’s drawing revealed a network of crooked lines (the ideal network is a straight line) that touched numerous small cities before reaching its destination point. Barrett also commented that all of the swaps with Qwest were unnecessary. Qwest’s fiber obtained by Global Crossing “didn’t provide any diversity of routing, and we were never out of capacity in any of the places where Qwest’s network went.”

314. On February 5, 2001, Fitzpatrick sent an e-mail entitled “First Q $550M target - emergency conference call” to Joggerst, Wright, and nine other Global Crossing employees in which he advised that he had scheduled a conference call for February 8, 2001:

The Agenda for the call is to openly discuss the top 3 (largest) potential 1st Q carrier IRU deals by region. The only way we are going to pull out this quarter is to “intentionally focus” on closing 2-3 “extremely large” IRU deals “that are not currently being discussed”. We will not make the quarter by focusing on the current deal that is being discussed on our Monday calls. In addition, we need 2-3 home runs - !! We all need to do some serious thinking before this call. We need to pull some pretty big rabbits out of our hat within the next few weeks and all of you will need to play a role in making it happen. Pulling in some huge deals, or restructuring currently working deals - we need to consider everything. The only answer is think-BIG. Once we identify our attack strategy we can list out owners per targeted deal and align our internal resources to make the deals happen. Think big - No Limits!
315. On March 9, 2001, Robin Wright, a senior vice-president for Global Sales and Support, expressed a concern to Joggerst that the Company's engineers would not go along with the Qwest swap because of a lack of a business purpose. In the e-mail, Wright wrote:

Had a Qwest call this afternoon, on it were Jim Dole and Dave Carey. I'm afraid we are not going to get a great deal of enthusiastic support from the network folks without a directive from David. I think he needs to send a message to Wally [Dawson] or perhaps have a joint message from Wally and David that goes like this:

“We are now 3 weeks away from the end of the quarter and it is clear that expediting some capital expenditures is going to be key to meeting the Street's expectations. We are fully aware that we are asking you to do something completely opposite from the direction you are headed, in terms of keeping capex within the budget and being extremely careful about spending. Wally and I, along with the executive committee, will make decisions about the trade off of revenue versus capex. In the meantime, it is our belief that the best approach is to assume we will be making the expenditures as outline [sic] by the sales team. We commit to letting you know as quickly as possible the final decisions to minimize unnecessary work. We appreciate your support of our efforts.”

316. In his testimony before Congress, Joggerst testified that at the time Wright's e-mail was sent, "the network folks were becoming alarmed that they didn't have the resources to negotiate deals where they were actually purchasing capacity...."

317. Robin Wright also sent an e-mail that same day to Joggerst, Fitzpatrick, Walsh, and Dawson, advising them that the two companies were close to a deal, however, Global Crossing was required to purchase a significant amount of wavelength as part of the deal. Wright wrote:

we need to nail down our buy side no later than Wednesday. This now is a bigger deal, so we've got work to do. We were looking at $50 million, now we've got to really work at upping that. And, before you say it, I know buying wavelengths is something we'd prefer not to do. We're with you. But I think we may have to do it if we're going to hit the revenue target. Wally [Dawson] and David [Walsh] will probably have to work this out. Let's just assume we now need to get $200 million and see how we would do it.
318. In a subsequent e-mail from Wright concerning the Qwest swap transaction dated March 12, 2001, Wright noted that: "we are swapping $100 million checks this quarter."

319. On March 13, 2001, Wright sent an e-mail entitled "1Q Reciprocal Deals" to, among other Global Crossing employees, Clayton, Joggerst, Fitzpatrick, Walsh and Dawson, in which she provided an overview of pending swaps for the quarter. In the e-mail, Wright noted that "Right now it looks like we'll need to make network purchases in the neighborhood of $250M-$350M in order to meet the revenue target." Wright then listed some of the pending swaps for the quarter, including the $100 million deal with Qwest. With respect to the Qwest deal, it was clear that the deal was for revenue recognition purposes only. In the e-mail, Wright added, "Apparently Qwest is on track to meet their quarterly numbers, but KPN/Qwest is struggling. They would like us to allocate $25M of the $100M for purchases in Europe." Wright identified other swaps for that quarter too, including a deal with SingTel for $24 to $80 million in capacity, Ebone for $50 million, EPIK for $5 million, Emergia for $23 million, Comsat for $6.8 million and 360Networks for $50 to $100 million.

320. In an e-mail from Wright dated March 27, 2001, to Susan Chase at Qwest, Wright proposed some additional changes so that the companies could complete the swap before the end of the quarter. In the e-mail, Wright agreed to increase Global Crossing's commitment to purchase capacity from Qwest above that originally agreed upon. The concern that the quarter was about to end is evident from Wright's e-mail:

If you are having trouble drawing up the [memorandum of understanding] and the specifics around that, perhaps we can agree to continue to work on wording but not let our deadline of signing tomorrow hold us up. We can each wire money tomorrow. You, the $120 million, us the $100 million and the $20 million MOU can follow.
In forwarding Wright's e-mail internally within Qwest, Chase wrote, "I agree with [Wright] we are forcing [Global Crossing] to take stuff they do not have the need for."

321. In an e-mail to Wally Dawson concerning Global Crossing's swap with Qwest, dated March 28, 2001, Coghill wrote:

In reviewing the latest Qwest deal status I see that US domestic waves has been increased to 60m. We are now being asked to provide business cases to support this transaction. This discussion began with US waves at 15m which we could not find justification for, let alone 60m. We will be factual in our estimation of the value or usefulness of these assets but in good conscience cannot pretend to develop a business case that justifies this transaction, but rather one that will show our economic risk.

Wally, the team is committed to getting these deals done and utilizing the assets as best we can. We have been engaged in developing terms and conditions and have given guidance on preferred assets but we are not an equal partner in negotiating these deals.

322. Also, in March of 2001, Global Crossing entered into a complex capacity swap with Enron that was actually a $17 million loan that Global Crossing kept off its books and did not disclose to its shareholders. In 1998, Global Crossing and Enron hatched a scheme whereby Enron would lend Global Crossing $17 million with an interest rate of about 18%, but would disguise the loan by funneling the transaction through a third party to disguise the disbursement of the loan proceeds to Global Crossing as revenue from a capacity sale. After several failed attempts, the parties closed the agreement in March, 2001. Under the agreement, Enron committed itself to "prepay" Global Crossing $17 million for an IRU, and Global Crossing would purchase similar capacity from Enron but pay for it over time. To disguise the transaction, they recruited Reliant Resources, an energy company actively involved in trading network rights, to serve as a "broker." Thus, Global Crossing "sold" $17 million in capacity to Reliant, who "sold" it to Enron, and then used the proceeds of the sale to "prepay" Global Crossing. Enron, in turn, "sold" $17 million in capacity to Reliant, who "sold" it to Global Crossing, which agreed to pay
for that capacity over time. For its services as broker on the transaction, Reliant received about $300,000 from Enron. “It was a loan,” said a former Enron executive. “We could have simply loaned them money at 18%.”

323. According to Maust, in March 2001, the Company entered into a swap deal with Velocita and the Company's Beverly Hills office was asked to make a roundtrip payment to that company.

324. According to a submission by Global Crossing to the Committee on Financial Services, in March 2001, at the end of the first quarter, “Centennial contracted with Global Crossing to purchase a substantial amount of capacity as the anchor tenant on a subsea system to be built in the Caribbean by Global Crossing. Global Crossing, in turn, agreed to purchase various telecommunications services and products from Centennial. In June 2001 [the end of the second quarter], Global Crossing and Centennial modified the value of the commitments made under the original March 2001 agreements.”

325. Another end of the quarter swap was with 360Networks. This was not the first swap Global Crossing had done with 360Networks. In June 2000, Cliff Stoval, a former account manager, recalled Global Crossing and 360Networks did a swap deal for approximately $111 million. The swap during the first quarter of 2001, however, was yet another example of how Global Crossing engaged in swaps solely to make it appear as if the Company was generating revenues and where there was no business purpose for the deal.

326. The 360 Networks deal is also an example of a swap Global Crossing entered into at the end of a quarter for the purpose of meeting its revenue targets. Indeed, during Congressional hearings, Joggerst specifically identified the first quarter 2001 swap with 360Networks as a deal that was made solely because of a gap in Global Crossing's revenue
numbers. Gorton also testified before Congress that either Cohrs or Perrone had told him that if the Company was going to make its first quarter numbers it had to do the deal with 360Networks. Perrone flatly admitted to Congress that the deal was necessary to make the numbers for the first quarter.

327. At the time of that transaction, 360Networks was near bankruptcy. In fact, the company's precarious financial condition was well known within Global Crossing. In an e-mail from Jeff Cohen to Joggerst, Gorton and John Mercogliano dated March 7, 2001, Cohen wrote:

Given 360's current cash position; 500mm in cash vs. over 800mm in current liabilities. Their stockprice and revised guidance, and the statements that they would only pay their suppliers when they make sales, i think its time to make a run of the customers we lost to them, especially france telecom. let's be careful how we do it and stick to public facts. i would worry if i was a customer of theirs at this moment.

328. Towards the end of March, when Global Crossing and 360Networks were discussing completing a swap before the quarter ended, the financial condition of 360Networks was a grave concern to Global Crossing. The Company did not want to swap cash with 360Networks as part of a deal that might be affected by a subsequent bankruptcy. While Global Crossing was talking to 360Networks about a swap, it had its outside counsel, Simpson Thacher, evaluate the risks of the deal. Those risks were later outlined in a memorandum dated March 23, 2001, from Timothy Malin, an attorney at Simpson Thatcher, to Jeff Cohen, an in-house attorney at Global Crossing.

329. Highlighting how critical and risky the swap deal was, Global Crossing and 360Networks did eventually work out the details of the swap at Simpson Thacher's office. According to a December 23, 2002 article in the Wall Street Journal, 14 officials from 360Networks and Global Crossing met at Simpson Thatcher's office. "The idea was for Global Crossing to exchange $150 million of its capacity between Asia and San Francisco for $200
million of 360networks' capacity linking the U.S. and Europe. Both sides would book revenue. But because Global Crossing was getting less revenue, 360networks tentatively agreed that on a subsequent deal it would spend more with Global Crossing, according to an e-mail written by a Global Crossing executive. Less than a year before, the companies had signed a swap agreement over late-night pizza. This time around, the dealmaking was not so relaxed. 'There was a subtext of desperation,' says a person who attended the two-day session. The rationale for the deal, he says was 'to make sure you met your numbers.'" The companies, he says, were essentially working backward - with a revenue figure in mind first.

330. Due to 360Networks' grave financial condition and the expectation that it would file bankruptcy, several Global Crossing employees were against the deal. During Congressional hearings, Joggerst testified that Gorton stood up at one of the meetings relating to the 360Network deal and advised, in the presence of 360Networks, that he was against the deal because of their financial instability.

331. According to Winnick's testimony before Congress, just prior to closing the swap deal with 360Networks, Casey asked Winnick to convene an executive committee of the Company's Board made up of four people: Winnick, Cook, Casey and Conway. According to the meeting minutes, the meeting was attended by Winnick, Casey, Conway, Gorton, Dawson, Joggerst, Mitchell Sussis (an in-house attorney at Global Crossing) and Walsh. Before the executive committee discussed the deal, Global Crossing had a conference call with a large number of employees participating, including the management committee, except Cook. During the call, the parties discussed the deal and its risks. Gorton took the lead in discussing the risks. When he testified before Congress, Gorton advised that the 360Networks swap "presented too much of a risk to the company and the legal risks associated with a 360 bankruptcy to me
outweighed any business purpose that you had for the transaction. So I believe that the company should not have entered into that transaction." Joggerst testified before the E & C Comm. that Conway, a member of the Company's Board, expressed serious concern about the transaction during the call. Winnick himself testified that he thought the deal "was a little dicey."

332. After Conway and Gorton expressed their concerns about the deal, Joggerst and other employees were asked to leave the call so Winnick, Casey and a select number of other persons could discuss the deal further. Winnick testified the employees were asked to leave the call so the executive committee could "go into closed session" to allow Conway to talk to Casey and Winnick about his concerns. According to Winnick, due to the magnitude of the deal, the members of the executive committee had to unanimously agree to the deal. Evidencing Winnick's propensity to mislead people to get what he wanted, Gorton testified that during the "closed session," Winnick made it appear as if Gorton approved of the deal. Winnick eventually convinced the others to sign off.

333. Moments before the quarter ended, Global Crossing and 360Networks penned the deal. As part of the deal, 360Networks acquired capacity across the Pacific and Global Crossing acquired capacity across the Atlantic. However, at the time, the last thing Global Crossing needed was trans-Atlantic capacity where it already had a substantial amount of capacity. As a result of the deal, Global Crossing recorded a $150 million exchange of capacity as deferred revenue. Global Crossing also included that $150 million in its "Cash Revenue" and "Adjusted EBITDA" for the first quarter of 2001. However, Global Crossing never received $150 million - from 360Networks. As part of the deal, Global Crossing acquired $200 million of capacity and prepaid operations, administration and maintenance fees from 360Networks in exchange for $50 million in cash and $150 of capacity ($100 million of capacity in Asia and a $50 million Global
Network Offer ("GNO") – essentially a credit to receive capacity anywhere on Global Crossing’s network. Global Crossing received no cash from the deal but instead actually expended $50 million.

334. In the throws of these swap deals, Global Crossing’s full Board of Directors held a meeting in Beverly Hills on April 11, 2001, specifically to discuss these reciprocal transactions and to approve Global Crossing’s earnings release for the first quarter of 2001. The following individuals from Global Crossing attended the meeting: William Conway, Eric Hippeau, Geoffrey Kent, Thomas Casey, Dan Cohrs, James Gorton (Global Crossing’s General Counsel), Michael Markley (Global Crossing’s V.P. in charge of internal audits), Mitchell Sussis (Secretary and another in-house counsel), Gary Winnick, and Maria Lagomasino. In addition, two Andersen representatives were there as well: Mark Fagan, Lawrence Griff. Despite the extensive correspondence and documentation revealing the sham nature of the IRU swaps during the first quarter of 2001, the Global Crossing Board unanimously approved the Company’s accounting treatment for these swaps, a decision that was, according to Fagan, specifically endorsed and approved by Andersen.

335. In further evidence that Global Crossing did not have a business purpose for the capacity it was acquiring in the swaps, a May 10, 2001 e-mail from Robert Yaremko to Matthew Gutierrez, Kirk Rossi, and Joseph Perrone, noted that Global Crossing did not have any use for the $100 million capacity it had purchased from 360Networks during the 1st Quarter and that a $60 million payment to Qwest for specific capacity was only done for “revenue recognition purposes” and was similarly useless. Yaremko also noted that all of the capacity purchased from Ebone was unnecessary and that Global Crossing needed to remarket that capacity. The following day, that same e-mail was forwarded to other individuals at Global Crossing including
Dawson. Colleen Capen, an operations engineer, also said that she recalled numerous e-mails dealing with Global Crossing's swap with Ebone and that many engineers opposed the deal.

O. **Defendants Understated Cost of Sales**

336. In addition to accounting for capacity sales revenue in violation of GAAP, Global Crossing manipulated downward the reported amount of the cost of capacity sales, thereby materially overstating profits. Specifically, for every IRU sale accounted for as a "sales type lease," Global Crossing reduced its reported costs of goods in connection with each IRU sold by manipulating and overstating the capacity it expected to sell on each system on which the IRU was designated.

337. By allocating to each IRU sold a percentage of the costs incurred in installing the cable based upon a rash overstatement of the revenues from IRU sales that Global Crossing reasonably could have expected to generate from a particular system, the Company greatly overstated the profit from each IRU "sale" pursuant to a fraudulent accounting practice that ensured the Company would never properly account for its costs. Like the infamous IRU "swap," this accounting tool was created to do nothing more than make it look like Global Crossing was making money on each IRU sale when this was not the case. Instead, had Global Crossing properly accounted for its capital costs associated with laying the cable and making it functional, it would have been apparent from the very beginning that Global Crossing would never make a profit.

338. Thus, from at least 1998 through July 1999 on all IRUs "sales," extending to October 1999 for all subsea IRUs, and extending further until mid-2001 when Global Crossing finally discontinued accounting for any IRU sale as a "sales type lease," Global Crossing fraudulently overstated its reported profits by improperly accounting for its costs of goods sold.
1. The Mechanics of Understating Cost of Goods Sold

In its 1998, 1999 and 2000 financial statements, Global Crossing disclosed that prior to October 1999 it accounted for the costs of capacity sales based on estimated capacity it purportedly expected to sell on each system. Global Crossing's 1999 Form 10-K disclosed the Company's Cost of Sales accounting policy as follows:

Prior to October 1, 1999... cost of undersea sales in any period is calculated based on the ratio of capacity revenues recognized in the period to total expected capacity revenues over the life of the System multiplied by the total costs incurred to construct the System. This calculation of cost of sales matches costs with the value of each sale relative to total expected revenues. Until the entire System is completed, for purposes of calculating cost of sales, the total System costs incurred will include an estimate of remaining costs to be incurred to complete the entire System plus the cost of System upgrades that management has the intent and ability to complete, provided the need for such upgrades is supported by a third party consultant's independent revenue forecast. Beginning October 1, 1999, the Company initiated service contract accounting and therefore began depreciating all its systems; however, certain contracts still qualify for sales-type lease accounting. For these transactions, the Company's policy provided for recording cost of sales in the period in which the related revenue was recognized, in addition to the depreciation charge described below (see Property and equipment and Construction in Progress). Under service contract accounting, the amount charged to cost of sales relating to subsea capacity was calculated by determining the estimated net book value of the specific subsea capacity at the time of the sale. The estimated book value includes expected costs of capacity the Company has the intent and ability to add through upgrades of that system, provided the need for such upgrades is supported by a third-party consultant's independent revenue forecast.

The problem with this disclosure was in the underlying assumptions about future demand and sale prices that the Company employed. Although Global Crossing represented that its cost of sales calculation "matches costs with the value of each sale relative to total expected revenues," Global Crossing failed to disclosure that the figures it used to determine its "total expected revenues" had no basis in reality. Instead, Global Crossing concocted projected revenue figures based on reports that it knew were inaccurate which vastly overstated expected
demand and selling prices but nonetheless held up as reliable from a supposedly independent “third party consultant.”

341. In a letter to the SEC dated July 20, 1998, Global Crossing argued, somewhat ironically, that “[t]his aspect of the accounting policy is analogous to the accounting for costs of real estate projects under Statements of Financial Accounting Standards No. 67: Accounting for Costs and Initial Rental Operations of Real Estate Projects (SFAS 67) whereby construction costs are allocated to individual units on the basis of the relative sales volume of each unit.” Global Crossing’s explanation in this regard was ironic, of course, because as it later admitted and as confirmed by FIN 43, an IRU sale is akin to a real estate transaction, and as such Global Crossing never should have accounted for IRU sales using sales-type lease accounting methods in the first place. Notwithstanding this blatant inconsistency in its accounting practices, Global Crossing’s application SFAS 67-type accounting for costs was manipulated in such a manner as to minimize costs to inflate profits.

342. Throughout the class period, Global Crossing accounted for its costs of goods sold in connection with each IRU sale treated as a sales-type lease according to the following formula:

\[
\frac{Sale \text{ Amount of}}{Capacity \text{ Sold}} \times \frac{Estimated \ Total \ System \ Cost}{Estimated \ Total \ System \ Revenue} = Cost \text{ of Capacity Sold}
\]

This formula had the purported effect of recognizing a percentage of the “Estimated Total System Cost” in a given period based on a ratio of sales in that period compared to anticipated total IRU revenue that could be generated from the designated system over the life of the asset.
Although Global Crossing disclosed the mechanics of its accounting practices, it concealed from the investing public the fact that the projected revenue "estimates" the Company used to allocate costs were completely fabricated and had no basis in reality. These projected revenue figures, in turn, were based on projected demand that Global Crossing knew did not exist, and sales projections that Global Crossing knew were impossible to meet. Further, it compounded this misrepresentation by forecasting "upgrades" that exponentially increased capacity with minimal costs, and then adjusted its projected sales to accept this extra capacity without regard to actual demand. In other words, Global Crossing's accounting practices — indeed its business model — put the proverbial cart before the horse. Global Crossing based its projected sales figures not on the demand that the industry reasonably could have expected, but on the capacity that the Company could generate. Central to this scheme was the cover of supposedly independent "analysts" who, at Global Crossing's behest, created demand projections to justify the Company's ever-increasing capacity supply.

2. **Global Crossing Used Projections Of Demand That It Knew Were Inaccurate**

Throughout the class period, Global Crossing repeatedly reiterated that system upgrades and forecast sale amounts were developed based on analyses performed by an independent consultant.

Further, Global Crossing compounded this misrepresentation by exponentially increasing its capacity supply output through anticipated "upgrades," which created excess capacity that Global Crossing knew it would never sell, and most of which Global Crossing in fact never completed.

In its 1998, 1999 and 2000 Form 10-Ks, Global Crossing disclosed that it included the cost of future upgrades in calculating its cost of goods sold: "Until the entire
System is completed, for purposes of calculating cost of sales, the total System costs incurred will include an estimate of remaining costs to be incurred to complete the entire System plus the cost of System upgrades that management has the intent and ability to complete, provided the need for such upgrades is supported by a third party consultant’s independent revenue forecast.”

347. This disclosure was misleading, however, because Global Crossing did not disclose that the real reason it included these anticipated “upgrades” was because it could exponentially increase its capacity output with minimal additional cost. Because Global Crossing used financial projections anticipating that the Company would sell 100% of whatever capacity it could produce, when it knew this was not the case, it could reduce its reported costs exponentially simply by increasing its so-called projected capacity output. Based on the accounting scheme it employed to allocate costs in IRU sales, increasing capacity output permitted the Company to minimize the reported costs of each IRU sold.

348. The dramatic effect that these anticipated “upgrades” had on the Company’s accounting for its costs is revealed in a “Business Proposal” the Global Crossing Board used to justify “upgrading” the Atlantic Crossing system:

Upgrades of the system reduce the per circuit cost of capacity from an initial $2.9MM/circuit at 40Gbps of initial service capacity to $290,000 incremental cost/STM-1. The net effect is to double system capacity to 80Gbps for only 10% of the initial investment. The average cost per circuit will decline from $2.9MM to $1.6MM after the first upgrade to 512 STM-1’s and to $950,000 after the second upgrade to 1,024 STM-1’s. If the current testing program proves that AC-1 can be upgraded to 1,536 STM-1’s, the average cost per circuit will decline to $635,000.

349. Unbeknownst to investors, however, Global Crossing knew that the projections it used to estimate future demand and capacity sales were bogus. In 1998 Global Crossing retained Thomas Soja (“Soja”), a Senior Analyst and Director of Submarine Cable Research at KMI Research Associates to complete a market demand analysis. In this so-called “study” Soja
projected transatlantic bandwidth demand growing at the rate of 85% per year through 2003, effectively doubling demand every 15 months. Soja's work formed the basis for GX to upgrade AC-1 from 256 circuits to 1024 circuits and the related circuit-for-circuit increase in projected future sales. The dramatic four-fold increase in estimated future sales allowed GX to increase its reported capacity profits on AC-1 by more than 70%, effectively increasing capacity profits by several hundreds of millions of dollars.

350. Later that year, Soja, apparently realizing the lucrative nature of his "niche" business, founded T Soja & Associates, Inc. and thereafter became the darling of the telecom industry and, perhaps, the largest cheerleader for outrageous demand in the market. His current resume boasts that his innovative approach to market studies was partially responsible for raising over $5 billion of capital by companies in the telecommunication industry including GX.

351. In December of 1998, Soja updated its market study for AC-1 with demand estimates that continued to defy gravity while having only a moderate effect on selling prices. Soja projected annual sale growth rates of 75% to 99% over the next 10 years while selling prices dropped only 20% in 1999 and 30% a year thereafter. The result was cumulative circuit sales of almost 27,000 circuits and over $10 billion of revenue through 2007 with the demand continuing unabated through 2015 the last year included in the study.

352. Global Crossing knew that Soja's demand projections were utterly ridiculous because even at that early date, Global Crossing was never "selling" capacity at the rate that Soja had predicted. However, Soja's results served as a good cover to allow GX to grossly overstate their operating results. In preparing their 1999 budget, which served as the basis for giving financial guidance to investors, GX was able to utilize the Soja study to support their claim that AC-1 would be upgraded to 1024 circuits, quadrupling the current capacity, all of which would
be sold by 2004 at prices that declined only modestly over the same time period. The effect of this change allowed GX to reduce its AC-1 costs of capacity sales by 35% or over $70m in 1999 alone. Although GX clung to the claim in its six year analysis that all the capacity would be sold by 2004 it did reduce the demand for circuits in 1999 through 2001 by projecting only 210 circuit sales during those three years which essentially projected a decline in annual sales of 25% coupled with a huge surge in demand in 2002 through 2004.

353. Thus, even as early as January of 1999, Global Crossing knew that demand for IRU capacity was waning, but it nonetheless continued to tout its reliance on Soja, its so-called “independent third party consultant” to justify its projection that it would sell 100% of its projected, upgraded capacity without disclosing two critical factors: (1) the market for circuits would experience a severe downturn during the next three years that may affect the very survival of the company; and (2) with a stroke of the pen, GX was able to quadruple capacity sales, of which over 60% of the circuits were not projected to be sold for another five to six years, which reduced its cost of capacity sold by over 35% adding $70 million of capacity profit in 1999 with the potential for $60 million more in 2000, an additional $40 million in 2001 and a further $50 million in 2002. In other words, GX was able to increase its capacity profits by over $220 million over the next four years without selling all the circuits in the first upgrade from 256 circuits to 512 circuits and without ever selling any circuits included in the second capacity upgrade from 512 circuits to 1024 circuits.

354. In January of 2001, as the price of IRU capacity plummeted, Global Crossing was forced again to justify its ever increasing capacity in an effort to continue to hide its costs. It accomplished this by yet again doubling the estimated capacity that the Company would sell. In an environment that saw capacity prices plunging by 50% annually with capacity demand
dissolving, Global Crossing was left with no other choice other than to double projected sales yet again to 2,300 circuits on Atlantic Crossing otherwise the Company was faced with a massive write down of assets in the order of magnitude of hundreds of millions of dollars on AC alone. Although actual results for the last half of 2000 indicated an annual circuit sale run rate of 14%, GX discarded this historical fact and instead projected 2001 circuits sales of almost four times that level with another 109% sales growth increase in 2002 followed by continued aggressive annual sales growth of 73% in 2003 and 36% in 2004. The analysis, although riddled with fictitious assumptions, served its designed purpose which was to hide the Company’s true costs.

355. The net effect of Global Crossing’s use of knowingly inflated demand projections was to reduce the costs the Company reported in any given period. As a result, throughout the class period, Global Crossing materially overstated its reported profits on capacity sales.

356. For example, Global Crossing knew that its reported cost of goods on IRU sales in 1999, all of which were derived from sales-type lease accounting, was understated by at least $150 million.

P. Asia Global Crossing’s Multiple Schemes To Artificially Inflate Its Financials

357. Asia Global Crossing, just like Global Crossing, engaged in economically worthless, fraudulent swap transactions to make it appear as if its business was growing and that it was generating revenues. Some of these swaps even involved Asia Global Crossing’s affiliated companies such as Hutchison Global Crossing (“HGC”), Pacific Crossing, and IXNet. Global Crossing and Asia Global Crossing also manipulated many of the swap transactions so that both companies could record and tout sizeable revenues from the same deal – sometimes referred to as “paired deals.”
358. What Asia Global Crossing reported to the public as supposed synergies created by the operations of certain of its subsidiaries, including Pacific Crossing, HGC, and Global Access Limited ("GAL") were actually capacity-swap agreements with other telecom companies, including Asia Global Crossing's own affiliates. In an e-mail to Riesenfeld dated March 23, 2001, a manager of the finance department at Asia Global Crossing aptly characterized the true, undisclosed relationship of HGC and GAL: "It occurs to me that we have create[d] our own little Asia Cable Club. Its kinda like Qwest and GX buying from each other at the end of every quarter. Now we can do the same just within the affiliated group of companies! We save HGC, HGC saves us."

359. For example, in the first quarter of 2001, Global Crossing entered into two notorious swap transactions with Qwest (valued at $105 million) and 360 Networks (valued at $200 million). However, internal Asia Global Crossing financial reports reveal that Asia Global Crossing itself recorded over $96 million of "Proportionate Cash Revenue" and over $119 million of cash revenue from the Global Crossing/Qwest swap, and over $52 million of "Proportionate Cash Revenue" and $95 million of Cash Revenue from the Global Crossing/360Networks swap. Thus, the total impact to Asia Global Crossing's financial results from those two Global Crossing transactions alone in the first quarter 2001 was the recording of over $148.2 million as "Proportionate Cash Revenue" and over $214.9 million as cash revenue. Although this revenue was included in its financial statements provided to the public, Asia Global Crossing never received any of this reported revenue.

360. Asia Global Crossing continued to record revenue from paired deals for the second quarter of 2001 to the tune of $126.4 million in "Proportionate Cash Revenue" from swaps between Global Crossing and Qwest, Cable & Wireless, Flag Telecom, DaCom and China
NetCom. In the third quarter of 2001, Asia Global Crossing recognized $32.7 million and $38.7 million in "Proportionate Cash Revenue" and "Cash Revenue," respectively, for swap deals between Global Crossing and other third parties including Flag Telecom, Sita Equant, Hanaro and New World Telecom. Finally, in the fourth quarter of 2001, Asia Global Crossing recognized $39.7 million and over $46.5 million in "Proportionate Cash Revenue" and "Cash Revenue," respectively, for swap deals involving China NetCom, WorldCom and TFN. Once again, Asia Global Crossing never received any of this reported revenue.

361. Asia Global Crossing knowingly and recklessly omitted key details of the paired deals from information disclosed to the public. In an e-mail dated July 27, 2001 from Cliff Chau to Riesenfeld and other Asia Global Crossing employees, Chau wrote:

I believe that we need to make some disclosure regarding the paired deals in the earnings release. I had a discussion with Mark Fagan, our AA [Andersen] audit partner. He is comfortable if we make no less disclosure than what [Global Crossing] did in Q1... In terms of exact wordings, I think Stefan [Riesenfeld] will be the master. I believe we had disclosure of category I transactions in Q1. We do not need any disclosure for category II (AA agreed already). We should follow [Global Crossing] disclosure for category III (true paired transactions).

362. Global Crossing and Asia Global Crossing used the phrase "revenue shredding" to describe the method which was used to allocate revenue generated from sales and swaps of network capacity to their operating subsidiaries and third party system owners. They played a shell game with their reported revenue: fraudulently allocating revenue between various subsidiaries and affiliates so that they could double-count the revenues. They did this by recording and reporting revenues of a "fair value" capacity measurement rather than a measure tied to the sale price.

363. In a letter attached to an e-mail dated March 25, 2001 from Riesenfeld to Perrone of Global Crossing, Riesenfeld stated:
Every time I think I understand the financials around here, I run into something else that makes me wonder.

* * *

It seems that when a deal is accepted, we should allocate the revenue first to contractually determine amounts due to third parties and then allocate any residual across systems that we own 100% of and residual margin.

The important issue here is that the amount we are legally required to pay third parties should take precedence over what we think the theoretical "fair" price is. In the first instance, actual market transactions should be the best measure of "fair value," and secondly, we can't re-cut the contractual deal. If that leaves less than we would like or think "fair" for our systems or margin that is our problem and should have been factored into our decision to take the deal.

What I'm told is that we allocate revenue not by contractual requirement, but by a theoretical "fair market value" relationship. This makes sense where we don't have third part negotiation to determine price, but I find it hard to understand how it overrides negotiated prices to our partners, and deals negotiated knowing what those prices are.

We have to do the proportionate revenue shred based on actual cash that will flow to system owners. This is done based on contractual agreements, not theoretical "fair market value." Any other shred is in addition to this, not instead of this, and raises the question of why it is different.

364. In addition, just as Global Crossing had abandoned any pretense of exchanging different "kinds" of capacity by selling GNOs, Asia Global Crossing similarly sold GNOs as Asia Network Offers ("ANOs"). As with Global Crossing, these GNOs and ANOs were complete shams.

365. Aside from the paired deals, GNOs and ANOs, Asia Global Crossing also entered into its own swap deals during the AGX Class Period for which there was no business purpose and for which the Company improperly recorded and touted revenues. According to Asia Global Crossing internal reports, in the fourth quarter of 2000, Asia Global Crossing had swap deals with, among others: 360Networks ($21 million); Teleglobe ($12.6 million); Seatel ($11.2 million); DTAG ($11 million); NTT ($10 million); and DaCom ($1.8 million). Thus, swap deals
accounted for 37.9% of Asia Global Crossing's cash revenues that quarter. During this same period, total GAAP revenue was only $23.2 million. In the first quarter of 2001, Asia Global Crossing had swap deals with: Cross Wave ($25 million); Sita Equant ($5.3 million); DaCom ($3.78 million); Digital Island ($6.2 million) and Taiwan Fixed Network ("TFN") ($5.5 mil.). In the second quarter of 2001, Asia Global Crossing had swap deals with, among others, DaCom ($4 million). For the third quarter of 2001, Asia Global Crossing had swap deals with other companies including China NetCom ($45 million); Flag Telecom ($15 million); Hanaro ($12 million); Sita Equant ($7.4 million); TFN ($3.1 million); New World Telecom ($2.3 million). For the nine months ended September 30, 2001, Asia Global Crossing recorded over $380.8 million in cash revenue from swap deals, or 61.7% of its total cash revenues. In contrast, GAAP revenue for this period was only $74.8 million, thus illustrating the misleading nature of Asia Global Crossing's pro forma measures.

366. These swap deals did not go unnoticed within Asia Global Crossing. In a June 12, 2001 e-mail from Ted Higase to various Asia Global Crossing employees providing a "swap update," Higase revealed that Asia Global Crossing entered into a swap with DaCom for $4 million for a Seoul to Tokyo route and attempted to effectuate a "cashless" deal with Cable & Wireless and Flag Telecom on a Singapore to Hong Kong route. In another e-mail from Higase to Legere and others at Asia Global Crossing dated June 12, 2001 regarding "Swap potential on Flag/EAC," Higase advised that he had a call with Flag Telecom for a potential swap deal worth $30-35 million. Higase conceded that even though Asia Global Crossing and Flag have been negotiating the swap, he had not yet ascertained how Asia Global Crossing would use the capacity. Legere responded on June 13, 2001 requesting that Higase keep him apprised on the deal's progress. Legere did not question or admonish the use of swaps.
367. On August 6, 2001, Higase sent an e-mail concerning a $15-20 million swap with Nava whereby Asia Global Crossing would purchase capacity from Nava and Nava would then pay the "same amount on installation and maintenance contract." In the e-mail, Higase suggested that instead of having Asia Global Crossing sign the capacity agreement with Nava, the Company use one of its subsidiaries (GAL) as a "signing agent." The following day, after concern over the structure of the agreement was expressed, Riesenfeld added in an e-mail to Higase: "I'll work this a bit more, but as I said in Hong Kong, it doesn't feel right and probably won't pass the test. It seems wrong to get GAL into the middle of something they have no connection with - both on accounting grounds and operational grounds."

368. On August 9, 2001, Simon Clayton-Mitchell, an Asia Global Crossing employee, sent an e-mail to Riesenfeld following a meeting that took place earlier that day involving Asia Global Crossing's financial statements. Obviously confused about the Company's financial statements despite the meeting, Clayton-Mitchell asked Riesenfeld a series of questions, including inquiring as to how much money Asia Global Crossing "actually receive[d] as cash in the bank" compared with the "Proportionate Cash Revenue" reported to the public and inquiring as to what percentage of Asia Global Crossing's reported "Proportionate Cash Revenue" Global Crossing received with purchases of capacity on other systems. Riesenfeld began his response by trying to convince Clayton-Mitchell that "[t]he premise is that purchases are different from sales. You get the cash for all the sales. You may then use some of it to buy capacity." Riesenfeld falsely told Clayton-Mitchell that: "In this context, we received cash for all sales." With respect to the Asia Global Crossing/Global Crossing revenue appropriation, Riesenfeld responded: "I won't debate coincidence vs. causality. There is no question that [Global Crossing] has bought a lot from the carriers who purchased on our network, both in the quarter they made
the purchase on our network, and I am sure in other quarters. Big carriers do buy stuff from each other." Clayton-Mitchell was not satisfied with Riesenfeld's responses. He began his own response by writing:

My point at the meeting was that we were taking cash in and sending it back out the door – which [Asia Global Crossing] did, to the tune of 39% of revenues (CSFB described transactions within [Global Crossing] of 21% of their total revenues as "huge"). Additionally, [Global Crossing] provided another 50% of our revenues – yes, I agree, cash to us – via swap transactions. I do believe that this goes to the heart of Charlie's issue – Quality of Earnings! Real demand was small – less than 10% of our revenues.

369. Clayton-Mitchell then asked Riesenfeld how much capacity on the Company's PC-1 cable was needed to be sold to pay off the cost of the construction of the cable. After Riesenfeld advised him that the Company needed to sell "almost all of it (89% +), Clayton-Mitchell responded: "That is ugly – our original thinking was 25% - 33% would cover the cost of construction." Riesenfeld wrote back: "A face only a mother could love."

Q. **Global Crossing's Implosion Begins**

370. On April 5, 2001, Perrone prepared a report on Global Crossing's Results of Operation for 2001. In the Report, Perrone advised that there was a revenue shortfall of over $1 billion.

371. At the same time, certain analysts in Global Crossing's treasury department in Beverly Hills were becoming increasingly concerned about the Company's accounting for the swaps, which was being handled by Perrone and the Company's Madison office. According to Olofson's testimony before Congress, "a number of analysts were working on parts of analysis and some of the statements and footnotes and stuff that were in the 10-Q and people were becoming more and more uneasy, wondered if there were any rules surrounding the accounting for these types of transactions any longer, because originally when we just sold capacity, we
didn't swap it, we had some pretty hard and fast rules. And it didn't seem like these rules applied any longer."

372. During a management meeting on April 9, 2001, attended by, among others, Casey, Cook, Cohrs, Perrone, Gorton, Legere and Dawson, Casey said that the Company needed to reduce expenses and improve revenues and that being 15% below revenue budget was not acceptable. Casey suggested that the Company needed a plan to get above $7.1 billion in commercial data revenue for the year. According to Casey, at the time of the meeting, the Company was $1 billion off on revenue and expenses. Casey stressed, "We need to treat this as a crisis" and suggested the possibility of cutting two thousand employees.

373. During a management meeting on April 16, 2001, Casey said, "We do not have room for more reciprocal deals. The Company is missing revenue running at an expense rate that is ridiculous." Minutes from the management meeting on May 16, 2001, showed expected revenues of $285 million, $360 million short of target.

374. When William Marshall became a Vice President of Global Real Estate in April 2001, he noticed the cash flow problems. "When I first walked in the door, those guys were turning cash pretty fast." At the same time, the entire telecommunications industry was in trouble. Marshall added that by April 2001, "the spigots were turned off in the telecom industry." A project Marshall was assigned to work on, conceived by Walsh, could not be completed because the Company did not have the funds. By September 2001, Marshall was put in charge of disposing of Global Crossing's unused real estate, including its data centers.

375. The significant increase in Global Crossing's capacity swaps during 2001 was known at the highest levels of the Company. In an e-mail dated May 12, 2001, from Cohrs to Walsh, Casey, Perrone and others entitled "Debt Covenants and Capacity Sales", Cohrs advised
that the Company was going to be “tight on our bank covenant as we go through this year.”
Cohrs added that the first quarter results “seriously changed the outlook” and warned the
recipients that, “we have to make our numbers.” On May 15, 2001, Hank Millner responded to
Cohrs e-mail by notifying Perrone and Cohrs that he was concerned that Global Crossing was at
risk of violating a financial covenant at a time when Global Crossing was preparing to release its
financial results for the first quarter of 2001 just 15 days later. The following day, Millner sent
another e-mail to Cohrs, Perrone, Gorten, and others notifying them of the “very serious potential
impact on first quarter EBITDA.” Millner also wrote: “The consequences of violating this
financial covenant are SEVERE and the time period in which to fix it is SHORT.” Noting that
Global Crossing would not want to try to refinance $6 billion under current market conditions,
Millner identified several options. Global Crossing had to improve its ratio of debt to EBITDA,
including changing the classifications of certain capital leases to operating leases. Millner
concluded the e-mail by noting that if Global Crossing decided to try and get a waiver from its
bank group, it would need to decide to do that quickly due to time constraints. But Millner
warned that obtaining a waiver could be costly and may become public.

376. At the same time Global Crossing faced this undisclosed, concealed crisis, the
telecom industry was itself in turmoil. The long-awaited correction in the Internet sector had
begun and coupled with over-capacity, caused a drop in the once-booming stock prices of the
telecom sector. This overall decline in the industry had affected Global's stock price, although
not nearly as much as that of its fellow telecoms, nor nearly as much as would have been caused
by disclosure of the truth. Global Crossing's stock had declined from $16.00 in May 2001 to
$9.00 in June 2001, but Global Crossing still boasted a market capitalization of $7.9 billion. In
fact, the Company was virtually worthless and investors would have realized that had they known the truth.

377. Moreover, Global Crossing was hardly a well-positioned, financially sound company able to weather an industry downturn. Rather, it was a house of cards dependent on the booking of phony sales to companies that were now in financial trouble and beginning to file for Chapter 11. For example, 360 networks, Level 3, Metromedia and Flag, among others, all filed for bankruptcy. Because the "sales" to these companies were not legitimate and had no business substance or purpose, they could not survive once the purported buyer came under bankruptcy court scrutiny. Thus, Global Crossing's swaps scheme would eventually be killed by the demise of its partners in fraud.

378. Global Crossing's solution to the increasing crisis was to ignore Casey's admonition that there was no room for any more reciprocal deals and to conceal Cohr's and Millner's warnings about the bank covenants. The pressure increased to increase swaps.

R. Desperation Sets In As Global Crossing Focuses On Meeting The "Street's" Numbers

379. As with 360Networks, Qwest was a regular swap partner of Global Crossing. As would be revealed months later, Qwest and Global Crossing relied heavily on each other to meet each company's financial targets. As noted above, during the first quarter of 2001, Global Crossing and Qwest exchanged $120 million worth of capacity. In the second quarter of 2001, Qwest sold $115 million in domestic and European capacity to Global Crossing and Global Crossing, in turn, sold to Qwest $100 million East Asian and $19.7 million of Pacific Crossing and Hong Kong to Tokyo capacity. According to a March 24, 2002 memorandum from Mark Iwan, an Andersen auditor, Qwest and Global Crossing exchanged e-mails showing that the two companies were purchasing capacity that they did not want in the long term and that the two
companies had agreed to re-purchase the capacity exchanged at the actual amount paid and not
the fair market value. The e-mails also noted that the capacity swaps were only for the purpose
of helping each company's revenue recognition.

380. In a June 25, 2001 e-mail from Robin Wright to Joggerst, David Walsh and others
at Global Crossing, regarding the Qwest deal for the second quarter of 2001, Wright wrote:

We've agreed to move forward, but I wanted to alert you to an issue that
came up this evening. It has to do with portability. Here's the deal:

In our deals with Qwest, any capacity/ducts/Dark
Fiber that we buy from them has to be activated in
order for them to get revenue recognition. Since in
many cases, we buy a bucket of services, they just
activate what they can and we in turn have the right
to port that to what we want once we decide what
we want. We have always agreed that the value of
that is what we've paid for it, not fair market value.
Our argument has been that we do not want to be
penalized for their revenue recognition roles. Now,
their accountants are insisting that it has to be fair
market value. So, we in turn are adding this to our
agreement on the sell side. In truth, they have more
at risk due to the structure of the deal. In any case,
we have no choice.

Susan [Chase] and I agreed that Greg Casey and David Walsh will talk
sometime tomorrow and just get a gentleman's agreement that we'd work
together to establish pricing at the purchase price.

381. In a June 25, 2001 e-mail from Wright to Chase and Kimberly Stout of Qwest,
Wright wrote:

This is an issue that we keep raising its ugly head. As we agreed, because
we are both being delivered what we probably don't want in the longterm,
we have agreed, on both sides, that the repurchase price is the actual
amount paid, not the fair market value. You both know the issue. We are
taking capacity in order to help with revenue recognition issues.
In response to Wright's e-mail, Chase wrote back to Wright:

I agree with your comments below. It is our intention to keep you whole. The language is in our last agreement. Accounting needs to reflect this in the upgrade and portability language.

382. According to Barrett, prior to completing the swap with Qwest, Wright, who was described as being extremely loyal to Walsh, contacted Coghill in operations to describe the transaction. Coghill informed Wright that Global Crossing did not need the capacity being offered in the swap because it was capacity that Global Crossing already had. Nonetheless, they were ordered to complete it. Barrett asked the sales division why it was purchasing capacity where the Company did not need it. They responded by informing Barrett that what the Company needed, Qwest had not built yet and “you can't swap on futures.”

383. According to an internal Non-recurring Revenue Funnel Summary for the second quarter 2001 dated June 30, 2001 and confirmed by Olofson’s Complaint, Global Crossing completed a record number of last-minute swaps. Those sales included: Telecom Italia for $170 million; Qwest for $95.5 million and $19.72 million; ChinaNet.com for $45 million; EPIK for $40 million; Velocita for $33.6 million; Flag Telecom for $32.5 million; Flag Telecom for $32.5 million and then again for $32.5 million; Cable & Wireless for $30.79 million; New Zealand Telecom for $13.5 million; Nortel for $10 million, Techtel for $9 million; Versatel for $4.4 million and Dacom for $4 million; as well as 28 other smaller transactions.

384. With respect to the $40 million swap with EPIK, according to a Wall Street Journal article dated February 16, 2002 entitled “Global Crossing’s Use of Swaps To Boost Revenue Wasn’t Unusual,” in the Spring 2001, EPIK paid $40 million to Global Crossing for the right to use the Company's Latin American fiber routes. “Exactly offsetting that payment, Global spent $40 million for unspecified future use of EPIK’s facilities, which include a 1,850-
mile fiber network linking Atlanta and Miami. Nearly a year later, Global's engineers still haven't found any use for the facilities, says one current Global official, 'We traded their worthless asset for our valuable asset.” According to the Olofson Complaint, Global Crossing recorded the capacity purchase from EPIK as a capital expenditure and the capacity sale as revenue. By recording the purchase as a capital expenditure, the Company's operating results were not affected by the $40 million cost. The Company did use the $40 million sale to boost the Company's revenues at a time when the fiber business was crashing.

385. Global Crossing also engaged in other swap transactions during the second quarter 2001 intended to artificially bolster the Company's cash revenue and EBITDA. In a deal with Flag Telecom (referred to internally at Global as Flag Telecom No. 2), Global Crossing exchanged the pre-payment of a one year lease of capacity for $32.5 million. Global Crossing improperly booked that $32.5 million in its Cash Revenue, a figure that purportedly only included revenue from the sale of IRUs.

386. On April 2, 2001, Global Crossing held a management meeting to discuss first quarter results. The meeting was attended by Casey, Cook, Gorton, Legere, Dawson, Walsh, Cohrs, Perrone, Clayton and others. The participants discussed that the first quarter ended with revenues between $565 and $570 million. There was a discussion that Global Crossing could not continue running a business wholly dependant on swaps that brought in no real money. According to the minutes of the meeting there was a reminder that no one at the meeting speak about the Company's performance until after its numbers were published. The minutes add that the formal earnings release would be in the middle of May and the message to follow was "we remain comfortable with our guidance."
In an e-mail from Fitzpatrick to Walsh, Joggerst, Grivner, Clayton, John Legere and others dated May 8, 2001 entitled "EOY Carrier Forecast update 08/05/01," Fitzpatrick provided an "Early Warning" to the recipients notifying them that he projected a potential gap in Global Crossing's revenues of approximately $750 million. Fitzpatrick advised:

The cause of the gap seems to be universal. Per unit pricing has fallen 2-3X what anyone originally projected. Everyone of our current & targeted capacity customers have dramatically reduced their 2001 capital budgets. The ISP/ASP markets have virtually dried-up. Many of our larger growth customers from 2000 have recently, or are on the verge of declaring bankruptcy (i.e. Viatel, Teligent, GTS, etc.).

On May 14, 2001, Joggerst sent a memorandum to Walsh entitled "Second Quarter Carrier Revenue." Joggerst began the memo by advising Walsh that "the carrier team has been asked to close $650 million of IRU business in order to support the overall number of Global Crossing this quarter." With six weeks left in the second quarter of 2001, Joggerst advised that Global Crossing has $313 million of projected revenue from its primary targets and $211 million from its secondary targets, although the secondary targets were more "speculative." Joggerst added that because the Company normally closes on 25% of its secondary targets, its projected revenue for the secondary targets was $52 million, bringing the total projected revenue as of May 14 to $365 million, leaving a shortfall of $286 million for the quarter. Joggerst then reviewed a number of potential swap deals Global Crossing could enter into to meet its projected revenue numbers, including a deal with Enron that Joggerst projected could bring between $100-$200 million. Joggerst also identified a $40-50 million deal with Velocita, which he noted was Robert Annunziata's new company and that Velocita wanted to do a reciprocal deal with Global Crossing. Joggerst ended the memo by advising Walsh that he was meeting with WorldCom to do possibly another deal.
389. After reviewing the e-mails dated May 15 and 16, 2001 from Millner notifying Perrone and Cohrs that he was concerned that Global Crossing was at risk of violating a financial covenant at a time when Global Crossing was preparing to release its financial results for the first quarter of 2001 just 15 days later and notifying them of the "very serious potential impact of first quarter EBITDA," Joggerst told Congress:

   I'll tell you, seeing this e-mail, it came as a surprise to me. Myself and I can speak for, I believe, the rest of the sales team. We're not aware that we were anywhere near getting close to breaching debt covenants, that there were the kind of capital constraints. It's normal in any corporation that I've worked for, operations never has enough capital to do what they want to do. Sales never likes the revenue numbers. They're always too high. But to have this come directly from the financing organization saying that there are some severe capital constraints which would lead in 20-20 hindsight for me to agree with [Congressman] Greenwood's comment that there would be no reason to do a number of these transactions.

390. On May 22, 2001, Clayton sent a memorandum to Casey and Perrone entitled "Recurring Revenue Trend," in which Clayton advised that Global Crossing's recurring revenue trend, which was off in April 2001 by more than $30 million, continued. "In total, we are $82.5m behind budget in terms of recurring revenue on a year-to-year basis. The month of May shortfall is approaching $34.8m. We need to take corrective action to stimulate revenue and reverse this negative trend. I would suggest a sales review to discuss recurring revenue and IRU sales for the remainder of the year. We should address not only the forecast but what corrective that we are taking to mitigate the deficit."

391. Noting that Global Crossing salesmen had intensified their efforts to complete additional swaps, on May 31, 2001, Gorton sent an e-mail to Casey, Cohrs, Walsh, John Comparin and Perrone, inquiring as to whether or not the Company was paying its sales people
“the same if they do a ‘reciprocal deal’ (swap) as when they make a straight sale.” Later that day, Casey responded to Gorton:

Let me make sure I understand your position here: If we don't get these deals, we miss our quarters; if we don’t incentivize the sales force, they won’t do these deals. Therefore, unless you have evidence that there are $600 million of non-reciprocal deals out there this quarter (and, of course, increasing amounts in all future quarters) that our sales force is ignoring (out of spite?), we'll change the comp plan in a manner that is almost assured to cause us to lose more than 50% of our IRU business. Do I have that right? If so, please focus on legal issues henceforth. Thanks for sharing.

392. According to handwritten notes from a management meeting held on June 4, 2001, which included Casey, Walsh, Clayton, Perrone and others at Global Crossing, the participants discussed that for the 2nd Quarter 2001, Global Crossing’s estimated revenues were $100 million off budget. According to Gorton’s testimony before Congress, during the meeting, Casey advised that the Company “was going to have to take a restructuring charge or a head count reduction or a real estate consolidation and he said there’s a problem with deferring revenue that may make us, cause us to have to reduce our guidance to the Street down for the rest of the year.” The next day, Gorton called Liz Greenwood, an assistant, and informed her that the Company should “close the window” for allowing insiders to sell Company stock.

393. On June 13, 2001, Global Crossing held a meeting of the board of directors, which was attended by Winnick, Attanasio, Brownstein, Casey, Clayton, Cohen, Cook, Hippeau, Kent, Lagomasino, Cohrs, Gorton, Steven Green, and Mitchell Sussos in New York City. According to the minutes of that meeting, Casey attempted to justify why the Company had not changed its guidance as of its May 10 analyst and investor conference and why it was only now that the trading window was closed. The explanation was:
Mr. Casey explained that the Company had no reason to change its financial guidance at the May 10, 2001 analyst and investors conference, but that approximately two weeks after that date Mr. Perrone began a detailed investigation of the implications of the Company's financial forecast of a protracted downturn in the telecommunications industry. Mr. Perrone stated that the results of his analysis crystalized by June 1, at which point he reported the results to Mr. Casey.

Mr. Gorton stated that he closed the window for trading by corporate insiders and Global Crossing security shortly after the management meeting held on Tuesday, June 4, when Mr. Casey indicated that the Company would likely have to reduce its financial projections. Mr. Gorton explained that, although he had previously been aware of concerns with the Company's second quarter operating results, and the Company's history, it was quite common for such concerns to be expressed during a given quarter only to be resolved through quarter-end sales activity.

394. This was an obvious attempt to obscure the true reason – Winnick had planned a large stock sale which took place on May 23 when he sold $123 million in Global Crossing shares, and any change in guidance or closing of the window would have foreclosed that sale.

395. Cohrs confirmed that Winnick's stock sale had dictated the Company's lack of disclosure. On June 21, 2001, according to the Olofson Complaint, Olofson spoke with Cohrs who was in the process of preparing a press release. Olofson asked Cohrs if the Company was going to reduce guidance for the remainder of the year since the first quarter had been "difficult." Cohrs responded that he could not reduce guidance because Winnick had recently sold approximately 10 million shares.

396. The nature of Winnick's sale further demonstrates his knowledge of the Company's precarious position. Winnick's May 2001 sale was to a private institution pursuant to a "variable prepaid forward contract" subject to a collar. A collar is a device that establishes a price range for an asset, in this case, Winnick's Global Crossing shares. This collar arrangement allowed Winnick to lock in a minimum price for his Global Crossing shares, even if the price of the shares dropped below the low end of the collar range. In exchange for this price protection,
Winnick forfeited the right to sell his shares above the price of the high end of the collar range, thereby evidencing his belief that the share price was likely to decline and unlikely to increase. According to Olofson, Winnick had Goldman Sachs help structure the collar.

397. Within Global, Winnick’s knowledge of the Company’s practices was well-known. Joggerst testified before Congress that as an early employee of Global Crossing, he recalled having weekly sales calls and that Winnick attended every weekly sales call at least for the first six months of his employment, “but [Winnick] was hands on when it came to sales and any large deals that were being done.” Other employees also confirmed that Winnick was very involved with every detail of the Company. Winnick, according to Olofson, was detail oriented and went so far as to pick the flowers on the lunchroom tables and supervised the gardeners landscaping the Company’s Beverly Hills offices. Winnick also reviewed and approved every press release. Calissendorff also said that Winnick chose the bricks that were to be laid in the courtyard of the Company’s offices.

398. Joggerst testified that “Mr. Winnick was definitely aware of reciprocal transactions and, for example . . . had to approve our sending money to 360Networks. That’s one example.” Joggerst also testified that he clearly recalled a conference call with members of Global Crossing’s executive committee, including Winnick and Casey, where either Winnick or Casey said that if the Company did not complete a particular deal, “we won’t make our quarterly numbers.” Joggerst also testified that Winnick and Casey were both aware that “there was a significant amount of consternation in the company where people were questioning whether we would ultimately need the capacity.”

399. Joggerst also testified that Winnick and Casey had known each other for some time and that it was generally assumed within the Company that information given to Casey
would be shared with Winnick. Winnick himself testified before Congress that while Casey was Global Crossing’s chief executive officer, he spoke with Casey “frequently” and “at least once a day.”

400. Joggerst testified before Congress that in order to alleviate the pressure placed on the sales division so that the Company could meet its revenue targets, he engaged upper management: “What we did is say is there any way that we could achieve some large outsourcing deals with the help and support of senior management such as Tom Casey, Gary Winnick and others, and they had oftentimes been involved in the process themselves.” In an e-mail written on Winnick’s behalf on June 11, 2001, to Casey, Winnick advised that he had spoken with Enron’s chief executive officer, Jeff Skilling, and added that, “there are 3 people vying for the business, we’re one of them. They too are looking to do something here by quarter end. I indicated 300 for assets, 900 for reciprocal business. He indicated his people might want to do too. The lines of communication are open.”

401. In an e-mail dated June 6, 2001, from Walsh to Fitzpatrick, Joggerst, and Casey entitled “The Quarter” - “All Hands on Deck”, Walsh advised that Casey was traveling to Beverly Hills the following day to update Winnick and Cook on the outlook for the second quarter 2001 and to advise them that the Company could use the assistance of Winnick and Casey on some deals it was trying to close before the end of the quarter. In the same e-mail, Walsh requested Fitzpatrick and Joggerst prepare an update of completed deals for the quarter and strategic potential deals including deals with WorldCom, Velocita, Emergia, ChinaNet.com, Teléglobal, Flag and Qwest.

402. On June 19, 2001, Gorton forwarded to Winnick an e-mail to Joggerst, dated June 15, 2001, in which Joggerst attached a spreadsheet entitled “2Q01 IRU Big Deal Funnel,” in
which Joggerst identified several IRU transactions that Global Crossing was negotiating and
which were necessary for the Company to meet its projections. Joggerst also identified the
transactions where he wanted help from Global Crossing Board members. Joggerst suggested
that Winnick and Casey work on Net2Phone and Paetec. In forwarding the e-mail to Winnick,
Gorton wrote:

Gary, we have asked Patrick Joggerst to get us a list of target customers
for our Board members to help us on (at your suggestion). Giving that we
are at the end of the quarter, Patrick rightly believes that the only deals
that we should focus on at this critical moment are the IRU deals on the
table. The attachment below has the big deals the Company is working
on. The chart is constantly updated, so it is probably wise to check in with
Patrick or Walsh before a call is actually made to see the current status.

403. According to Barrett, Winnick had the same "hot list" of customers that Walsh
and other sales executives used to make last minute deals at the end of the quarter. The hot list
contained names of Global Crossing carrier customers that would most likely do an end of the
quarter IRU swap.

404. Just two days before the end of the second quarter 2001, Fitzpatrick yet again
recorded his concern with the lack of business purpose of the swaps. In a confidential e-mail
dated June 28, 2001 to Joggerst, Fitzpatrick wrote:

We need to make sure we are all solving for the same problem. We need
the top line revenue by the close of the quarter. In order to get it we need
to spend a reciprocal amount with key carriers. In this case Qwest. Our
option is to spend the same amount of cash and end up with nothing. I
want to make sure the three of us are 100% together regarding the fact the
Eastern European market (Vienna-Prague), nor the Scandinavian market
(up to Helsinki) would support the numbers that are stated in the attached
business case. The Euro market is crashing. No one is spending $700
million on these roots.

I feel like we (you & I) are putting our names and careers on the line
supporting this type of transaction without having a discussion with the
other officers about what we are really doing. I'm sure there is a bigger
deal/discussion taking place that we have not yet been invited to. . . . .
let's discuss.

405. Just a few days prior to the end of the second quarter 2001, Joggerst sent an e-mail to Walsh, Wright, Gorton, Casey, Fitzpatrick and others updating the group on four deals the Company was trying to close by the end of the quarter. Joggerst advised that the Company was completing a reciprocal deal with Epik worth $40 million and another reciprocal deal with Velocita worth $25-50 million. In the e-mail, Joggerst disclosed that he had spoken with Annunziata in an effort to get Velocita to agree to double the size of its swap. Joggerst also disclosed that Global Crossing was attempting to do a deal with Emer gia/Telefonica for $60 million and a deal with Enron for approximately $100 million.

406. Less than 2 days before the end of the second quarter 2001, Joggerst sent another e-mail to several individuals at Global Crossing, including Dawson and Wright entitled "REVENUE OPPORTUNITY - WE NEED IT!" In this e-mail, Joggerst advised that Global Crossing was hurriedly attempting to close a new deal with Flag in which the companies would exchange capacity. Specifically, Joggerst advised that Flag wanted to accelerate their purchase of Latin American capacity for approximately $30 million, but wanted to condition the closing of the deal on Global Crossing's purchasing $40 million worth of capacity from Flag. Joggerst also notes that Flag and Global Crossing would pay each other 5% for service and maintenance costs. Joggerst ended the e-mail by writing "ugly - yes, we need it!!"

407. Virtually minutes before the end of the second quarter of 2001, Global Crossing finally agreed to a swap with Velocita for $33.6 million. According to Global Crossing's internal Business Case Executive Summary dated June 22, 2001, Joggerst was the Executive Sponsor of the transaction. The Executive Summary Description read: "This 23 year agreement with Velocita adds 12 dark fiber strands to the US Crossing network in a figure eight configuration
throughout Florida." The Summary was approved by Cohrs, Dawson, John Lougo, Global Crossing Product Management and Matt Gutierrez, Global Crossing Capital Management, all of whom purportedly signed the Summary on June 29, 2001. The Summary was not signed by Casey, Walsh, Grivner, or Omar Altaji, despite their signatures being required for approval.

408. However, Dawson, knowing Global Crossing did not have a need for all of the capacity it was acquiring from Velocita as part of the swap, conditioned his approval of the Velocita swap deal. At the bottom of the signature page of the Executive Summary, Dawson wrote: "Approval on the understanding that the dark fiber is being purchased in anticipation of use on sale to [Deutsche Telekom]." Dawson ended up having a legitimate basis for his concern with the lack of a business purpose. Global Crossing completed the deal, but never sold the dark fiber.

409. The Velocita deal closed just at the end of the second quarter. In an e-mail dated June 29, 2001, Bernard Calissendorff, an accounting manager at Global Crossing, wrote to Steven Caves: "Today (6/29/01) we were instructed by Treasury (as instructed by Dan Cohrs) to issue a $33,614,546.00 check to PF.NET CONSTRUCTION CORP. for 'Fiber purchase pursuant to the Dark Fiber IRU Agreement dated June 29, 2001.'" Calissendorff noted how quickly the transaction was put together to beat the second quarter: "Because the turnaround requirement on this payment request was a matter of minutes we were not able to confirm correct coding."

410. On July 9, 2001, a management meeting was held with Casey, Perrone, Cohrs (by telephone), Gorton, Clayton (by telephone), Rios, Comparin, Grivner and Sherri Cook in attendance. During the meeting, the participants discussed whether the Company should wait until after Global Crossing had the numbers for the impending second quarter earnings announcement before announcing a plan to layoff a significant number of employees. One of the
participants advised that the layoffs could not wait and had to be announced by July 16. During the meeting, the participants discussed having Cohrs do a "mini-earnings" announcement. There was discussion about whether the announcement should include planned: (1) real estate closures; (2) restructuring charges; and (3) guidance for the rest of the year. In order to soften the blow, the participants discussed having a "flash announcement" touting the Company's Recurring Adjusted EBITDA (which they pointed out exceeded the average analyst forecast) and Cash Revenue (which they pointed out met the average analyst forecast). The participants also discussed what the Company should disclose about guidance for the rest of the year and what it should disclose about "reciprocal deals."

411. Of course, Global Crossing’s swap efforts did not help its cash flow situation. According to David Abruzzese, a former controller at Global Crossing, in September 2001, he and Derek Winch, another former controller, were put into a room in the Company's Madison headquarters and given the sole task of deciding to whom Global Crossing would issue checks because the Company was not able to pay its vendors due to a continued shortage of cash.

412. In an e-mail dated July 14, 2001, to Joggerst from Tom Casey regarding the forecast for the second half of 2001, Casey advises Joggerst:

The Carrier group is missing its revenue numbers badly and its forecast for the 2nd half keeps getting worse. While I know that you mostly focus on the big IRU deals, I need you to figure out what is going on in the rest of the group and identify some specific actions that will increase the revenue over the rest of this year. If there are actions that other parts of the company need to take, be prepared to identify them. We can't do well - or even acceptably - with such a big part of the revenue base declining - and, given the US and international reach we have, combined with the financial instability and Cap ex constraints of most of our competitors - I don't understand the reason for it.

I do not want to hear about how your part of the business is just going to continue to erode when we meet next week. I want to know what you guys are going to do to turn it around - starting immediately.
Forewarned is forearmed, as someone once said.

Joggerst testified before Congress that Casey's e-mail was an example of the pressure the Company was under to meet its quarterly revenue numbers.

413. In an e-mail from Walsh dated August 10, 2001, to Fitzpatrick and Joggerst, and cc'd to Cook, Casey, Legere, Clayton, Winnick and others at Global Crossing entitled "Big Deal Battle Plan," Walsh wrote:

We need to put a battle plan together on the accounts listed below. Winnick wants to make sure we are putting the right amount of energy in the right places. We need an overall plan for each of the following "A" accounts:

- France Telecom - assisted by Tom Casey
- C&W - assisted by Carl Griivner and Chris Nash
- Telephonica - assisted by Jose Antonio
- Telellobe - assisted by John Legere
- BellSouth - assisted by Lod Cook
- Verizon - assisted by Tom Casey
- WorldCom - assisted by Gary Winnick and John Legere
- DTAG - assisted by Wim Huisman and Joe Clayton

We need some out-of-the-box thinking and a real team effort. We also need to put together a list of "B" accounts. I would like to hear your thoughts on who should be included on that list. My suggestion would be to include the likes of Enron, ElPaso, Level 3 and Telmex. Please frame out these accounts into simple one page deal summaries that can be used for discussion purposes at our next Executive meeting.

414. In an e-mail from Joggerst to his sales team dated August 14, 2001, Joggerst advised that "Gary Winnick, Tom Casey and David Walsh have asked Carrier Sales and Corporate development to work together to come up with creative deals that we can tee up for 3rd and 4th quarter this year."

415. In an e-mail dated August 29, 2000, from Wright to seven Global Crossing employees including Joggerst and Fitzpatrick, Wright expressed concern about the Company meeting its 2001 revenue targets through the use of IRUs:
I am very concerned about the number for IRUs here. From what I see (and maybe I'm reading this wrong), if I take out $201 million for [Global Crossing North America], it leaves me around $820 million for international IRUs for North America. If I have a VERY good 4Q, I may make the original target of $573 million for 2000. I think a jump from there to $820 million is unreasonable.

416. The following day, August 30, 2000, Wright sent an e-mail to Walsh again expressing concern about Global Crossing's use of IRU sales to meet its revenue targets:

I am very concerned with the IRU number. . . . I think the IRU number ends up being the plug number in order to meet the street's expectations.

417. In another e-mail dated August 30, 2002, to Wright and others from Gary Breauinger, Breauinger stated:

The idea was to plan for the need to subsidize the recurring revenue/EBITDA now and not as a firesale before each quarter end as we see we are not making our targets. Even with the current suggested mix, we still miss recurring EBITDA and revenue targets that meet ADJ. EBITDA and Cash revenue targets.

418. Breauinger concluded his e-mail by saying, "We clearly want targets that are achievable, drive the right P&L and Capital Impacts, but still NEED to MEET Wall Street expectations."

419. The Company's ability to enter into a sufficient number of reciprocal agreements was becoming increasingly more difficult towards the end of the third quarter of 2001. In an e-mail from Fitzpatrick to Walsh, Joggerst and Clayton, Fitzpatrick noted that there was a huge gap in the amount of IRU sales for the quarter compared with the Company's target. Fitzpatrick listed a number of possible transactions that Global Crossing could enter into before the end of the quarter, stating that "no one on the team is suggesting that we enter into any of the following deals under normal operating conditions. Each of the deals require almost a 1:1 reciprocal purchase on our behalf. We will need to align upwards of $500-600 million in cash to execute
the following." Fitzpatrick then listed various potential swap partners and the amount of capacity and type of capacity that could be swapped before the end of the quarter. Fitzpatrick concluded by telling the recipients of the e-mail:

> It is important for you to know that many members of our senior (carrier) team have approached me looking for guidance when it comes to these "type" deals. They are very concerned that, (1) we have entered a stage that we might not be able to recover from, and (2) they will become labeled somehow as the one who did "that" deal. I know that we are operating at some of the hardest times of our careers but we need to make sure we do not destroy the team that got us here at the same time.

420. In August 2001, Carey instructed Ron Arat, a network planner, to develop a database of capacity acquired by Global Crossing in swap deals. The purpose of the database was to define the Company's unused capacity so that Global Crossing could attempt to integrate it with the Global Crossing network. If the unused capacity was redundant or was going to cost too much to integrate into the network, the plan was to sell it to another carrier. Arat created the database using Access software with a long list of categories including: the type of capacity; the capacity boundaries (origin and termination of bandwidth); the type of bandwidth; the cost of the capacity; the Global Crossing sales contact on the swap; and the projected amount Global Crossing could get by selling the capacity. Steven Safarak and Carl Alu assisted Arat with the project, which was chaired by Carey. According to Arat, about 75% of the capacity he reviewed could not possibly be integrated into Global Crossing's network. Arat also added that Global Crossing had done swaps for a significant amount of unidentified capacity and they could not figure out how to account for those deals.

421. Arat recalled a meeting during third quarter 2001 with Rich Mondello; Carey and Alu at which Mondello was very upset because certain capacity purchased by Global Crossing in a swap had not been integrated into the Company's network despite his having received
assurances that Global Crossing had a business use for the capacity when Mondello approved the deal.

422. By the end of the 3rd Quarter 2001, even more Global Crossing employees were expressing concern about the swaps. In an e-mail dated September 25, 2001 from Joe Wong to Robert Yaremko and Matthew Gutierrez, Wong advised:

the problem with the other deals is that sales folks don't know what exactly they're getting and product guys haven't figured out what to do with those assets and GNO buckets, so this business case guy is stuck since there's no direction given. What makes it worst is that a lot of the assets we're getting, I don't think we can justify them (e.g. the cases will be NPV negative). For example, by the time we're selling the transatlantic waves from the dishnet deal, we'll be losing around $1 million to $2 million per wave and that's before I even account for the P&L expense items. I wish this company would just come clean with the Street regarding our guidance. This swap crap is going to kill us in the long run and I am personally very fed up with this business case garbage. If the cases are not some required documentation for revenue recognition purposes, I suggest that we kill these case requirements or loosen the expectations on them.

423. Because of concern about the increasing number of disgruntled employees, Wright wrote in an e-mail dated September 26, 2001 to Jim Cali:

You need to get on your team right away about this. They are inundating the sales team with their opinions about the deals and frankly, we are WAY too far down the road to let everyone weigh in on these. We have tried to include people all along and are now in the position to leave it to sales to do the best deal possible. As far as we know, the decision has been made to figure out how to make our quarterly commitment and that we are not backing away from any deals on the table. If you or your team have different direction, this would be an excellent time to let us know. Otherwise we need to proceed and let the senior management team make the final call at the nightly reviews.

Ten minutes after receiving that e-mail, Cali responded to Wright as follows:

If we are moving ahead with these deals regardless of the product management input that's fine. Then I don't see why we are being asked what capacity we need in all these regions if the input is disregarded anyway. All they are doing is replying to inquiries we are receiving. It
has been driven home we are going to be the group responsible for margin and revenue and it appears the individuals are just informing you of the "real" reality of what these deals mean to us at the end of the day.

424. In an e-mail dated September 26, 2001, from Joggerst to Walsh, Casey and Gorton concerning a pending deal from Global Crossing and Tycom for the third quarter 2001, Joggerst wrote that PwC, Tycom's auditors, was an obstacle to a swap transaction Global wanted to complete:

Just got off the phone with Brian Roussel = my counterpart at Tycom. It had [Andersen] and [Pricewaterhousecoopers] together all day and think that PWC will not give them the accounting treatment they need - this is on the structure that Perrone suggested and their CFO agreed to: we are buying transatlantic waves under a capital lease IRU. They are buying their GNO from us structured as an operating lease. Even THAT may not be allowed. The suggestion that Brian Roussel had was for Tycom to buy from [Global Crossing], we can buy from Dishnet and Dishnet buys from Tycom - essentially putting Dishnet in the middle. This could work if Tycom agrees to a "quiet enjoyment" letter for us stating that if Siva doesn't pay or get financing, or anything, that they won't turn us off. We have a rather strongly worded letter that Tycom is already reviewing which we ask for as security for the Dishnet deal.

I talked to Perrone about this and he is willing to discuss it with AA and PWC national partners in the morning to try to instill some sanity to the process. We are still proceeding with both deals separately for now.

Just when you thought it was ugly . . . .

425. There were two swaps in particular that David Brown, a global product manager, recalled the Company entering into for capacity it did not need. In late 2001, Global Crossing did a swap deal with Ebone for a "couple million" dollars for capacity to London when, at the time, Global Crossing "had all the capacity [it] needed across to London on our own fiber." Brown also recalled another deal for capacity in Rio de Janeiro that Brown referred to as a "stranded asset" because to make use of it, Global Crossing would have had to build out its network to reach the fiber.
It was well known within the Company that the capacity the Company had acquired through the swaps could not be sold because it was worthless. In an e-mail dated November 29, 2001 from Jami Delorimier to Chris Nash and Patrick Joggerst entitled “Asset Disposition,” Delorimier writes:

[Joggerst's] group has been charged with disposing approximately $100 worth of fiber and wavelength assets that we purchased from Qwest but have now decided not to integrate into our network.

This will be a really hard sell within the carrier community - we have no visibility, no control, etc.

I think the better play might be to offer these as “distressed assets” to a distressed asset focused company. One of those that we constantly hear are bottomfishing the bankruptcy courts.

Meanwhile, Global Crossing’s cash situation was so bad that, according to Calissendorff, in the latter half of 2001, Global Crossing started drawing down on its credit facility and moving the cash from bank to bank.

S. Other Accounting Manipulations

Global Crossing’s improper accounting was not limited to swaps. In May 2001, Ripal Patel, an accounting manager who worked out of Global Crossing’s Madison, New Jersey office, e-mailed Calissendorff, an accounting manager in Global Crossing’s Beverly Hills office, to notify him that the Company was in the process of changing the classification of the Company’s eleven year lease on its Madison, New Jersey office building from an operating lease to a capital lease. This lease reclassification would convert monthly rent expenses into interest and depreciation, which were excluded from the Company’s EBITDA calculation.

Knowing that a change to the classification of the lease would be improper and violate GAAP, Calissendorff refused to make the change and informed Patel that the change would be improper. In an e-mail from Calissendorff to Patel, Calissendorff asked, “Do you know
who made the decision to capitalize this lease, it doesn't make sense." Calissendorff also complained to Mike Markley, the vice-president of Global Crossing's internal audit department, but, according to Calissendorff, Markley, who he characterized as a "team player," "was not concerned about it" and did nothing. Calissendorff then complained to Olofson, who agreed that the lease should not be capitalized.

430. Despite Calissendorf's refusal and complaint, and the obvious GAAP violations involved with the change in classification, just before the second quarter 2001 ended, Global Crossing changed the classification of the Madison lease to a capital lease retroactive to January 1, 2001, the practical effect of which was to falsely increase Global Crossing's recurring adjusted EBITDA by $1.38 million.

T. A Whistleblower Emerges - Only To Be Squelched

431. While it would not be known to the public for another six months, on August 6, 2001, Roy Olofson, a vice president of finance, took the extraordinary step of notifying Gorton, Global Crossing's General Counsel and Chief Ethics Officer, and a former partner at Simpson Thacher, of the accounting fraud taking place at the Company. As the Vice President of Finance, Olofson was responsible for the Company's accounting and financial reporting functions.

432. Olofson, who joined Global Crossing in 1998 with over 28 years of senior financial management experience, wrote the letter after returning from a 3-month medical leave between March and May 2001. Olofson testified at a Congressional hearing that while he was on leave, he "learned that Global [Crossing] was having a very difficult time meeting its first quarter revenue projections. I later learned that Global [Crossing] ultimately was able to meet its number in part due to some large, last-minute swap transactions." After returning to work from his short leave, in early May and in June 2001, Olofson expressed his concern to Perrone about
the manner in which the Company was accounting for swaps. Perrone told Olofson only that
Global Crossing was "getting out of the IRU business."

433. Olofson told Congress that his subsequent review of sales reports showed that
approximately 13 of the 18 largest IRU transactions completed in the second quarter of 2001
"were last minute swaps where identical or substantially identical amounts of cash were being
exchanged along with the underlying capacity."

434. After Casey had deceived the participants in the analyst conference call for the
second quarter by telling them that there had been no swaps in that quarter, a lie that he had
previously told the analysts during the first quarter conference call, Olofson wrote a letter to
Gorton dated August 6, 2001 outlining his concerns (the "Whistleblower Letter").

435. In the Whistleblower Letter, Olofson told Gorton that he was "very disturbed" by
information he had received regarding certain "accounting and financial reporting matters" at
Global Crossing and was "concerned that investors and commercial bankers may have been
intentionally misled about [Global Crossing's] reported Cash Revenues, Adjusted EBITDA, Net
Earnings, etc. during the three quarters ended June 30, 2001." The Whistleblower Letter focused
on three areas: (1) "Cash Revenues and Adjusted EBITDA metrics are misleading;" (2)
"Concerns regarding inflated amounts of 'Cash Revenue' and 'Adjusted EBITDA;" and (3)
"Concern about accounting for certain expenses."

436. In the Whistleblower Letter, Olofson advised that Global Crossing created pro
forma standards, Cash Revenue and Adjusted EBITDA, to reportedly show what Global
Crossing's revenues would be had the change in accounting for IRU's not occurred. The
Company used the pro forma standards as a means to tout Global Crossing's financial results. As
an example, Olofson used the headline of the Company's earnings announcement for the first
quarter of 2001 which read: "Global Crossing's Pro Forma Recurring Adjusted EBITDA up 43% and Pro Forma Cash Revenue up 39% from first quarter of 2000." Olofson then explained why these numbers were misleading.

Olofson also told Gorton that the Adjusted EBITDA figures used by Global Crossing in its financial statements and earnings releases were inflated because they included deferred revenue from transactions other than IRU sales that would not have been reported as GAAP revenue prior to FIN 43 including prepaid maintenance services, rents and other services. Olofson added:

It also appears that many IRU sales during the first and second quarters of 2001 are conditioned upon the company having to buy capacity from the customer. It appears that certain transactions may have been structured as cash transactions rather than swaps or non-monetary exchanges to show greater amounts of Cash Revenue and Adjusted EBITDA. By having the cash change hands ("round tripped") it appears that the "sale" is generating positive cash flows. Furthermore the capital expenditure is ignored. It is a win-win for both parties to the transaction because they can each show positive "Cash Revenue" and "Adjusted EBITDA" and their cash balances remain the same. The only negative is that the "purchase" increases capital expenditures. These types of transactions must raise questions about pricing and possibly the use of the acquired capacity.

I have been told that over 80% of the change in cash deferred revenues in the first two quarters of 2001 resulted from swaps or non-monetary exchanges for which the cash may have been "round tripped" (There may be one transaction in the quarter ended March 31, 2001 where the gross amount of the sale transaction was included in cash deferred revenue although only the net amount of cash changed hands.) In other words, less than 20 percent of the change in cash deferred revenue is new cash that the company can use to pay down debt or fund operating expenses. As you know these amounts became so material in the quarters ended March 31 and June 30, 2001 that the earnings release contains language describing certain purchase commitments in the quarters.

Finally, Olofson advised Gorton to investigate certain items that the Company had improperly booked, including: (1) the deferral and offsets of cost of access expenses; (2) the
capitalization of IT integration costs; and (3) the capitalization of the Company's lease for the Madison, New Jersey office.

439. After Gorton received the Whistleblower Letter, he wrote back to Olofson on August 7, 2001, assuring him that his concerns would be fully investigated and asking him to keep his concerns confidential. However, Gorton did not fully investigate Olofson's concerns. There was no investigation because there was no need for an investigation. Olofson was never even interviewed and Gorton did not even forward the Whistleblower Letter to Andersen. Gorton and all Global Crossing's upper management knew that Olofson was exactly right and that Global Crossing had been perpetrating a fraud on the investing public. In fact, Olofson really had no idea of the pervasive and deep-seated nature of the fraud.

440. According to a February 22, 2002 article in the Los Angeles Times, Gorton did engage Simpson Thacher to investigate Olofson's claims. However, Simpson Thacher did not even speak with Olofson, Andersen or Global Crossing's directors about Olofson's claims. They instead accepted management's assurance that the Board and Andersen had discussed the issues already.

U. The Stockholders Lost Everything While The Insiders Made Fortunes

441. Global Crossing and Asia Global Crossing were ultimately revealed as utter frauds upon the investing public, who lost over $47 billion from Global's fraud and over $888 million from Asia Global Crossing's fraud. There was one group of people, however, that made out well. In addition to the professionals like SSB and Andersen and the executives like Scanlon and Casey, Global insiders made a fortune from the sale of Global shares at artificially inflated prices. Winnick cashed in over $860 million of stock over the course of three years. Other insiders sold over $1.5 billion in stock during that time including Porter ($77 million), Cook ($35
million), Lee ($118 million) and Brown ($46 million). The only losers appear to have been the duped public investors

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VI. DEFENDANTS’ FALSE AND MISLEADING STATEMENTS DURING CLASS PERIOD AND THE AGX SUB-CLASS PERIOD

A. Overview

443. Global Crossing’s, the Individual Defendants’, SSB’s, and Andersen’s public disclosures during the Class Period were characterized by numerous misstatements of financial results and condition, omissions of material adverse developments, and deliberate misrepresentations of future prospects. Nonexistent revenues and earnings were reported; the demand for its capacity was materially over inflated; dire cash flow problems were concealed; the value of assets were materially over stated; and transactions were entered into and concealed with no purpose other than to generate materially false revenues and allow Global Crossing to meet its projected earnings and artificially inflate the value of Global Crossing’s securities.

444. The result of these material misstatements and omissions was that Global Crossing’s financial problems were hidden from the investing public and the price of Global Crossing securities were artificially inflated. As a result, investors in Global Crossing securities during the Class Period eventually lost well in excess of $47 billion dollars.

B. Global Crossing’s False And Misleading Statements

1. The February 1, 1999 Earnings Release

commitments for purchases of capacity on the network through the end of the fourth quarter totaled $1.052 billion. Global Crossing reported record contract sales (new orders) of $285 million for the quarter, and a sales backlog of $634 million. The Company also reported fourth-quarter revenues of $205 million, and net income of $56 million, both of which reached new highs.

446. Scanlon, Global Crossing's CEO at the time, stated:

The continuing demand from telecommunications and Internet service providers for global high-speed bandwidth exceeds forecasts and fueled our growth to $1 billion of contract sales . . . To meet that demand, we're aggressively rolling out our global network, moving from the sea onto the land with our announcements of terrestrial networks in Europe and Japan. Our announced network, when completed, will span three continents and address 80% of the world's international traffic.

In 1999, we will introduce customized services including virtual private networks, leased private lines, and internet transit services which will be a new source of revenues . . . We expect sales, customer growth, and cash flow to continue to be strong.

447. The Company reported Adjusted EBITDA of $143 million during the three months ended December 31, 1998 and $261 million during the year ended December 31, 1998. Adjusted EBITDA was defined as follows:

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (Adjusted EBITDA) is calculated as operating income (loss), plus depreciation and amortization, cost of undersea capacity sold, and amounts relating to the termination of the advisory services agreement.

2. The 1998 Annual Report on Form 10-K

equipment ("PP&E") of $6 million and cash and cash equivalents of $807 million. The Company reported total shareholders' equity of $774.32 million and a net loss of $88 million and a $0.38 loss per share in Fiscal 1998, as compared to net loss of $160 thousand and a $0.04 loss per share for the full year ended December 31, 1997. The Company stated that the consolidated financial statements were prepared in accordance with GAAP. Language in the filing also assured investors and analysts that its contents were accurate and in conformity with GAAP. Andersen certified that the financial statements presented fairly, in all material respects, the financial position and cash flows of Global Crossing.

449. The 1998 10-K projected growth and further reported demand for bandwidth capacity as follows:

[Global Crossing] was formed in March 1997 to capitalize on the accelerating growth of international voice and data telecommunications traffic. The significant increase in Internet usage and other bandwidth-intensive applications and the growing use of corporate networks have substantially increased the demand for international fiber optic cable capacity. The proliferation of telecommunications service providers due, in large part, to industry deregulation and privatization of foreign telecommunications companies has further contributed to increased demand for such international cable capacity. Additionally, we believe other technological developments, such as improvements in "last mile" access technology, including DSL, cable modems, broadband wireless technology, and the increasing video content of Internet applications, will result in further capacity demand growth.

450. With respect to its accounting procedures for recognizing proceeds of bandwidth capacity sales, Global Crossing reported in the 1998 10-K only that:

Revenues from the sale of capacity are recognized in the period that the rights and obligations of ownership transfer to the purchaser, which occurs when (i) the purchaser obtains the right to use the capacity, which can only be suspended if the purchaser fails to pay the full purchase price or fulfill its contractual obligations, (ii) the purchaser is obligated to pay OA&M costs and (iii) the segment of the system related to the capacity purchased is available for service.
Accordingly, Global Crossing was routinely recognizing all revenues from capacity sales immediately when the capacity was sold, although they rarely if ever received payment immediately and the costs associated with the sales were amortized over the length of the lease.

451. The statements in paragraphs 445 through 450 were each false and misleading when made at the time issued because they misrepresented or omitted material adverse facts, including that:

(a) Global Crossing’s accounting methods for immediately recognizing as revenue the entire value of IRU sales from long-term leases and payments for repurchasing bandwidth from customers but amortizing costs over the terms of the lease were both improper under APB No.29 and caused a material misrepresentation of Global Crossing's revenues, profitability and the value of its assets. In fact, of the Company's reported revenues, it was later disclosed that the vast majority had been improperly recognized as sales-type leases such that the services should have actually have been amortized over a 25-year period rather than immediately recognized. Global Crossing recognized the revenue from the capacity sales immediately but recorded the cost as a capital expense instead of an operating expense.

(b) Global Crossing falsely represented that demand for bandwidth capacity was robust and “exceed[ing] forecasts” even though the Company knew, at least as early as January of 1999, that demand for capacity was waining and that its public projections for exponential growth were just plain wrong. Nevertheless, based on these false representations of capacity demand, Global Crossing understated its costs of sales by calculating such costs based on anticipated demand that Global Crossing knew did not exist, and sales forecasts that Global Crossing knew it could not achieve. By understating its costs of sales, Global Crossing materially overstated its reported earnings.
(c) Defendants were artificially inflating Global Crossing's operating performance through improper accounting of transactions with other telecommunications companies. In a number of undisclosed transactions, Global Crossing sold capacity on its network to customers who bought capacity back in a "swap" transaction. Global Crossing failed to disclose that these capacity exchanges were reciprocal transactions that were dependent upon each other.

(d) By engaging in reciprocal IRU sales with other telecommunications companies, essentially "swapping" network capacity in exchange for network capacity, and accounting for such exchanges using the fair value of the capacity, Global Crossing artificially inflated its revenue and violated GAAP by recognizing any revenue in connection with such transactions because, under APB No. 29, Global Crossing should have accounted for such exchanges using its historical or cost basis of the capacity relinquished in the transactions.

(e) By accounting for the value of IRUs acquired from other telecommunications companies in reciprocal IRU sales, or so-called "swap" deals, using the fair value of the capacity exchanged, Global Crossing materially overstated the value of its total assets.

(f) The Company's optimistic statements of growth and success were misleading because they omitted that the Company's financial position was distorted by its accounting manipulations and it was far from the success story that had rapidly reached hundreds of millions of dollars in revenues that it portrayed.

(g) By falsely representing the demand for and expected growth of bandwidth capacity, Global Crossing also violated Item 303 of SEC Regulation S-K, 17 C.F.R. pt. 229, which requires, inter alia, that registrants: "Describe any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on the net sales or revenues or income from continuing operations." Global Crossing knew that demand
for bandwidth capacity was waining, but nonetheless chose to mislead investors by touting, without any basis in fact, strong growth that supposedly justified the Company’s rosy economic forecasts.

3. The April 28, 1999 Earnings Release

452. On April 28, 1999, Global Crossing announced its results for the first quarter ended March 31, 1999. First quarter revenues were $178 million, adjusted EBITDA was $95 million and net loss was $15 million. Commenting on the results, Annunziata stated:

   We’re very pleased with our progress in the first quarter. . . . Our expanding sales and customer base, along with soaring demand for telecommunications in Asia, drives our decision today to accelerate to December 31 the initial service date for our Pacific Crossing system connecting Japan and the Americas. . .

This release like every release cited herein and each quarterly filing was, according to testimony before the House of Representatives, prepared with the assistance of Andersen, who reviewed and approved the contents of every release and filing.

4. The First Quarter 1999 10-Q

453. On May 10, 1999, Global Crossing filed with the SEC its Quarterly Report on Form 10-Q for the quarter ended March 31, 1999 (the “First Quarter 1999 10-Q”) signed by Cohrs. Global Crossing reported revenues of $178 million and PP&E of $45 million for the three months ended March 31, 1999. Net loss for the three months ended March 31, 1999 was only $2 million. The Company reported total shareholders’ equity of $772 million.

5. The July 12, 1999 Press Release

454. On July 12, 1999, Global Crossing issued a press release announcing that its second quarter revenues were expected to be approximately $190 million, exceeding analysts’ estimates and the Company’s internal targets. Annunziata is quoted as saying:
Our sales and customer base have continued to expand during the quarter along with the explosive demand for transnational, global telecommunications.

6. **The July 18, 1999 Letter to Shareholders**

On July 18, 1999, Global Crossing released a letter to shareholders, signed by Defendants Winnick, Cook, and Annunziata announcing that the merger agreement with US WEST was terminated. The press release indicated that the Company did not believe that it was in the best interest of the Company's shareholders to further pursue the merger. The Company stated in the press release:

> Financial and management discipline have been hallmarks of Global Crossing since its inception. We have practiced it both in the Frontier transaction and in the transaction involving US WEST.

7. **The August 3, 1999 Earnings Release**

On August 3, 1999, Global Crossing reported financial results for the second quarter ended June 30, 1999. The earnings release stated that, “The company's solid sales performance resulted in revenue higher than analysts' consensus estimates.” Second quarter revenues were $190 million and adjusted EBITDA was $114 million. Income was affected by $8 million of net non-recurring expenses resulting in a reported net loss of $4 million. Commenting on the financial results, Annunziata is quoted as saying, "Our strong revenues in the Atlantic demonstrate the steadily growing demand for bandwidth to serve the international market... We're also seeing growing sales on our other systems around the world, months in advance of their in-service dates, another indicator of future demand. And after we close the Frontier merger, we'll be able to bring their products to the world, over our global network."

8. **The Second Quarter 1999 10-Q**

On August 4, 1999, Global Crossing filed with the SEC its quarterly report on Form 10-Q for the quarter ended June 30, 1999 (the “Second Quarter 1999 10-Q”) signed by
Cohrs. Global Crossing reported that revenues for the three months ended June 30, 1999 increased to $190 million as compared to $101 million for the three months ended June 30, 1998. The Company reported PP&E of $60 million and total shareholders' equity of $795.624 million.

458. The Company reported that its financial statements were prepared in accordance with GAAP and that new accounting standards had taken effect. The Second Quarter 1999 10-Q reported:

NEW ACCOUNTING STANDARDS. . . In June 1999, the Financial Accounting Standards Board (FASB) issued Interpretation No. 43, "Real Estate Sales, an interpretation of FASB Statement No. 66" (FIN 43) which is effective July 1, 1999. Under FIN 43 fiber optic cable system sales are required to be accounted for under SFAS 66. Management does not expect the adoption of FIN 43 to have a material impact on the Company's financial position or results of operations.

9. The Frontier Merger

459. On March 17, 1999, Global Crossing and Frontier Corporation announced that they had signed a definitive merger agreement for a transaction valued at approximately $11.2 billion. The press release stated:

The combination of the two companies will create the first owned and operated global Internet Protocol-based fiber optic network able to provide customers with integrated worldwide Internet, data, long distance, local telephone and conferencing services.

"Merging with Frontier will enable us to greatly accelerate our aggressive growth strategy," said Robert Annunziata, Chief Executive Officer of Global Crossing. "We will now have a strong U.S. infrastructure to complement the IP-based fiber network we are building in Europe, Japan, Mexico, and Central and South America. These are two complementary companies with no overlap, and together we will be ideally positioned to meet the exploding demand for bandwidth to handle Internet, data, video and voice transmissions, and produce outstanding value for our customers, shareholders and employees..."

"This merger creates a global IP powerhouse with unprecedented capacity and scope, and is a natural progression for Frontier's future," said Joseph P. Clayton, Frontier Chief Executive Officer. "By leveraging our combined network assets, integrated services and support systems, the
combined company will be in a unique position to capitalize on the booming global Internet business."


This transaction will give local users in the U.S. and around the world seamless access to a full array of advanced data, voice, and Internet capabilities and services across a cutting-edge global network. The combination will create an aggressive, high-bandwidth communications carrier which will target telecom markets worldwide. U S WEST's advanced technology and more than 25 million customers in the fastest growing region of the U.S. make it an ideal partner as we continue to expand our global infrastructure.

On May 31, 1999, the Los Angeles Business Journal reported that since Global Crossing announced plans to acquire U.S. West, Global Crossing's shares have plummeted 25 percent, due primarily to a lack of enthusiasm for the merger. Reacting to the news, Winnick reportedly told the Los Angeles Business Journal shortly after the U.S. West announcement that Global Crossing is still in "the third inning" of its game plan.

461. Although the US West merger was later abandoned, Global Crossing planned to merge with Frontier and then form a company owned 50% by Global Crossing and Frontier and 50% by US West. At the time of the proposed merger, US West was a former regional Bell operating company providing telecommunications services, including wireline, wireless, digital subscriber line ("DSL") to more than 25 million customers in the U.S. In the press release announcing the proposed merger, Annunziata touted Global Crossing's success:

The transaction will give local users in the U.S. and around the world seamless access to a full array of advanced data, voice, and Internet
capabilities and services across a cutting-edge global network. . . . In addition to global scope and scale, this merger is also about innovation, speed-to-market and superior customer service - true to the vision of Gary Winnick, Global Crossing's founder and largest shareholder.

462. To effectuate the merger with Frontier, Global Crossing filed with the SEC a Registration Statement and Joint Proxy Statement/Prospectus on July 12, 1999, with amendments filed on August 5, 1999 and September 8, 1999 (the "Frontier Registration/Proxy"). Global Crossing initially registered 341,974,990 shares of stock, and subsequently registered an additional 39,143,442 shares of Global Crossing stock pursuant to an amendment to the merger agreement that fixed the exchange ratio at 2.05 shares of Global Crossing common stock per share of Frontier common stock. The exchange ratio was based on the artificially inflated closing price of Global Crossing's stock on September 7, 1999. The Registration Statements and Joint Proxy Statements/Prospectuses included a joint solicitation to shareholders of Global Crossing and Frontier to approve the proposed merger. The Joint Proxy Statement was distributed to Frontier shareholders on or about August 9, 1999, along with a letter Defendant Clayton issued to shareholders dated September 8, 1999 indicating that Frontier's Board of Directors had unanimously determined that the merger was in the best interests of Frontier and the shareholders and recommending to Frontier's shareholders that they vote in favor of the merger.

463. The Frontier Registration/Proxy materials Global Crossing filed in connection with the Frontier merger incorporated the Company's 1998 10-K and its 10-Q's for the first and second quarters of 1999, thereby including, among other things, Global Crossing's consolidated financial statements for the fiscal year ended December 31, 1998, as audited by Andersen, and for the Quarter ended June 30, 1999, which was reported to have been derived from financial statements audited by Andersen. Andersen consented to the use of its audit reports in the
Frontier Registration/Proxy and represented that the Company's financial statements were prepared in conformity with GAAP and fairly presented the financial position of Global Crossing. Defendants Winnick, Cook, Casey, Scanlon, Annunziata, Lee, Porter, Brown, Cohrs, Bloom, Conway, Kehler, Kent, Levine, Phoenix, Raben, Steed, and Weinberger signed the Frontier Registration/Proxy. Defendants Winnick, Brown, Lee, Weinberger, Bloom, Steed, and Cook on behalf of their affiliated trusts and companies signed a voting agreement pursuant to which they agreed to vote to approve transactions contemplated by the proposed Agreement and Plan of Merger with Frontier. Clayton also signed and authorized the Agreement and Plan of Merger, as amended, which was included in the Frontier Registration/Proxy.

In the Frontier Registration/Proxy, Global Crossing reported again that it had adopted new accounting standards in accordance with FIN 43. Global Crossing explained:

Under FIN 43, sales of dark fiber, conduit and capacity related to fiber optic cable, subsea and/or terrestrial systems may be required to be accounted for under SFAS No. 66 based upon the terms of the transactions and components of the assets involved.

Global Crossing has differentiated its accounting policies for terrestrial and subsea capacity based upon the unique characteristics of each asset and has not recognized any revenue on any dark fiber or conduit transactions. Global Crossing believes that its sales of subsea capacity will continue to meet the conditions for sales type lease accounting. Service contract accounting, which amortizes revenues and costs over the lives of the agreements, will be used for Pan European Crossing and Global Access Limited terrestrial capacity transactions when such systems achieve ready-for-service. Furthermore, upon the commencement of service contracts on its subsea systems (which is expected to occur prior to the end of 1999), the carrying value of subsea systems will be depreciated over the remaining economic lives and revenues related to service contracts will be recognized over the terms of the contracts.

Global Crossing further stated that management did not believe that FIN 43 would have any effect on Global Crossing's cash flows or results of operations.
465. Unbeknownst to the Former Frontier shareholders, the Frontier Registration/Proxy, the First Quarter 10-Q's and the Company's earnings and other releases were materially false and misleading for the reasons identified above in paragraph 451.

466. In addition, the Second Quarter 10-Q and the Frontier Proxy/Registration were also false and misleading because of their description of the effect of FIN 43. The Individual Defendants and Andersen knew that FIN 43 would have a devastating impact on the Company's financials as the pronouncement made clear that the Company was not permitted to immediately book revenue due and payable over a 25-year period.

10. The September 16, 1999 Press Release

467. On September 16, 1999, Global Crossing announced the activation of its international control center in London supporting the Global Crossing Network. Commenting on the demand for the Global Crossing Network, the press release stated that:

    The broadband offered by the Global Crossing Network is needed now in Europe and around the world . . . It is needed by the high-capacity voice, data, video and Internet transmissions driving international communications in fields such as business, education, entertainment and research in the next millennium.

    **

    The demand in the European market is enormous, with the intra-European bandwidth market alone estimated at $15 billion a year and predicted to continue at double digit growth for several years.

11. The September 28, 1999 Press Release

468. On September 28, 1999, Global Crossing issued a press release announcing that it had completed its acquisition of Frontier. Under the terms of the transaction, shareholders of Frontier received 2.05 shares of Global Crossing common stock for each share of Frontier, which, based on closing prices of $26.25 per Global Crossing share on Tuesday, September 28, resulted in $ 53.81 of value for each Frontier share. Commenting on the merger, Annunziata said:
This newly merged enterprise will soon bring the benefits of our high-speed fiber optic network directly into businesses and residences around the world . . . As we move forward in the months ahead, we are sharply focused on incorporating the world's latest communications technologies to meet the ever increasing demands of corporations and consumers for broadband capacity.

12. The October 6, 1999 Press Releases

469. On October 6, 1999, Global Crossing issued a press release announcing that its $1 billion North American Crossing network was complete. Responding to concerns about a potential capacity glut, Huff stated:

Although some may talk about a capacity glut, we've experienced just the opposite and we expect that trend to continue into 2000 and well beyond. As Global Crossing builds out to additional landing points around the globe, our U.S. customers will benefit from the only global seamless IP network in the world.

470. Also on October 6, 1999, Global Crossing issued a separate press release announcing that it planned to construct ten new multi-million-dollar mega data centers, known as Global Centers, worldwide over the next year to leverage its global network into web hosting and IP applications businesses into new international markets by mid-2000.

13. The Third Quarter 1999 Earnings Release

471. On October 27, 1999, Global Crossing issued a press release announcing its financial results for the third quarter ended September 30, 1999. The Company reported "record" revenues of $255 million, adjusted EBITDA of $139 million and reported EPS of $0.24 on $107 million in net income. According to the press release, "Recurring Adjusted EBITDA" for the combined companies (taking into account the Frontier merger, the acquisition of Global Marine Systems, and the formation of Asia Global Crossing) was $290 million, up more than 16% from the three months ended September 30, 1998.
The Company also announced that it would now amortize its terrestrial backhaul revenues over 25-year contract lives in accordance with FIN 43. Commenting on the impact of FIN 43, the Company stated:

These accounting treatments have no effect on the Company's cash flow. If this accounting pronouncement had been effective on January 1, 1999, there would not have been a material impact on the Company's results of operations during the year. The Company notes that accounting practice and authoritative guidance on this subject are still evolving, with resolution expected within the next several months.

The adoption of service contract accounting is expected to result in significant deferral of revenues from capacity sales for which cash may have already been received. Therefore, the Company has modified its reporting of Adjusted EBITDA to include the cash portion of the changes in deferred revenue. This definition is consistent with financial covenants contained in the Company's major financing agreements.

This statement was utterly misleading since it suggested that there was a good-faith debate in the "accounting practice" about the propriety of failing to amortize contract revenues. In fact there was no such debate and amortization was, and always had been, clearly required. It was also misleading since it suggested that the primary effect of FIN 43 was to defer the recognition of revenue from sales where cash had been received. In fact, Global Crossing received immediate full payment for very few of its sales. Global Crossing's designation of Adjusted EBITDA to include the cash portion of the change in deferred revenue was similarly misleading since - unbeknownst to investors - this "cash portion" was primarily non-cash capacity swaps.

14. The Third Quarter 1999 10-Q

On November 15, 1999, Global Crossing filed with the SEC its quarterly report on Form 10-Q for the quarter ended September 30, 1999 (the "Third Quarter 1999 10-Q") signed by Cohrs. Global Crossing reported an increase in revenues to $255 million, compared to $118 million for the three months ended September 30, 1998. The Third Quarter 1999 10-Q reported
that the increase was due to carrier services revenue increasing $53 million during the three months ended September 30, 1999. The Company also reported PP&E of $2.076 billion and total shareholders' equity of $9.233 billion.

15. The December 8, 1999 8-K

On December 8, 1999, Global Crossing filed with the SEC a current report on Form 8-K attaching certain recently issued press releases. The press releases included a press release issued on October 29, 1999 announcing that Global Crossing had raised $1.0 billion in preferred convertible stock. The net proceeds were to fund construction of Global Crossing’s fiber optic system and for, acquisitions and other general corporate purposes. In addition, Global Crossing filed a November 12, 1999 press release issued by Global Crossing Holdings announcing the near completion of an offering of $1.1 billion in 9 1/2% Senior Notes Due 2009, and $0.9 billion in 9 1/8% Senior Notes Due 2006, guaranteed by Global Crossing. The press release reported that the proceeds from the offerings were to be used by Global Crossing Holdings primarily to refinance existing indebtedness. On December 8, 1999, Global Crossing also filed a release in which it announced an offering of $500 million in cumulative convertible preferred stock.

In a press release dated January 12, 2000, Global Crossing announced a joint venture with Hutchison to pursue fixed-line telecommunications and Internet opportunities in Hong Kong. Valuing the joint enterprise at $1.2 billion, Global Crossing contributed $400 million in preferred stock, capacity rights and data center-related capabilities purportedly valued at $350 million, as well as $50 million cash. In the release Global Crossing characterized itself as owning the “world's first global fiber optic network with 97,200 announced route miles, serving five continents, 24 countries and more than 200 major cities.” The Company further
proclaimed that its “telecommunications and Internet product offerings will be available to over 80% of the world's international communications traffic.”

477. In January, 2000, Global Crossing commenced selling GNOs – capacity that was not permanently designated on any particular fiber, but was general capacity that allowed the "purchaser" to use a certain unit of capacity anywhere on Global Crossing's global network. The entire, but undisclosed, purpose of the GNO program was to facilitate future swaps. By no longer requiring a particular physical section of the network to be swapped, the Company would in effect, be trading rights of future use, similar to options.

16. Global Crossing Announces Growth and Expansion

478. On January 21, 2000, Global Crossing announced the launch of its transatlantic IP connection, Atlantic Crossing I ("AC-I"), to meet what it styled as “extraordinary capacity demands that have developed in the high volume North Atlantic corridor.” The North Atlantic Corridor links the United States, the United Kingdom (the "UK"), the Netherlands, and Germany. Global Crossing again emphasized that it was building and operating "the world's most advanced global IP-based fiber optic network."

479. On February 15, 2000, Global Crossing issued a press release announcing plans to merge its existing UK business with the operations of recently acquired Racal Telecom and Frontier Communications the operations. In the press release, Global Crossing indicated that it was merging the operations to expand carrier services and secure substantial growth into new multinational and corporate markets. Global Crossing's CEO at the time, Annunziata, stated that Global Crossing planned to leverage its global network to "deliver corporate data internationally, handle ISP business directly into USA Internet exchanges and expand carrier services for the origination or termination of traffic in the UK." The Company also announced the completion of
the first phase of its IP-based Pan European Crossing (PEC) network, which connected cities in the UK, the Netherlands, Belgium, Denmark, France, and Germany, and later was scheduled to connect to Switzerland, Spain, and Scandinavia. In the release, Wim Huisman, CEO of Global Crossing Europe, states: "We are creating a vast new terrestrial network that will keep pace with the phenomenal growth of the European telecoms market, largely driven by exploding Internet usage."

480. In a press release issued February 16, 2000, Global Crossing emphasized that it was evolving from a "carrier's carrier" to a retail-level service provider as well. Annunziata, stated: "Our network products and services enable us to be the world's only seamless global service provider. Demand from our wholesale and retail capacity customers is exploding." This claim was completely false as evidenced by Leo Hindery's June 2000 memo, written a few months later, which clearly indicated that Global Crossing's business plan based on wholesale sales to carriers as retail sales in competition with the carriers was doomed.

481. On February 17, 2000, Global Crossing announced an agreement with Level 3 Communications, Inc. ("Level 3") to co-build a super-high capacity fiber optic cable across the Atlantic Ocean to meet "exploding demand for capacity in the North Atlantic corridor."

17. The February 18, 2000 Earnings Release

482. On February 18, 2000, Global Crossing issued a press release announcing financial results for its fourth quarter 1999 and full fiscal year 1999 (the "February 2000 Release"). Touting "record results for the fourth quarter and full year 1999," the Company reported fourth-quarter revenue of $1.1 billion and Recurring Adjusted EBITDA of $325 million, compared with $203 million in revenues and $168 million in Recurring Adjusted EBITDA for the same period in 1998. For the full year, Global Crossing reported revenue of $1.7 billion and
Recurring Adjusted EBITDA of $716 million. In the February 2000 Release, Annunziata emphasized Global Crossing's expanding revenues and customer base growth and commented:

These outstanding results demonstrate the rapid pace at which we continue to expand our global communications network and telecom services offerings. . . . We are well on our way to achieving our vision of becoming the world's premier provider of fully integrated, data-oriented products and services." Global Crossing also indicated in the release that "[y]ear-on-year revenue has increased from $420 million to $1.7 billion, reflecting acquisition activity and continuing strong global demand for broadband services.

483. The February 2000 Release marks the first time that Global Crossing used a new definition for the term "Recurring Adjusted EBITDA". In the press release, the Company provided the following definitions:

Adjusted earnings before interest, taxes, depreciation and amortization, "Adjusted EBITDA," refers to operating income (loss), plus goodwill amortization, depreciation and amortization, non-cash cost of capacity sold, stock related expense, incremental cash deferred revenue, and amounts relating to the termination of the advisory services agreement. This definition is consistent with financial covenants contained in the Company's major financial agreements.

"Recurring Adjusted EBITDA" refers to Adjusted EBITDA plus amounts relating to merger and integration expenses and other non-recurring items.

484. Speaking with Dow Jones Newswires after a morning conference call concerning the Company's fourth quarter earnings, Cohrs said that the Company should see EBITDA growth of a least 30% for the year. The February 18, 2000 Dow Jones News Service article titled "Global Crossing Sees '00 Cap Spend Above $3.5 Billion - $4 Billion Range" further noted as follows:

"That's going to ramp up through the year," [Cohrs] said. "I think certainly by the end of the year we'll be above that."

Cohrs said the company saw strong growth in data revenue across all of its operations, and he expects such business to be a revenue catalyst going forward.
“Overall, it grew about 63% year-over-year,” he said. “If you break that down a little bit, you see that our truly data-oriented products, like Web-hosting, are seeing triple-digit growth rates.”

“Global Crossing used to be constructing sub-sea cable systems,” Cohrs said. “Now, no one else has a network like this in the world.”

“In North America, frankly it’s a struggle to keep up with demand,” Cohrs said. “The demand is out there, so we’re building our network so we’ll never run out of capacity in the future.”

485. A February 21, 2000 Cambridge Telecom Report article titled, “Global Crossing’s Fourth Quarter Revenue Exceeds $1 Billion; Pro Forma 1999 Revenue Tops $4 Billion With Recurring Adjusted EBITDA of $1.2 Billion,” quoted Annunziata saying:

These outstanding results demonstrate the rapid pace at which we continue to expand our global communications network and telecom services offerings . . . In the past twelve months, we’ve completed three major acquisitions and formed two joint ventures, solidifying our network presence in North America, Europe and Asia and expanding our service offerings beyond bandwidth to provide our customers with a full range of telecom services. One year ago our revenue was $420 million, and now we are running at ten times that level. In that time, we have grown from 148 employees to over 12,000, and expanded the number of major cities connected by our network from two to over 200. Today, we offer seamless end-to-end connectivity from Paris to New York to Tokyo through our integrated Global Crossing Network. We are well on our way to achieving our vision of becoming the world’s premier provider of fully integrated, data-oriented products and services.

486. Responding to the reports issued by Global Crossing, numerous analysts reacted positively to the Company’s financial releases, as well as the extremely favorable growth prospects touted by Annunziata and Cohrs. On February 22, 2000, Adam Quinton issued a company report for Merrill Lynch in which he raised the rating of Global Crossing’s stock to “Buy/Buy” and set a 12-month target price of $70. Merrill Lynch reported that Global Crossing presented an attractive buying opportunity - the stock traded at $52 3/8 at the time. Mr. Quinton repeated the Company’s report that Global Crossing was changing its revenue recognition policy
going forward on all circuit sales “as a result of the evolution of its business plan from just a wholesaler of undersea circuits to a provider of end-to-end broadband connectivity globally.”

Specifically, the report stated:

As a result of a change in the actual business trends away from the purchase of dedicated shore-to-shore circuits (which was the major revenue stream early on when just AC-1 was in service to the purchase of “global network” circuits connecting cities, it is becoming nearly impossible for Global Crossing to allocate which revenue is “sub-sea” and which is terrestrial. Also the service nature of the contract, in particular relating to restitution in the case of cable failures, means that it must use service contract rather than outright sale accounting.

Going forward Global Crossing plans to account for virtually all circuit sales on a deferred basis, despite the fact that cash is received up front when the circuit is delivered. This has the following impact: reported revenues will likely decline vs. earlier expectations, although cash revenues should remain unchanged, and reported EBITDA will decline, but adjusted EBITDA (including the add-back of incremental cash deferred revenues) will remain unchanged. . . . We note that cash flow projections are unchanged - and in our view these are the most important measure of growth for Global Crossing and are the critical driver of value.

(Emphasis in original).

487. On February 25, 2000, Jonathan Savas with Merrill Lynch issued a high yield securities research report on Global Crossing, reiterating a “Buy” recommendation on Global Crossing’s bonds. The report stated:

Given the company’s strategic assets acquired to date and strong operating cash flow, we believe the company is well-positioned for future growth. Accordingly, we continue to recommend purchase of the company’s notes.

Global Crossing reported fourth-quarter revenue and adjusted recurring EBITDA of $1.1 billion and $325 million, respectively. . . . Global Crossing has modified its accounting practices for revenue recognition and costs related to undersea network IRU sales. . . . Revenue will be recognized over the life of the IRU. This will affect earnings but not cash flow.
These reports show that the defendants' fraud had the desired effect of misleading the public into believing that these cash numbers had a connection to Global Crossing's cash flow. These reports also show that Global Crossing had successfully misled the public into believing that the Company had strong prospects for growth, which was contrary to internally held views, as expressed in the June 2000 Hindery memo, that Global Crossing's business plan was "transient" and was "doomed".

18. The 1999 Annual Report on Form 10-K

On March 17, 2000, Global Crossing filed with the SEC its Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (the "1999 10-K"). Cohrs, Winnick, Cook, Casey, Clayton, Scanlon, Brown, Porter, Bloom, Conway, Hippeau, Kehler, Kent, McCorkindale, McDonald, Annunziata, Raben, Steed, and Lee signed the SEC filing. The 1999 10-K reported revenues of $1.66 billion for the full year, as compared to $420 million for 1998. The 1999 10-K also reported a 94% increase in "Adjusted EBITDA" of $708 million for the full year 1999, as compared to $365 in 1998. PP&E for the period was reported as $6.026 billion. The Company reported total shareholders' equity of $9.218 billion. Global Crossing also reported a net loss of $71 million, or $0.27 per share in Fiscal 1999, as compared to a net loss of $88 million, or $0.38 per share in fiscal year ended December 31, 1998. Global Crossing reported fourth quarter revenue of $1.07 billion. In the filing, Global Crossing attributed the increase to growth from its existing business and acquisitions and increased sales of capacity and other data products. Language in the filing also assured investors and analysts that its contents were accurate and in conformity with GAAP. Andersen certified that the financial statements presented fairly, in all material respects, the financial position and cash flows of Global Crossing.
With respect to the term "Adjusted EBITDA," the Company stated:

Adjusted EBITDA is defined as operating income (loss), plus goodwill amortization, depreciation and amortization, non-cash cost of capacity sold, stock related expenses, incremental cash deferred revenue and amounts relating to the termination of the advisory services agreement. This definition is consistent with financial covenants contained in the Company's major financial agreements. This information should not be considered as an alternative to any measure of performance as promulgated under GAAP. The Company's calculation of adjusted EBITDA may be different from the calculation used by other companies and, therefore, comparability may be limited.

The 1999 10-K also stated in the MD&A section that as a result of FIN 43, revenue from terrestrial circuits sold after [July 1, 1999] has been accounted for as operating leases and amortized over the terms of the related contracts. Previously, these sales had been recognized as current revenue upon activation of the circuits. This deferral in revenue recognition has no impact on cash flow.

The MD&A section further indicated that through the expansion of Global Crossing's network and integration of other networks Global Crossing began offering "flexible bandwidth products to multiple destinations" rather than fixed, point-to-point routing. Because of the purported required network flexibility, the Company anticipated that "most of the contracts for subsea circuits entered into after January 1, 2000 will be part of a service offering, and therefore will not meet the criteria for sales-type lease accounting and will be accounted for as operating leases."

Global Crossing also reported in the 1999 10-K that its business strategy was to be the "premier provider of global IP and data services for both wholesale and retail customers." The Company indicated that it was well positioned to address product needs of "large multinational customers who have bandwidth-intensive applications and international requirements" because of the international scope and capacity of its broadband network and ability to remain price competitive. The 10-K also reported that since the consummation of the
Frontier merger in September 1999, Global Crossing had begun to derive a significant source of revenue from service offerings involving leases of capacity on its network in smaller increments than previously sold in an IRU.

19. The IXnet/IPC Acquisition

On February 22, 2000, Global Crossing issued a press release announcing that it would acquire IXnet, Inc. ("IXnet") and IXnet's parent company, IPC Communications, Inc. ("IPC") for approximately $3.6 billion in stock in an effort to expand its business into IP and data services. To effectuate the acquisition, Global Crossing issued to IXnet and IPC shareholders a total of 58.2 million shares of Global Crossing's common stock under an exchange ratio that was based on Global Crossing's artificially inflated stock price of $49.77 per share (the average trading price on and around February 22, 2000). J.P. Morgan (Chase Securities) served as financial advisor to Global Crossing, and Defendant SSB and DLJ served as financial advisors to IXnet and IPC in the transaction. Both J.P. Morgan and SSB earned substantial fees. Global Crossing also brought on Walsh, the CEO of IXnet, and named him head of global sales and marketing for Global Crossing.

Commenting favorably on the IXnet/IPC acquisition, Annunziata, CEO of Global Crossing at the time, said:

IXnet is a great strategic fit for us. We will now move to the next level beyond providing building-to-building connectivity in major cities - providing desktop-to-desktop connectivity for multinational corporations worldwide. IXnet will leverage our seamless global network through the provision of sophisticated IP and data services to financial institutions, one of the largest and fastest growing customer segments. We can also eliminate substantial network costs by moving IXnet from leased lines onto the Global Crossing Network, which is nearing completion. IXnet will give us new capabilities and increased presence in Asia where we are currently partnering with Microsoft, Softbank and Hutchinson Whampoa, as well as in the financial markets of Europe and the Americas where it is already the market leader. We welcome David Walsh and his superb management team to Global Crossing.
496. To effectuate the IXnet/IPC acquisition, Global Crossing filed a Registration Statement and Information Statement/Prospectus (the "IXnet/IPC Registration Statement") with the SEC on April 12, 2000, and amendments on May 4 and 12, 2000. In connection with the acquisition, the IXnet and IPC boards of directors received written opinions from SSB in which SSB stated that the merger was fair from a financial point of view to the holders of IXnet common stock and to the holders of IPC common stock. In addition, DLJ rendered a written opinion to the IPC and IXnet boards of directors that the stock exchange ratio was fair to the IXnet and IPC shareholders from a financial point of view. The exchange ratio was 1.184 shares of Global Crossing common stock for each share of IXnet stock and 5.417 shares of Global Crossing common stock for each outstanding share of IPC common stock. Unbeknownst to the IXnet and IPC shareholders, the exchange ratio was based on Global Crossing's artificially-inflated stock price of $49.77 per share, which was the average trading price on or around February 22, 2000.

497. In the IXnet/IPC Registration Statement, Global Crossing included selected financial information, including reported revenues of $1.664 billion, a net loss of $137.57 million, and Adjusted EBITDA of $708.18 million for the year ended December 31, 1999. In addition, the company reported assets of $19.71 billion, deferred revenue of $383 million, and total shareholders' equity of $9.218 billion for the year ended December 31, 1999. The financial statements of Global Crossing incorporated by reference in the Registration Statement were audited by Anderson. Global Crossing also incorporated by reference in the IXnet/IPC Registration Statement its Annual Report on Form 10-K for fiscal year 1999, which was filed with the SEC on March 17, 2000. .
In the registration materials, Global Crossing described IXnet as "a leading provider of communications services to the worldwide financial services community." The Registration Statement described IPC as "the leading provider of integrated telecommunications equipment and services that facilitate the execution of transactions by the worldwide financial services community." Hindery, Winnick, Cook, Casey, Lee, Porter, Cohrs, Annunziata, Bloom, Clayton, Conway, Fok Kin-ning, Kent, McCorkindale, McDonald, Scanlon and Steed signed the IXnet/IPC Registration Statement.

Analysts responded positively to the news of Global Crossing's merger with IPC and IXnet. CSFB issued a report on February 29, 2000, reiterating a "Buy" recommendation and price target of $65. Estimating the full value of the acquisition at $4.1 billion based upon the February 18, 2000 closing price of Global Crossing's stock, CSFB said that the deal's real attraction was the "stepped-up presence" of Global Crossing in the full-service telecom market and that "[n]o longer is GBLX just a network provider with vast undersea capacity." The report noted that "Global Crossing reported 4Q99 consolidated revenue of $1.07 billion, beating our $983 million estimate by 8.3%. With respect to the Company's announced accounting change, the report stated:

it is merely an accounting change, and since it has no impact on adjusted EBITDA (i.e., actual cash in the door), it has no effect either on our price target or our opinion of the stock.

* * *

The undersea cable business posted strong year-over-year growth of 25% while the terrestrial carrier/LD business reported 4Q year-over-year growth in high single digits. Global Crossing also reported that it holds a backlog of over $2 billion-$1 billion for undersea cable capacity and another $1 billion for terrestrial capacity.

* * *

Under the new accounting, Global Crossing would have deferred approximately $200 million of additional revenue and incurred an additional operating loss of $20 million, while adjusted EBITDA and cash flow would have been unaffected. Management explained that it is
making the change in order to offer greater contract flexibility, as under the previous accounting treatment, the company was required to define fixed paths for its traffic flows and fixed paths for restoration - concepts that are antithetical to the fluid provisioning of bandwidth in today's complex networks.

500. SSB rendered the following false and misleading fairness opinion to the IPC\IXnet shareholders in regard to the stock-for-stock acquisition of IPC\IXnet by Global Crossing:

You have requested our opinion as to the fairness, from a financial point of view, to the holders of the common stock of IPC Communications, Inc. ("IPC") of the IPC Exchange Ratio (defined below).

* * *

In arriving at our opinion, we reviewed the Merger Agreement and held discussions with certain senior officers, directors and other representatives and advisors of IPC . . . and Global Crossing concerning the business, operations and prospects of IPC and Global Crossing. We examined certain publicly available business and financial information relating to IPC and Global Crossing as well as certain financial forecasts and other information and data for IPC and Global Crossing which were provided to or otherwise discussed with us by management of IPC and Global Crossing . . . We also evaluated the pro forma financial impact of the IPC Merger and the Ixnet Merger on Global Crossing.

* * *

In rendering our opinion, we have assumed and relied, without independent verification, upon the accuracy and completeness of all financial and other information and data publicly available or furnished to or otherwise reviewed by or discussed with us. With respect to financial forecasts and other information and data provided to or otherwise reviewed by or discussed with us, we have been advised by the management of IPC and Global Crossing that such forecasts and other information and data were reasonably prepared on bases reflecting the best currently available estimates and judgments of the managements of IPC and Global Crossing . . .

* * *
Salomon Smith Barney Inc. has acted as financial advisor to IPC in connection with the proposed IPC Merger and will receive a fee for such services, a significant portion of which is contingent upon the consummation of the IPC Merger. We have in the past provided investment banking services to IPC and Global Crossing unrelated to the proposed IPC Merger, for which services we have received compensation. In the ordinary course of our business, we and our affiliates may actively trade or hold the securities of IPC and Global Crossing for our own account or for the account of our customers and, accordingly, may at any time hold a long or short position in such securities. As you are aware, an affiliate of Citigroup Inc., the parent company of Salomon Smith Barney Inc., beneficially owns approximately 60% of the outstanding shares of IPC Common Stock. In addition, we and our affiliates (including Citigroup Inc. and its affiliates) may maintain relationships with IPC, Global Crossing and their respective affiliates.

* * *

Based upon and subject to the foregoing, our experience as investment bankers, our work as described above and other factors we deemed relevant, we are of the opinion that, as of the date hereof, the IPC Exchange Ratio is fair, from a financial point of view, to the holders of IPC common stock.

501. The preceding statements were false and misleading when made for the following reasons: (a) the exchange ratio was not fair from a "financial point of view," as (i) the Global Crossing common stock price used for the exchange ratio for the IPC\IXnet Merger was inflated for the reasons stated at paragraph 451; (b) SSB knew or should have known that the financial information, including forecasts based on inflated historical figures, provided to it by Global Crossing was materially false and misleading because of the reasons stated at paragraph 451; (c) the SSB Investment Banking department essentially had unfettered access through defendant Grubman and others to Global Crossing's books and records and the Global Crossing Individual Defendants, who had knowledge of the falsity of the information provided (see infra Sec. IX.A.); and (d) SSB's "boiler-plate disclaimers" failed to disclose the disabling conflicts of interest between the investment banking and analyst departments, which rendered any opinion from the
investment banking department meaningless, as it was fraught with bias. In addition, SSB failed
to disclose that its lead analyst, Jack Grubman, was actively promoting Global Crossing stock
and business plan as part of a concerted effort to drum up business for SSB’s investment banking
business, and that as part of this effort Grubman regularly attended Global Crossing board
meetings and was intimately familiar with all aspects of Global Crossing’s fraudulent business
practices. Further, SSB failed to disclose that it had provided extensive loans to Global Crossing
directors and executives that were secured by Global Crossing stock, and that, accordingly, SSB
had a direct motive to maintain (and even increase) the price of Global Crossing stock so as not
to compromise its security interests.

20. Preferred Stock Offerings

502. On January 18, 2000, Global Crossing filed with the SEC two separate
Registration Statements to register 2.6 million shares of the 7% Preferred Stock and 10 million
shares of the 6 3/8% Preferred Stock. To complete the preferred stock offerings and allow the
shares to be sold to the investing public, Global Crossing filed amended Registration Statements
in March, May and September of 2000 and Prospectuses and supplements thereto in April,
September, and November 2000. The Registration Statements and Prospectuses for the preferred
stock offerings incorporate by reference, among other SEC filings, Global Crossing’s Form 10-K
for the year ended December 31, 1999, which was filed with the SEC on or about March 17,
2000. Global Crossing also included in the Registration Statements and Prospectuses financial
information, including the Company’s Adjusted EBITDA of $708.18 million for the year ended
December 31, 1999 and a net loss of $137.57 million or a loss of $.27 per share. The
Registration Statements and Prospectuses, reported PP&E of $6.026 billion, and shareholders'
Similar to the Frontier Registration/Proxy, the Registration Statements for the 6 3/8% and 7% Preferred Stock offerings included information regarding Global Crossing’s recent changes in accounting developments. The Company reported that after July 1, 1999, Global Crossing accounted revenue from terrestrial capacity sales as operating leases, amortizing revenues from such leases over the life of the related contracts in accordance with FIN 43. Again, Global Crossing indicated that the change from immediately recognizing all revenue from terrestrial capacity sales up front to deferring the revenue over the life of the contract has no impact on Global Crossing’s cash flow. Global Crossing touted its business plan to build the “world’s first global fiber optic network, consisting of 101,000 announced route miles. . . .” Global Crossing also stated that service offerings had become a significant source of revenue since the Frontier acquisition and reported that the Company began initiating subsea service contract accounting in fourth quarter 1999, recognizing the revenue related to such contracts over the terms of the contracts. In the Registration Statements and Prospectuses, Global Crossing stated with respect to fourth quarter 1999:

During the fourth quarter, our global network capabilities were significantly expanded by the activation of several previously announced systems and by the integration of other networks obtained through acquisition and joint venture agreements. With this network expansion, we began offering our customers flexible bandwidth products to multiple destinations, which makes the historical practice of fixed, point-to-point routing of traffic and restoration capacity both impractical and inefficient. To ensure the required network flexibility, we will modify our future capacity purchase agreements and our network management in a manner that precludes the use of sales-type lease accounting.

Because of these contract changes and the network management required to meet customer demands for flexible bandwidth, multiple destinations and system performance, we anticipate that most of the contracts for subsea circuits entered into after January 1, 2000 will be part of a service offering and, therefore, will not meet the criteria of sales-type lease accounting and will be accounted for as operating leases. Consequently,
we will defer revenue related to those circuits and amortize it over the appropriate term of the contract.


505. On or about March 28, 2000, Global Crossing filed with the SEC a Registration Statement and accompanying Prospectus to sell to the investing public 10 million shares of the 6 3/8% preferred stock. On that same day, Global Crossing filed a separate Registration Statement and accompanying Prospectus to sell to the investing public 2.6 million shares of the 7% preferred stock. The 6 3/8% Preferred Stock was issued in a private placement in November 1999 to Defendants Merrill Lynch, Goldman Sachs, and SSB as initial purchasers. The 7% Preferred Stock was issued in a private placement in December 1999 to Defendants Merrill Lynch, Goldman Sachs, SSB, J.P. Morgan (Chase Securities), Morgan Stanley, CIBC, DLJ, and CSFB as initial purchasers. The registration of the 6 3/8% and 7% Preferred Stock allowed the stock to be freely traded to the investing public. Both Registration Statements and Prospectuses incorporate by reference the 1999 10-K. The notes to the financial statements audited by Andersen, contained in the 1999 10-K and incorporated by reference in the Registration Statements and Prospectuses, assured investors and analysts that Global Crossing’s financial results were accurate and in conformity with GAAP. The Registration Statement also provided selected financial information, including Global Crossing’s Adjusted EBITDA for the year ended December 31, 1999. Winnick, Cook, Casey, Scanlon, Hindery, Lee, Porter, Brown, Cohrs, Bloom, Conway, Kehler, Kent, Raben, Steed, Annunziata, McDonald, Hippeau, Clayton, and
McCorkindale signed the Registration Statements for the 6 3/8 % and 7% Preferred Stock offerings.

21. Global Crossing's Secondary Common Stock Offering

On or about April 11, 2000, Global Crossing and several of its officers and directors and their affiliated trusts and companies (the "Selling Shareholders") sold 43 million shares of Global Crossing's common stock at $33.00 per share (the "Secondary Offering"). The shares the Selling Shareholders and their affiliated trusts and companies sold include: 1) 8.14 million shares beneficially owned by Winnick and belonging to GKW Unified Holdings LLC and the Winnick Family Foundation, Inc.; 2) 6.77 million shares beneficially owned by CIBC and belonging to CIBC Capital Partners (Cayman); 3) 2.57 million shares beneficially owned by ULLICO Inc. and belonging to GBL Holdings, Inc.; 4) 1.25 million shares owned by Porter, individually, and Galenight Corp., for which Porter holds beneficial ownership; 5) 1.09 million shares owned by Brown, individually, and Ridgestone Corporation and the Brown Living Trust, for which Brown holds beneficial ownership; 6) 300,000 shares owned by Cook, individually; and 7) 1.21 million shares owned by Lee, individually.

In connection with the Secondary Offering, Global Crossing filed a Registration Statement on March 20, 2000, as amended March 21, 23, and 31, 2000, and a Prospectus dated April 10, 2000, as supplemented (the "Secondary OfferingRegistration Statement/Prospectus"). The Secondary Offering Registration Statement/Prospectus incorporate by reference the 1999 10-K. The registration materials also include information regarding the historical trading price of Global Crossing's common stock during 1999 and through April 10, 2000, including the artificially inflated closing price of $33 1/16 on April 10, 2000. In the Prospectus, Global Crossing reported Adjusted EBITDA of $708.18, a net loss of $137.57 or $.27 per share, and revenues of $1.664 billion for the year ended December 31, 1999. For the same period, Global
Crossing reported PP&E of $6.026 billion, deferred revenue of $383 million, and shareholders equity of $9.218 billion.

508. The Secondary Offering Registration Statement/Prospectus repeated Global Crossing's misleading disclosure regarding its change in accounting procedures after FIN 43 became effective. Global Crossing indicated that changes in business activities, together with FIN 43, caused the Company to modify its revenue recognition practices for capacity sales, as well as its practices for recognition of costs related to sales of capacity. The Company repeated its claim that none of the new accounting practices affected its cash flows.

509. Hindery, Winnick, Cook, Casey, Scanlon, Lee, Clayton, Porter, Cohrs, Bloom, Conway, Kehler, Kent, Raben, Steed, Annunziata, McDonald, Hippeau, and McCorkindale signed the Registration Statements filed in connection with the Secondary Offering. Andersen consented to the use of its reports and the audited financial statements of Global Crossing in the Secondary Offering Registration Statement/Prospectus.

510. Defendants SSB and Goldman Sachs served as Joint Book-Running Managers and underwriters and Merrill Lynch served as Joint Lead Manager and an underwriter for the Secondary Offering, and Global Crossing also retained Defendants Bear Stearns, J.P. Morgan (Chase), CSFB, DLJ, and Morgan Stanley to underwrite the offering. Bear Stearns, Chase Securities, CSFB, DLJ, and Morgan Stanley each purchased 2.15 million shares from Global Crossing and the Selling Shareholders. Defendant SSB, Merrill Lynch, and Goldman Sachs purchased 12.9 million shares, 6.45 million shares, and 12.9 million shares, respectively. Global Crossing paid the underwriters $.99 for each share they purchased in the Secondary Offering. Thus, the underwriters received $42 million just from Global Crossing as well as additional fees and significant proceeds from the sale of their shares.
Global Crossing’s common stock sold for $19.00 per share in the IPO in 1998. Adjusting the $33.00 common stock price in the Secondary Offering for a two-for-one stock split in March 9, 1999, Global Crossing’s common stock price had increased 247% since the IPO. Global Crossing and the Selling Shareholders collectively reaped net proceeds of $1.376 billion from selling stock in the Secondary Offering.

22. The April 2000 Preferred Stock Offering

Concurrently with the Secondary Offering and pursuant to the same Registration Statements filed for the Secondary Offering, Global Crossing issued four million shares of 6 3/4% preferred stock (the “6 3/4% Preferred Stock”). To complete the registration, Global Crossing filed a Prospectus with SEC on or about April 11, 2000. Global Crossing sold the 6 3/4% Preferred Stock for $250 per share, generating proceeds of $1 billion. In the Prospectus, Global Crossing stated that it planned to use the net proceeds from the offering for general corporate purposes and to fund “acquisitions of complementary businesses, products or technologies or to make strategic investments.” The Prospectus also incorporates by reference information contained in the 1999 10-K. Global Crossing also reported financial information including shareholders’ equity of $9.218 billion and a total capitalization of $17.978 billion, as adjusted to reflect shares issued in the 6 3/4% Preferred Stock and Secondary Offering.

In the 6 3/4% Preferred Stock Prospectus, Global Crossing reported positive information regarding its telecommunications services segment. Specifically, Global Crossing stated:

We provide a variety of integrated telecommunications and Internet-based products designed to meet our customer’s total communications needs. We provide domestic and international voice services, data products, Internet-based services, structured bandwidth services and other communications products to primarily small to mid-size business customers, web-centric businesses and other telecommunication carriers. Beginning in 2000, we will begin marketing products more intensely to
large multi-national customers who have bandwidth-intensive applications and international requirements. Those customers demand global end-to-end solutions. We believe we are well positioned to address this market due to the international scope and broadband capacity of our network along with the flexibility of product pricing to maintain competitiveness.

* * *

Although we have greatly expanded the number of products and services that we offer to our customers, our principal customers to date have been licensed telecommunications providers, including post, telephone and telegraph companies, Internet service providers and established an emerging telecommunications companies, that have purchased significant amounts of capacity on our systems worldwide. Significant customers in our telecommunications services segment include Deutsche Telekom, MCI, WorldCom, Level 3 Communications, KPN Qwest, Teleglob, Telia, British Telecom, Viatel and AT&T.

Global Crossing also stated that it was "uniquely positioned to offer worldwide capacity to our customers" because of the "breadth of its network." The Company reported that it had developed a "just-in-time" marketing program to allow customers flexibility in activating capacity purchased from Global Crossing. The Company also claimed that its customers' needs for bandwidth were increasing and that Global Crossing was "exploring other marketing programs that will provide further benefits to our customers and position us as the broadband infrastructure provider of choice."

514. The 6 3/4% Preferred Stock Prospectus also provided selected financial information, including Global Crossing's consolidated financial statements, which Andersen audited. Global Crossing reports total assets of $19.706 billion and deferred revenue of $383 million, for the year ended December 31, 1999. For the same period, Global Crossing reported Adjusted EBITDA of $708.18 million. The Company also stated that after FIN 43 became effective July 1, 1999, Global Crossing accounted for revenue from terrestrial capacity sold as operating leases and amortized the revenue over the life of the related contracts. Global Crossing again stated that the "deferral in revenue recognition has no impact on cashflow."
Cohrs, Winnick, Cook, Casey, Scanlon, Hindery, Lee, Clayton, Porter, Brown, Bloom, Conway, Kehler, Kent, Raben, Steed, Annunziata, McDonald, Hippeau, and McCorkindale signed the 6 3/4% Preferred Stock Offering Registration Statement/Prospectus. The incorporated 1999 10-K and financial information in the 6 3/4% Preferred Stock registration statements and Prospectus were materially false and misleading.

On April 20, 2000, Morgan Stanley issued a research report on Global Crossing providing a First Quarter 2000 "Earnings Preview." The report stated that "explosive volume growth" for data and bandwidth continues to fuel Global Crossing's growth. Morgan Stanley emphasized that Global Crossing's accounting changes "impact 2000 GAAP revenues and EPS growth, with no effect to EBITDA. Therefore, Morgan Stanley reported that:

Given the complicated accounting involved, we believe headline EPS numbers are relatively meaningless while adjusted EBITDA and cash revenues are the key metrics for focus.

Morgan Stanley reiterated its "Outperform" rating and $60 price target. The stock was trading at $27.88 on April 20, 2000.

In an analyst report dated April 24, 2000, CSFB also stated that it focused on the "cash revenue and EBITDA lines" in Global Crossing's financial reports, because "we believe they show a truer picture of the company's operating performance." The report also stated that CSFB believed "the new accounting method represents the most conservative approach the company can take with respect to revenue recognition."

The Exchange Notes Offering

By Registration Statement and accompanying Prospectus filed with the SEC on January 11, 2000, and amended in March, April, and November 2000, Global Crossing offered to exchange the 9 1/8% Senior Notes and 9 ½% Senior Notes that had been issued in a private offering on November 12, 1999 for other substantially similar notes that were to be registered
with the SEC (the "Exchange Notes"). After the exchange, the notes were traded by members of the public on the secondary market during the Class Period.

519. The Registration Statement and accompanying Prospectus for the Exchange Notes incorporated by reference, among other SEC filings, the 1998 10-K and provided selected financial information, including Global Crossing's Adjusted EBITDA of $708.18 million and revenues of $1.66 billion for the year ending December 31, 1999. Global Crossing also reported PP&E of $6.026 billion and deferred revenue of $383 million for the same period. In the registration materials, Global Crossing stated it had shareholders' equity of $9.219 billion as of September 30, 1999. Andersen audited the financial statements incorporated by reference in the Registration Statement and Prospectus.

520. In the Registration Statement and Prospectus for the Exchange Notes, Global Crossing boasted that it "is building and offering services over the world's integrated global fiber optic network, consisting of 101,000 announced route miles and serving five continents, twenty-seven countries and more than 200 major cities." Dawson, Winnick, Cook, Casey, Scanlon, Hindery, Porter, Cohrs, Bloom, Conway, Kehler, Kent, Raben, Steed, Annunziata, McDonald, Hippeau, and McCorkindale signed the Registration Statement and Prospectus for the Exchange Notes. Andersen audited the financial statements of Global Crossing, which were incorporated in the Registration Statement and Prospectus. The offering resulted in proceeds of $2 billion.

24. The First Quarter 2000 Earnings Release

521. On May 2, 2000, Global Crossing issued a press release reporting financial results for the quarter ended March 31, 2000 (the "First Quarter 2000 Release"). Global Crossing touted a 23% increase in "Recurring Adjusted EBITDA" and 14% growth in "Cash Revenue" compared to fourth quarter 1999. The Company reported "Cash Revenues" of $1.285 billion and "Recurring Adjusted EBITDA" of $401 million. In the First Quarter 2000 Release, the Company
also reported revenues of $1.12 billion, up 5% from $1.065 million in fourth quarter 1999. Global Crossing emphasized that it was “offering services over the world’s most extensive global IP-based fiber optic network.” Commenting on the reported results, Hindery, the Company’s CEO at the time, claimed that Global Crossing was rolling out “customer-centric product capabilities” that will enable Global Crossing to “provide unmatched data products, applications and services to multi-national corporations throughout the world.” He added:

As we invest the final capital to deploy our announced network and product capabilities that will drive our future growth, we continue to invest as well in our operations, marketing and sales teams in Europe, the Americas and Asia. Our strong growth in cash flow more than made up for these planned increases in operating expenses, with both Adjusted EBITDA and Adjusted EBITDA margin showing strong quarterly increases, as we had indicated they would.

In the First Quarter 2000 Release, the Company used the following defined terms:

"Revenue" refers to revenue reported on the Company’s statements of operations according to Generally Accepted Accounting Principles.

"Cash Revenue" refers to Revenue plus the cash portion of the change in deferred revenue.

Adjusted earnings before interest, taxes, depreciation and amortization, "Adjusted EBITDA," refers to operating income (loss) plus goodwill amortization, depreciation and amortization, non-cash cost of capacity sold, stock related expenses and the cash portion of the change in deferred revenue, which definition is consistent with the financial covenants contained in the company’s major financial agreements.

"Recurring Adjusted EBITDA" refers to Adjusted EBITDA plus one-time merger and integration expenses and other non-recurring expenses.

The Company’s definition of "adjusted EBITDA" changed from its prior definition of "Adjusted EBITDA" in the 1999 10-K. The term "Cash Revenue" also appeared for the first time as a measure of the Company’s performance. Global Crossing deceptively dubbed the proceeds of its
bogus IRU sales “the cash portion of the change in deferred revenue” and included the proceeds in “Adjusted EBITDA” and “Cash Revenue.”

523. A May 3, 2000 Dow Jones News Service article titled “Global Crossing CEO Sees 25% Full-Year Revenue Growth” reported that, according to Hindery, Global Crossing was forecasting annual revenue growth of 25% to $5.7 billion in 2000, with Adjusted EBITDA reaching $1.6 billion. The article reported that, while speaking on a conference call with analysts regarding the financial forecasts, Hindery said:

[Global Crossing hopes to] exceed those benchmarks. We're very comfortable with the niche we've carved out for ourselves.

25. The First Quarter 2000 10-Q

524. On May 15, 2000, Global Crossing filed with the SEC its Quarterly Report on Form 10-Q for the quarter ended March 31, 2000 (the “First Quarter 2000 10-Q”). Cohrs signed the Form 10-Q. Global Crossing reported revenues of $1.12 billion, an increase of 9% as compared to $1.03 billion for the three months ended March 31, 1999. Global Crossing attributed the increase in revenues to an increase in revenue from data products. The Company also reported “Adjusted EBITDA” of $389 million and Cash Revenue of $1.285 billion for the three months ended March 31, 2000. PP&E for the quarter was reported as $7.986 billion. Net loss for the three months ended March 31, 2000 was $262 million, or $0.39 per share. The Company reported total shareholders' equity of $8.953 billion.

525. With respect to the term “Adjusted EBITDA,” the Company again stated:

Adjusted Earnings before Interest, Taxes, Depreciation and Amortization (adjusted EBITDA) is calculated as operating (loss) income plus depreciation and amortization, goodwill and intangibles amortization, stock related expense and the cash portion of the change in deferred revenue.
The Second Quarter 2000 Earnings Release

On August 1, 2000, Global Crossing issued a press release reporting financial results for the quarter ended June 30, 2000 (the "Second Quarter 2000 Release"). Global Crossing reported second-quarter "Cash Revenues" of $1.2 billion and "Adjusted EBITDA" of $336 million. In the earnings release, Global Crossing stated that telecommunications services "Cash Revenues" were up 38% and "Adjusted EBITDA" was up 71% from second quarter 1999. The Company also emphasized that it was building and offering services over "the world's most extensive global IP-based fiber optic network" and that second quarter financial results exceeded Street estimates. Global Crossing's CEO at the time, Hindery, stated: "The strong growth in Adjusted EBITDA exceeded consensus analysts' estimates and leads us to have higher expectations for the year." He further commented that "[t]he healthy growth this quarter in Telecommunications Services, especially data products, is a recognition by the market of the worldwide value of our global network."

The Company defined the non-GAAP terms used as follows:

In this press release, Revenue refers to revenue reported on the Company's statements of operations according to Generally Accepted Accounting Principles. Cash Revenue refers to Revenue plus the cash portion of the change in deferred revenue. Service Revenue refers to Revenue less any revenue recognized for circuit activations that qualified as sales type leases, and were therefore recognized immediately. Service Revenue excludes both the impact of cash collected as deferred revenue, and any sales-type lease revenue. Adjusted EBITDA refers to operating income (loss) plus goodwill and intangible amortization, depreciation and amortization, non-cash cost of capacity sold, stock related expenses and the cash portion of the change in deferred revenue, which definition is consistent with the financial covenants contained in the company's major financing agreements. Recurring Adjusted EBITDA refers to Adjusted EBITDA plus one-time merger and integration expenses and other non-recurring expenses.
528. The Second Quarter 2000 Earnings Release also emphasized the strong cash position of the Company. Global Crossing reported in its release that it raised $1.8 billion in net proceeds through the Secondary Offering and the concurrent 6 3/4% Preferred Stock offering. In addition, Global Crossing reported that proceeds from these offerings combined with the $3.65 billion in estimated net proceeds from the sale of its ILEC, operating cash flow, and other planned proceeds from financing related to joint ventures, "the Company expects to be in a position to fully fund all of its anticipated business expansion activities."

27. The Second Quarter 2000 10-Q

529. On August 14, 2000, Global Crossing filed with the SEC its Quarterly Report on Form 10-Q for the three-month period ended June 30, 2000 (the "Second Quarter 2000 10-Q"). Cohrs signed the Second Quarter 2000 10-Q. Global Crossing reported revenues of $999 million for Second Quarter 2000. The Second Quarter 2000 10-Q reported that "Cash Revenue" increased 480% to $1.2 billion for second quarter 2000, compared to $191 million for second quarter 1999. The Second Quarter 2000 10-Q also reported "Adjusted EBITDA" of $323 million, compared to $116 million for second quarter 1999. Global Crossing attributed the increase in both "Cash Revenue" and "Adjusted EBITDA" to acquisitions and an increase in the cash portion of deferred revenue. The Company reported total shareholders' equity of $13.078 billion. Additionally, the 10-Q stated in the MD&A section that Global Crossing's management uses Adjusted EBITDA to monitor Global Crossing's compliance with its financial covenants and to measure performance and liquidity of the reportable segments of its business. The Second Quarter 2000 10-Q reported that Global Crossing's interim condensed consolidated financial statements were prepared in accordance with GAAP and SEC regulations.
Commenting on non-GAAP terms, the Company stated:

Adjusted Earnings before Interest, Taxes, Depreciation and Amortization, or Adjusted EBITDA, is calculated as operating income (loss) plus depreciation and amortization, goodwill and intangibles amortization, non-cash cost of capacity sold, stock related expenses and incremental cash deferred revenue. This definition is consistent with financial covenants contained in the Company's major financial agreements. The Company's management uses Adjusted EBITDA to monitor its compliance with the Company's financial covenants and to measure the performance and liquidity of its reportable segments. This information should not be considered as an alternative to any measure of performance as promulgated under GAAP. The Company's calculation of Adjusted EBITDA may be different from the calculation used by other companies and, therefore, comparability may be limited.

Cash revenue (revenue plus the cash portion of the change in deferred revenue)

In the quarterly filing, Global Crossing emphasized its strategy "to be the premier provider of global broadband Internet Protocol ("IP") and data services for both wholesale and retail customers." Global Crossing touted its "state-of-the-art" fiber optic network as the "backbone for this strategy" and stated that "Management believes that the Company's network will enable it to be the low cost provider in most of its addressable markets." The Second Quarter 10-Q also reported that Global Crossing service offerings were a significant source of revenue for the Company subsequent to the consummation of the Frontier acquisition. In addition, Global Crossing confirmed in the 10-Q that an increasing percentage of its capacity sales would be accounted for as operating leases, with revenue from such sales being deferred into future periods. The Company further reiterated that its accounting practices for capacity sales did not affect its cash flows.

The statements in paragraphs 502 through 531 were each false and misleading when made at the time issued for the reasons identified above in 451, including:
a. Global Crossing’s accounting methods for the period through July 1999, during which the Company immediately recognized as revenue the entire value of IRU sales from long-term leases and payments for repurchasing bandwidth from customers but amortized costs over the terms of the lease were both improper under FASB No. 13 and caused a material misrepresentation of Global Crossing’s revenues, profitability and the value of its assets. In fact, of the Company’s reported revenues for the period, it was later disclosed that the vast majority had been improperly recognized as sales-type leases such that the services should have actually have been amortized over a 25-year period rather than immediately recognized;

b. Defendants were artificially inflating Global Crossing’s operating performance through improper accounting of transactions with other telecommunications companies. In a number of undisclosed transactions, Global Crossing sold capacity on its network to customers who bought capacity back in a “swap” transaction. Global Crossing recognized the revenue from the capacity sales either up front or as deferred revenue, but recorded the cost as a capital expense instead of an operating expense. Global Crossing failed to disclose that these capacity exchanges were reciprocal transactions that were dependent upon each other;

c. By engaging in reciprocal IRU sales with other telecommunications companies, essentially “swapping” network capacity in exchange for network capacity, and accounting for such exchanges using the fair value of the capacity, Global Crossing artificially inflated its revenue and violated GAAP by recognizing any revenue in connection with such transactions because, under APB No. 29, Global Crossing should have accounted for such exchanges using its historical or cost basis of the capacity relinquished in the transactions;
d. By accounting for the value of IRUs acquired from other telecommunication companies in reciprocal IRU sales, or so-called "swap" deals, using the fair value of the capacity exchanged, Global Crossing materially overstated the value of its total assets;

e. Global Crossing falsely represented that demand for bandwidth capacity was "enormous" and "exploding" and in the "double digits." As explained above, Global Crossing knew, as early as January of 1999, that demand for capacity was waining and that its public projections for exponential growth were just plain wrong. Nevertheless, based on these false representations of capacity demand, Global Crossing continued to understate its costs of sales by calculating such costs based on anticipated demand that Global Crossing knew did not exist, and sales forecasts that Global Crossing knew it could not achieve. By understating its costs of sales, Global Crossing materially overstated its reported earnings.

f. The Company's optimistic statements of growth and success were misleading because they omitted that the Company's financial position was distorted by its accounting manipulations and it was far from the success story that had rapidly reached hundreds of millions of dollars in revenues that it portrayed.

533. Global Crossing statements were also false because the Company masked the fatal problems with its business plan expressed by Leo Hindery in his June 2000 memo by downplaying these problems as "risks" in its public filings, when in fact the Company knew that its business plan was unsustainable. For example, in the 1999 Annual report filed on Form 10-K on March 30, 2000 and later amended by Form 10-K/A, filed on September 21, 2000, Global Crossing articulated its business strategy, inter alia; as follows:

Global Crossing's strategy is to be the premier provider of global Internet Protocol ("IP") and data services for both wholesale and retail customers. We are building a state-of-the-art fiber optic network that we believe to be of unprecedented global scope and scale to serve as the backbone for this
strategy. We believe that our network will enable us to be the low cost service provider in most of our addressable markets. In each of our businesses, we intend to expand significantly on current product offerings, with an increasing focus on value-added services. In particular, our Global Center subsidiary will expand its product set to become a single-source e-commerce service station that will provide web-centric businesses with high availability, flexibility and scalability necessary to compete in the rapidly expanding digital economy.

534. In the same 1999 10-K filed in March 2000 and amended in September 2000, Global Crossing minimized the known problems with its business plan by misrepresenting the severity of the known risks of achieving its business plan:

The telecommunications industry is highly competitive. Many of our existing and potential competitors, particularly in our telecommunications services markets, compete with significantly greater financial, personnel, marketing and other resources, and have other competitive advantages.

The telecommunications industry is in a period of rapid technological evolution. For instance, recent technological advances enable substantial increases in transmission capacity of both new and existing fiber, which could affect capacity supply and demand. Also, the introduction of new products or emergence of new technologies may reduce the cost or increase the supply of certain services similar to those we provide.

High initial network cost and low marginal costs of carrying long distance traffic have led to a trend among non-facilities-based carriers to consolidate in order to achieve economies of scale. Such consolidation could result in larger, better-capitalized competitors. However, we believe that owning our own network will offer an advantage over carriers that lease network capacity.

In recent years, competition has increased dramatically in all areas of our communications services market. Our primary competitors include Qwest, AT&T, Sprint and MCI WorldCom and foreign PTTs, all of whom have extensive experience in the long distance market. The impact of continuing consolidation in the industry is uncertain.

535. In addition, Global Crossing's statements that investors should rely on its "pro forma" financial statements were false and misleading for five other reasons:
a. First, Global Crossing's "pro forma" disclosures gave the false impression that they reflected the Company's cashflow. The Company called revenue it supposedly generated through IRU swaps as "Cash Revenue," and defined "Cash Revenue" as "revenue plus the cash changes in deferred revenue." However, in an IRU swap, Global Crossing would simply exchange capacity for capacity. Although Global Crossing and its IRU swap partners would, in some instances, trade equal amounts of cash in a given transaction, the Company would realize absolutely no economic benefit in the transaction. Thus, the use of the term "Cash Revenue" improperly gave investors in false impression that Global Crossing's capacity sales were generating cash, when in fact they were not. Similarly, claiming that the number included "cash changes" in deferred revenues misrepresented that there was a positive cash flow component to the deferred revenue when there was no net gain in cash.

b. Second, Global Crossing's "pro forma" disclosures violated SEC Regulation S-X. Regulation S-X requires that any financial statements issued by a Company shall contain, in addition to the required disclosures, "such further material information as is necessary to make the required statements, in light of the circumstances under which they are made, not misleading." Global Crossing's financial statements that included the "pro forma" disclosures failed to disclose the following material fact that the IRU swaps essentially exchanged capacity for capacity and, as such, constituted non-monetary exchanges under APB No. 29; and That the IRU sales that the Company recorded as sales were, in fact, part of reciprocal transactions pursuant to which the Company was obligated to purchase a like amount of capacity with the same market value as the capacity sold.

c. Third, the "pro forma" disclosures were false and misleading because the Company misrepresented to investors that the "pro forma" disclosures would have complied with
GAAP prior to the effective date of FIN 43. Global Crossing represented to investors that its “pro forma” disclosures were comparable to the Company's prior method of accounting in which it treated IRU sales as sales-type leases under GAAP and recognized revenue from each IRU sale in the period the sale was made. However, in calculating its “pro forma” numbers, Global Crossing added the increase in the amount it reported as deferred revenue (which constituted revenue it booked through IRU sales but deferred over the length of the IRU pursuant to FIN 43) to the Company's reported GAAP revenue. Because each IRU sale included, in addition to the IRU itself, service obligations of Global Crossing in connection with the cable, GAAP required a portion of the revenue from each IRU sale to be recorded as “deferred revenue” even prior to FIN 43. By simply including the entire amount of each IRU sale in the Company's pro forma “Cash Revenue,” Global Crossing included “revenue” in its pro forma disclosures that would not have qualified as revenue for GAAP purposes even prior to the effective date of FIN 43.

   d. Fourth, the Company's use of the term “Cash Revenue” was false and misleading because it gave investors the false impression that the pro forma figure disclosed reflected the Company's cash flow. According to Global Crossing, “Cash Revenue” was comprised of its reported GAAP revenue plus the “cash portion of deferred revenue.” Accepting this definition, the Company's use of the term “Cash Revenue” was false and misleading because the principal component – GAAP revenue – is not cash-based revenue. As a result, the term “Cash Revenue” does not accurately reflect the Company's cash flow.

   e. Fifth, the company's new pro forma accounting allowed it to flout the very purpose of FIN 43, which was to force the alignment of revenues and costs. Global Crossing now was free to again book revenues immediately and amortize costs over the life of the capacity lease.
Moreover, the analyst reports cited above show that Global Crossing's misleading financial reporting did have its desired effect of deceiving the public.

The Company's optimistic statements about its financial condition and prospects for growth were also false and misleading since the Company was undergoing a severe, undisclosed liquidity crunch which came amid internal, undisclosed reports of a severe capacity glut such that CEO Hindery had told Winnick that the Company was doomed and could not continue to fool the stock market much longer.


In a press release dated August 31, 2000, Global Crossing announced increased estimates of the Company's financial performance for the fiscal year ending December 31, 2000. The release reported that Global Crossing exceeded its own internal projections and the consensus estimates of analysts during the second quarter 2000, and therefore was increasing its expectations for the entire year. The Company raised its estimate of Cash Revenue for the year to $5.37 billion, a projected increase of 38% compared to 1999 and $360 million more than previously estimated. Similarly, the Company raised expectations for Adjusted EBITDA to $1.34 for the full year 2000, which was $130 million more than Global Crossing's previous estimate.

29. Cohrs' September 26, 2000 Internet Presentation

In a presentation on September 26, 2000 regarding the Internet, Cohrs explained the particulars of Global Crossing's business, styling Global Crossing's fiber optic network as the "brawn" of the Internet. In his presentation, Cohrs emphatically stated: "No one else owns a broadband new fiber optic integrated IP-network that goes all over the world. No one. And we think that we'll transform the telephone business . . . in fact it already has substantially
transformed the telecom business." Cohrs also indicated that Internet growth is driving dramatic increases in broadband demand. According to unspecified forecasts of about 100% per year growth in unit demand on the Internet, Cohrs projected that bandwidth per user will be 1,000 times what it is today. Cohrs added that the forecasts for bandwidth demand had always been "too low."

540. Cohrs' message in his presentation was clear - "The world is chronically short of capacity." He explained that Global Crossing's network engineers consistently planned for Internet growth of about 100% per year. He explained that the network engineers were repeatedly coming to meetings such as capital budgeting sessions and asking for capital and saying that they are out of capacity because traffic is growing faster than their forecasts. According to Cohrs, this rapidly increasing demand is further fueled by costs of delivering capacity dropping in excess of 100% per year. He explained that when the drop in costs drives prices down, demand is stimulated. According to Cohrs, Global Crossing's margins then go up and generate "more cash than was ever forecasted," although the price for its product is "dropping at 30 - 50% per year."

541. Cohrs stated that Global Crossing "had a very strong" second quarter in 2000. He boasted that Global Crossing beat all estimates on the Street and that adjusted EBITDA was up over the previous year by about 55% on an annual basis. He commented that because the first two quarters of 2000 were so strong, Global Crossing raised its guidance and "added about $125 million to our guidance for the year." He added that Global Crossing was increasing its guidance at a time when many companies "are going the other way." With respect to capacity sales, Cohrs stated
The wholesale business that was started, in the sale of IRU, selling capacity in the form of indefeasible right of use - that business is about 1/4 of the company today, and we expect that to continue. It's a very, very profitable business, and it generates a lot of cash, because typically each sale of that capacity is cash up front. So it helps the financial profile of the company quite a bit.

Cohrs also indicated that margins were about 30% at second quarter 2000 and that Global Crossing expected margins to go upward in time to the low 40s and EBITDA to grow at about 40% per year, as well as the top line to grow at about 30% per year.

542. Cohrs' statements were completely false and misleading since he knew that the Company was facing an undisclosed liquidity crisis amidst internal analyses that showed a capacity glut.

30. **Casey Is Named CEO in October 2000**

543. On October 11, 2000, Global Crossing issued a press release announcing that Hindery resigned "by mutual agreement" and that the Board of Directors named Casey to succeed Hindery as CEO. Winnick remained Chairman of the Board. Prior to being named CEO, Casey was serving as a director of Global Crossing and Vice Chairman of the Board. The press release indicated that Casey "has more than 25 years of broad telecommunications experience and has been deeply involved in every aspect of Global Crossing's business since joining the company just after its public offering." Casey stated:

> With the buildout of the Global Crossing network now in place, we have an extraordinary opportunity to leverage our first-mover advantage to drive revenues and cash flow. We expect to meet or exceed our recently increased projections for the third quarter and full year, and we are well positioned for 2001 and beyond.

31. **Global Crossing Commences Trading on the NYSE**

544. On October 23, 2000, Global Crossing announced that it would commence trading on the New York Stock Exchange ("NYSE") the next month. In the press release Winnick stated:
Listing our shares on the NYSE, the world's largest capital market, is the logical next step for Global Crossing as we work to become the world's premier provider of global broadband communication services. As a provider of sophisticated telecommunications solutions to major institutions worldwide over the first truly global fiber optic network, it is appropriate that Global Crossing shares be traded alongside the global leaders listed on the Exchange.

32. The Third Quarter 2000 Earnings Release

545. On November 13, 2000, Global Crossing announced its financial results for third quarter 2000 (the "Third Quarter 2000 Release"). Global Crossing reported "Cash Revenue" of $1.316 billion, which was a 46% increase over the same quarter in 1999, and "Recurring Adjusted EBITDA" of $379 million, which was a 91% increase from the same period in 1999. Commenting on the results, Casey stated:

We are very pleased to have once again exceeded our financial targets, and we continue to see strong demand. . . . we will continue to sharpen our focus on our targeted customer sets: multinational corporations (MNC's), carriers, next-generation Internet service providers, and governments. Our top priority is to drive revenue growth from these customers, and increase margins by streamlining our organization and cost structure to match the requirements of serving these key customers.

546. In the Third Quarter 2000 Release, Global Crossing also reported that it had arranged approximately $2.14 billion in financing and that it expected to be in a position to fully fund all of its anticipated business expansion plans without further financing activities. The Company also announced the completion of its South American Crossing ("SAC") undersea system in Argentina, Rio de Janeiro, Brazil, and Valparaiso, Chile.

547. The press release included the following definitions:

In this press release, Revenue refers to revenue reported on the Company's statements of operations under Generally Accepted Accounting Principles. Cash Revenue refers to Revenue plus the cash portion of the change in deferred revenue. Service Revenue excludes all impacts of IRU sales, and refers to Revenue less any revenue recognized immediately for circuit activations that qualified as sales type leases. Adjusted EBITDA refers to operating income (loss) plus goodwill and intangibles amortization,
depreciation and amortization, non-cash cost of capacity sold, stock related expense and the cash portion of the change in deferred revenue, which definition is consistent with the financial covenants contained in the Company's major financing agreements. Recurring Adjusted EBITDA refers to Adjusted EBITDA plus one-time merger and integration expenses and other non-recurring expenses. For all periods presented, net income generated by the ILEC business is reported as "Income from discontinued operations, net of taxes" on the Condensed Consolidated Statements of Operations.

33. The Third Quarter 2000 Conference Call

548. On November 14, 2000, Casey and Cohrs held the analyst conference call on information regarding Global Crossing's Third-Quarter 2000 earnings. Casey began the call by reporting that he was pleased to say that Global Crossing had exceeded its projections once again. Casey said:

We reported cash revenues of $1.367 billion, which is a year on year increase of 46 percent. We reported recurring adjusted EBITDA of $355 million, which is a 91 percent increase over the comparable quarter from last year. We also reported data cash revenue of 88 percent. And our recurring net income numbers were also very positive this quarter. We have 65 cent loss 6 per share, 572 million negative recurring net income, which is better than the projections on both fronts. With this quarter's strong performance I'm pleased to say that we have had four straight quarters of growth since our acquisition of Frontier closed in the Third quarter of '99. Year over year cash revenue, services revenue, and adjusted EBITDA growth have been accelerating.

549. With respect to IRU sales, Casey also reported:

Another point worth mentioning is that we are experiencing robust growth and consistent growth in our IRU sales. Growth in IRU cash revenue has increased from 61 percent year over year in the first quarter to 111 percent in the most recently completed quarter.

550. During the earnings conference call, Casey touted a growth in cash revenue of 43% year on year from First Quarter 2000 to 88% in the Third Quarter 2000. Casey explained why Global Crossing reported such strong growth and performance in stark contrast to other telecom service providers that were reporting negative results:
So let me try to explain why Global Crossing can report such strong growth and performance when so many of our other telecom service providers are reporting negative results. In sum it is because that Global Crossing already has the network and revenue mix that those companies are targeting, but does not have the burden of managing billions of dollars of sharply declining voice LD business.

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In addition, our business plan -- another important distinction for us in terms of how we can go into the market -- our plan is fully funded. 101,000 mile network will be completed next year. We won't be scaling back on network completion plans or on the revenue and service projections that require that network completion.

This is a powerful competitive advantage for us, because our network has a larger scale than any other single network in the world. And as the world turns more and more to IP services, this network becomes an important competitive differentiator for us for several reasons.

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It also allows us to have, because of the scale of the network, we have more traffic going on net than any of our competitors, thus that gives us, not only the ability to have better performance, but also allows us to provision more quickly, more flexibly offer customers a more dynamic service than anyone else can offer.

And because of this, more and more of this kind of traffic is on our network, it allows us to offer lower costs. We think that's a powerful advantage and that is why, in fact, we are targeting specific customer segments rather than the broad market that others have been targeting.

In response to a question from analyst Adam Quinton with Merrill Lynch, regarding Global Crossing's growth projections, Casey responded:

With respect to our confidence on the growth projections we have given on both revenue and on EBITDA, we are very confident of those numbers. We remain confident. We are reiterating them now and we see -- I mean, we are in a very advantageous position with respect to our growth rates because our network is still coming on. And so as we roll up the network we have the benefit of Metcalf's effect, which is obviously that as new points get added to the network, then the value of the entire network increases because there are more points of connection.

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We are rolling out a very specialized portfolio of products and services. It's a product set designed for interregional customers, as well as the other kinds of customer. We think we have a competitive differentiator in that
we can provide data, virtual private network services, IP private network services and other managed data and IP services across a global span that no one else will be able to provide on an integrated basis. This will, as I said, give us operating as well as cost advantages. So we are quite confident about our ability to move in the growth trajectory that we have just outlined.

552. Casey also emphasized that data services are growing 80 - 100% a year, and the Internet is growing 100% a quarter, and he stated Global Crossing is the beneficiary of the Internet growth. He further stated that Global Crossing was "fully funded" for planned capital expenditures $6 billion in 2000 and $4 billion in 2001. In response to analysts' questions regarding growth trends, Casey stated:

Demand, I think I mentioned in the main presentation that the demand on the IRU sales continues to grow. It's over 100 percent. We see that the demand for IRUs is very, very high. Every time we do a forecast of demand we increase it relative to the prior forecast and every time we have an actual Quarter experience the actual exceeds the forecast. So we are very comfortable with that.

553. Also in response to questions regarding the kind of contracts that Global Crossing is signing, Casey explained that Global Crossing signs contracts for a variety of different bandwidths, and further explained:

What we are finding is becoming particularly attractive in the market now that the network is expanding geographically is what we call the global network offer, which is that a customer -- and these are almost always carrier customers -- can have an amount of capacity which they get to put in the various regions, whether it's Asia, the Pacific, North America, South America, the Atlantic or Europe. This gives those customers a great deal of flexibility to meet their demand requirements. And because we have the network reaching in all those places, we are able to flexibly make that offer and provision those services to them.

554. In further response to analysts' questions regarding initiatives that are underway for Global Crossing to beef up its distribution in the U.S. and otherwise, Casey said that the business of the Company has been developing steadily over the last three years and that Global
Crossing has "a sales force now distributing around the world in the places where our customers are. They are very targeted. They are very focused...so we are now...very focused and have been very focused on operational execution. He added:

our company, probably as a large result of Gary Winnick and Dan Cohrs' expertise and their willingness to go into the market when the market was willing to give money, that has taken a huge burden off of this company's shoulders going forward. We have all the money we need. We have the management team we need. They are continuing to run the business every day while we go through the various things that we go through.

555. Cohrs responded to analysts' questions regarding the forecasts and pricing, and Cohrs admitted that the company's forecasts indicating that forward pricing would be lower. He stated, however, that:

As always it's worth pointing out that what's driving pricing in this industry fundamentally is technology. And because technology is driving the per unit cost down at least 50 percent per year, we believe that even in the declining price environment that we expect we can maintain or even increase margins, IRU sales and we continue to see that.

* * *

So we continue -- our forecast of demand is consistent with our behavior in terms of upgrading these systems while ahead of demand or at least to upgrade them well ahead of demand. What we see is that it's always a race to keep up with demand by the time we actually install the capacity.

556. During the conference call, an analyst with Goldman Sachs asked Casey and Cohrs to provide insight into the composition of Global Crossing's revenue from Data Product Services. Cohrs explained the breakdown of data revenues as follows:

We have on a pro forma basis 712 million of total data cash revenue and 306 million of data service revenue. The difference between those two numbers is cash IRU sales. So there's $406 million that we have sold in the form of bandwidth products for which we collected cash up front, 406 million. That 406 million is distributed around the world from Europe across the Atlantic and U.S. and across the Pacific on all of the systems that we have lit. As I just mentioned, it's becoming a very diversified source of cash and revenue for us. We are not heavily reliant on the Atlantic anymore.
Before ending the conference call, Casey summarized the Company's Third Quarter 2000 performance as follows:

I would just reiterate that we feel very good about our performance in the Third Quarter. We exceeded the expectations in a time when others are not being able to do so and we think that confirms the validity of our model and our approach into the market.

I would repeat that we are fully financed. We don't have to come into the capital markets to complete the business plan, to generate the revenue and the EBITDA that we have proposed to you. Others will be scaling back I think as the capital markets persist in their current conditions and we are confident that that gives us a competitive advantage.

We are going to be moving forward. We are focused on operational excellence. The team that has been assembled by Gary and my predecessors and the rest of this team here is in place, intact, moving forward. They are focused on what they have to do now and they are executing. We are very, very comfortable with the guidance we have given you. We are pleased and proud of the performance that we have had and we continue to have that -- look for that kind of performance going forward.

34. The Casey and Cohrs November 13, 2000 Bloomberg Interview

On or about November 13, 2000, Casey and Cohrs were interviewed by the Bloomberg forum. Commenting on quarterly earnings results from the Third Quarter 2000, Cohrs said:

The recurring net loss applicable to common shareholders is actually declining slightly quarter to quarter. But, Lisa, we would put a lot more emphasis on the cash revenue and the adjusted EBITDA numbers, which I think are a lot more indicative of what's going on in the business. And if you look at cash revenue that we reported, it's up 46 percent year over year. We are giving year-over-year comparisons. And the recurring adjusted EBITDA, which is a measure of cash flow in the business is up 91 percent year on year. Within that, we saw cash revenues for data products up 88 percent. And data products are now about 59 percent of our total cash revenue. And even taking out the impact of IRU sales -- you know we generate quite a bit of cash by selling IRU's. But even putting aside the sales of IRU sales, service revenue from data products is up 64 percent year on year. So on a year-over-year basis, this is an extremely strong quarter for us."
In the interview with Bloomberg, Casey added:

We saw accelerating growth in all of our year on year, cash revenue, service revenue, and adjusted EBITDA categories. And we’ve also seen consistent margin growth since the acquisition of Frontier. To be specific, the cash revenue increased from 20 percent year on year, in the first quarter of this year, to 46 percent in this quarter. Our service revenue increased nine — from a nine percent year-on-year rate in the first quarter to 28 percent in this third quarter. The recurring adjusted EBITDA increased from 20 percent year on year to 91 percent in the last quarter on a year-on-year comparison. And our margin — our adjusted EBITDA margin increased from 22 percent in the third quarter to 29 percent this quarter. So we’re seeing very strong growth on all the measuring metrics, and we feel very good about that. The data services are growing very, very fast. And they’re driving our growth, which is obvious because that’s the majority of our business. As we said, 59 percent of our revenue is data service revenue. And so, if we’re going to grow at those rates, it’s going to come out of the data businesses.

* * *

So we’re very comfortable with our growth. And we have seen a different experience in the marketplace than some of the other companies that have been reporting. Principally, I think because our voice revenue is such a small percentage of our total mix of revenue. And we have the benefit of having global network, which is out there in service now. Cities all over the world, in all the regions of the world are up and in commercial operation. So we’re getting business that other people in the same position as we are not able to get.

Cohrs also commented that the Company would take several years to become income positive, but he diminished the importance of having a positive reported net income as follows:

Also, remember, that when we sell IRUs — and we generate a lot of cash by selling IRUs. But when we sell an IRU, we have to amortize that revenue over 25 years. And so, it’s a very profitable business on a cash point of view. But from a net income point of view, it doesn’t bring through net income on a reported basis. So for those two reasons, it will be sometime before we are net income positive. But we are very strongly positive on adjusted EBITDA, and we have said that within two years we expect to be cash flow positive – net cash flow positive. That is, we need no more financing sometime in around late 2002.
Casey projected that the Company would be "cash flow positive in 2002." Casey explained:

Actually, we need no more financing now, because we have all the financing that we need to complete the business plan that we have in place through 2002. And then we — and Dan's right. We go free cash flow positive in 2002. So one of our strengths, actually, in this market, we believe, is that our business plan is fully funded and we have no more reason to go into the capital market seeking any form of outside financing, whether it's equity or high-yield debt or any other form of financing, because as I said, we're fully funded.

35. The Third Quarter 2000 10-Q

On November 14, 2000, Global Crossing filed with the SEC its Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (the "Third Quarter 2000 10-Q"). The Third Quarter 2000 10Q repeated the financial information disclosed in the Third Quarter 2000 Release and attributed the Company's increase in revenue to an increase in revenue from data products. The Company reported that service offerings were a significant source of its revenue. Global Crossing also reported PP&E of $8.829 billion for the three-month period ended September 30, 2000. The Company reported total shareholders' equity of $12.447 billion. The Company also stated that its financial statements in the Third Quarter 2000 10-Q were prepared in accordance with GAAP and the SEC regulations. In addition, the Company emphasized its strategy "to be the premier provider of global broadband Internet Protocol ("IP") and data services for both wholesale and retail customers." Global Crossing touted its "state-of-the-art" fiber optic network as the "backbone for this strategy" and stated that "Management believes that the Company's network will enable it to be the low cost provider in most of its addressable markets."

On January 8, 2001, Global Crossing issued a press release, reiterating previously announced strong financial performance for the fiscal year ending December 31, 2001 and stating that the Company was continuing to diversify its revenue base. Global Crossing announced that it expects its continuing operations to generate approximately $7.1 to $7.2 billion of Cash Revenue, and approximately $2.0 to $2.1 billion of Adjusted EBITDA in 2001. Casey, CEO of Global Crossing at the time, stated:

"We expect 2001 results to represent strong growth in Cash Revenue and Adjusted EBITDA and position us to achieve the long-term growth objectives we have previously stated: 30% annual growth in Cash Revenue and 35%-40% annual growth in Adjusted EBITDA."

"In 2001, we expect to see continuing triple-digit growth in sales from our key data-service products, and continued strong growth in sales from our wholesale non-IRU business, as we take advantage of our network capacity and our new voice-over-IP technology to provide service to other carriers. Sales of capacity in the form of IRUs should remain a strong cash generator, but we are relying on projected growth in IRU sales of less than 25% in order to meet our projections."

Mr. Casey continued, "We anticipate that 2001 performance will benefit from the initiation of commercial service on several new systems and in several new regions. . .In addition, the data and IP services tailored to be attractive to the global enterprise market are now being rolled out and, as a result, for the first time we will be generating revenue from these services in these new markets in 2001. This product and geographic diversity reduces our dependence on any particular product or market. For example, the trans-Atlantic capacity market, which was our only source of revenue just 18 months ago, should account for less than a few percentage points of our Cash Revenue in 2001."

37. The January 22, 2001 Press Release

On January 22, 2001, Global Crossing announced that it was in the process of completing its private offering of $1 billion in aggregate principal amount of 8.7% Senior Notes Due August 2007. The net proceeds from the offering were to be used to reduce the cost of borrowing by refinancing existing indebtedness under the Company's corporate credit facility.
38. The January 25, 2001 Press Release

On January 25, 2001, Global Crossing announced the completion of a critical network segment, connecting the U.S. and Mexico to Central America and the Caribbean. In the press release, Casey stated:

The telecommunications services market in Latin America is growing exponentially, and Global Crossing is extremely well-positioned to meet the strong demand this growth is generating.

39. The Fourth Quarter And Fiscal Year 2000 Earnings Release

On February 14, 2001, Global Crossing reported “record results” for the fourth quarter and full year ended December 31, 2000. The Company reported fourth quarter Cash Revenue of $1.54 million, Recurring Adjusted EBITDA of $418 million, and a Recurring Net Loss of $617 million, or $0.70 per share. For the full year 2000, the Company reported Cash Revenue of $5.16 billion, Recurring Adjusted EBITDA of $1.469 billion and Recurring Net Loss of $1.779 billion, or $2.11 per share. With regard to the results, Casey, Global Crossing's then CEO, stated:

We are extremely pleased with our fourth quarter results, and again we have exceeded expectations while many other telecommunications providers have reported disappointing results. New contracts with demanding customers such as SWIFT, Computer Sciences Corporation (CSC), and Garban are tangible evidence that sophisticated global enterprises can rely on Global Crossing to satisfy their most critical needs. These contracts validate the reliability and functionality of our worldwide seamless network. Successes with these global enterprise customers are based on our capabilities in managing secure IP networks, as well as the unmatched combination of bandwidth and geographic presence that we offer...

Our successes with global enterprise customers like SWIFT, CSC and Garban have not yet been reflected in our operating results. However, we expect customers such as these to rapidly become significant contributors to growth in revenue and profitability in the Commercial segment as we continue to de-emphasize service offerings to small and medium business customers. With our global network virtually complete and fully funded,
and with the IP/VPN capabilities that we're implementing for new customers such as SWIFT, we have tremendous operating leverage as we add new customers to the network at very low incremental cost. We can reduce network costs for our customers as we increase our own margins.

Additionally, the company reiterated its previously announced projections of its financial performance for the fiscal year ending December 31, 2001.

On February 14, 2001, shares of the Company rose $1.70, or 9%, to $19.76 in early afternoon trading, after rising as high as $21.16.

**Earnings Conference Call for Fourth Quarter And Full Year 2000**

On February 15, 2001, Casey and Cohrs participated in a conference call to discuss Global Crossing's Fourth Quarter and full year 2000 earnings. Casey began the call by announcing that Global Crossing had once again had a "very strong quarter and a very strong year." He further reported as follows:

I'm very happy to announce that once again Global Crossing has had a very strong quarter and a very strong year 2000. We have exceeded not only the guidance that we released for 2000 in August of last year, but we have also exceeded the street estimates for our performance. We experienced strong growth in both cash revenue and adjusted EBITDA for the year, and let me just quickly summarize the details that are in the press release we released yesterday.

Our cash revenue for the quarter was $1.54 billion and for the year was $5.329 billion. Cash revenue showed a sequential growth fourth quarter over third quarter of 15 percent, 43 percent fourth quarter over fourth quarter 1999, and 36 percent the year over year 2000 and '99. So with very strong growth on the top line, the cash revenue line.

The adjusted EBITDA performance in the fourth quarter was $418 million, which is a 10 percent sequential growth over the preceding quarter, a 35 percent rate of growth over the fourth quarter of the year before, and a 54 percent rate of growth for adjusted EBITDA 2000 to '99.

All those numbers, of course, are proforma-based so we can have apples-to-apples comparisons throughout.
Our performance, we believe, shows that our plan is working. We have succeeded in exploiting our several-year headstart over our competitors to do several things.

First, we got a network built and funded before any of our competitors. We used that network breadth and the broad availability of broadband capacity to sell products into markets where there was pent-up demand and there was little competition.

* * *

So we have very substantial time to market advantage, we believe, and as other competitors come into various geographic regions of the world with broadband network selling capacity, we have already moved through that phase and are into the era of selling services. We think that's a competitive advantage and we intend to continue to exploit it in 2001.

569. Casey emphatically stated on the call that “there is and continues to be strong demand for bandwidth around the world and we continue to experience very, very strong demand for the bandwidth product.” Casey attributed the Company’s purported growth and cash revenue to data products and stated:

continued growth in cash revenue from data products drove our business, drove our results. Not only the IRU strength, of course, but also the good growth in other data products, frame, IP, and private line services. Specifically, the sequential growth of our data products in terms of cash revenue, $867 million of revenue there, 20 percent growth fourth quarter over third quarter, 72 percent growth fourth quarter 2000 over fourth quarter of '99, and 68 percent 2000 over '99.

Data products was 62 percent of our telecommunication services' cash revenue and that compares to 59 percent last quarter and 51 percent a year. But we are continuing to see strong growth in the data products. We're rolling out those products worldwide. We're getting good reception in the market for them, and data products continue to play a very high and growing role as a source of revenue for us.

570. During the call, Casey explained Global Crossing's business strategy as follows:

As we have been telling you for several months, we have transformed Global Crossing. We have gone from the construction mode where we sell capacity primarily to carriers and to small and medium businesses in North America and in the United Kingdom, to a global operating network of facilities-based services provider where we sell to carriers, to global
enterprises, to governments, the next generations of Internet edge player companies.

571. Casey reported on the call that Global Crossing was "no longer dependent on IRU sales." He emphasized that Global Crossing will be moving to a global enterprise market to offer "multi-regional and very high-end value-added services which are particularly attractive" and in which Global Crossing has "a strong competitive advantage because no one else in the world is able to go to a customer that has a demand for managed network service, from Asia to Europe and across both oceans and the South America regions, and offer them that product on a one single integrated network." He also stated:

in terms of illustrating the breadth and the diversity of the sources of our revenue, I think it's important to understand that we are no longer dependent on IRU sales anywhere and not IRU sales in the Atlantic in particular.

* * *

[Global Crossing has] much more as a percentage of our total revenue mix coming from the high-growth products, the products that customers increasingly want, the products where there's margin, and the products that our network has been designed specifically to offer.

572. Casey reiterated on the call that Global Crossing had an "outstanding quarter and an outstanding year." He continued:

$5.3 billion in cash revenue and 1.5 in adjusted EBITDA proforma. We are reaffirming our 2001 guidance which we just released a few weeks ago. Unlike some of our colleagues, we feel no need to scale back our expectations. We feel very confident about our performance as the new network systems around the world, the new products that will be offered over those networks in those regions come online and get fully distributed into the marketplace. We feel good about the guidance, very high growth rates in that guidance, as you know, well in excess of our 5-year average of 30 percent on the revenue line and 35 to 40 on the adjusted EBITDA line. That guidance, just to reiterate, with 7.1 to $7.3 billion in cash revenue and 2 to 2.1 billion in adjusted EBITDA for 2001.
An analyst from CSFB asked:

If you're saying the IRUs as a percent of revenues is going to become a lot less as we go forward, am I thinking right that that means that the difference between cash revenue and GAAP revenue gets a lot less or a lot smaller, and does that somehow dampen the growth rate of the cash revenue?

Cohrs responded as follows:

What we're saying is that IRUs as a percent of our total cash revenue will be a little less than they were in the fourth quarter. When Tom went through his remarks he noted that historically we have had about one-third of our cash revenue as IRU sales. In the fourth quarter it jumped up to 38 percent, really because we opened up new systems and we had more demand around the world. Our guidance for 2001 implies that IRU sales would be in the range of about 20 to 25 percent of cash revenue. So we do expect it to decline from fourth-quarter levels generally, so that we expect IRU sales going forward to be in that range, about 20 to maybe 25 percent of cash revenues. It's a very good business and it generates nice cash and good margins. So we don't see that going away.

Just as a technical matter, to the extent that IRU sales become a smaller percentage of cash revenue, it is certainly true that the difference between cash revenue and GAAP revenue would tend to get smaller, because essentially cash revenue is the GAAP revenue plus IRU sales. So that's literally true. We don't see that affecting our growth rates. Everything that we have said about growth, the guidance we gave out in 2001 and our long-term growth, which we say is 30 percent growth in cash revenue, reflects all of that. So it doesn't change anything, although as a specific technical matter, you're absolutely right.

Casey closed out the conference call by stating:

We think we have released information which indicates that our performance in the fourth quarter and in the whole year of 2000 has been very strong. It's been very strong revenue-wise, very strong on the EBITDA line, and very strong in terms of completing promises to build a network that's global and that's differentiated and to convert it into services and very strong in terms of customer receptivity.

We have beat expectations again as we have each quarter since we have been a public company. As Dan just said, our CAPEX has been contained at the levels that we said they would be at the beginning of the year 2000. They will decline, obviously, over the next few years because the network is building this year and finishing up with the very first part of next year.
[Deals] have been designed solely to pay that debt to lower our cost of
debt and interest payments. So we are fully funded and we have been
comfortable with that.

The demand for our products both on the services side and on the
bandwidth side is very strong, and we think the revenue numbers you saw
from that show that demand on both levels is very strong. Very happy
with that.

* * *

We're trying to be sharply focused. We're trying to be efficient. We think
we're doing that. We think our results prove that. We feel very good
about 2001 and the expectations that we have put out in terms of guidance
for very strong growth; again cash revenue and EBITDA line, we feel
good about and we're continuing to reaffirm that.

575. The statements in paragraphs 538 through 574 were each false and misleading
when made at the time issued for the reasons set forth above in paragraphs 451, 532 and 535, and
in addition because they misrepresented or omitted material adverse facts, including that:

  - growth was slowing and the Company faced a severe cash crunch amid an
    industry-wide capacity glut; and

  - Global Crossing's reporting of "cash" and revenues associated with "cash" were a
    complete falsehood.

576. As would only become known after the end of the Class Period, even by year
2000, over $200 million of Global Crossing's reported cash revenues, cash from operations and
cash change in deferred revenues was non-cash revenue derived from capacity swaps with no
real economic benefit to the Company.

577. In a conference call published over Bloomberg News on February 15, 2001, Cohrs
commented favorably on Global Crossing's Fourth Quarter 2000 results. In response to the
Bloomberg monitor's question regarding the favorable increase in Global Crossing' stock price,
Cohrs stated:
I take this is a positive reaction by the market to the results that just came out. And I always hesitate to interpret what’s going on in the stock market, but I think it’s pretty clear in this case that the results were received positively. We, um, reported very strong results for the quarter. We beat all of the analysts’ expectations . . . and we also beat the guidance that we had previously put out. So, in financial terms, it was a very good quarter. We had cash revenues up 36% year-over-year and adjusted EBITDA up 54% year-over-year and that was very good news.

578. In response to questions regarding the driving force for Global Crossing's strong financial results, Cohrs explained:

The results are being driven by continuing very strong demand for bandwidth around the world . . . We opened up several new systems and those new systems contributed very strongly to the growth in bandwidth sales. Then we had continuing strong growth in data products. Our data products were up 72% in this fourth quarter over a year ago fourth quarter. So, a very strong growth in data products. And we see data continuing to increase its percentage, as a percentage of our total cash revenue. I think more qualitatively, what we're seeing is evidence that we are really being successful in transforming Global Crossing from a bandwidth company . . . we built a network, we sold bandwidth and essentially large carriers were our customers. And we're transforming the company into a provider of global services.

41. The March 1, 2001 Analyst Meeting

579. On March 1, 2001, Global Crossing held its first annual analyst meeting in New York. A number of analysts issued positive research reports based on information provided by Defendants at the meeting. On March 2, 2001, Gerard Klauer Mattison & Co. issued a report on Global Crossing, which was based on information Defendants provided at the analyst meeting. The report stated:

Yesterday, Global Crossing held its first annual analyst meeting in New York. Overall, we believe management did an excellent job of articulating the company’s story. We believe the company is well positioned to begin leveraging its asset base, essentially accelerating growth and market penetration. We reiterate our BUY rating and $47 price target . . . The company appears fully funded. We believe the company has enough available capital to fund its estimated $5.0 billion in capex for 2001. Global Crossing expects to be free cash flow positive in 2002, and should actually enter 2002 with approximately $1.0 billion in excess liquidity. In
our opinion, this places the company in a relatively unique position in the industry, as many of its competitors will have to raise additional funds in order to finance their business plans.

Thus, Global Crossing able to continue to deceive analysts and investors.

42. The 2000 Annual Report on Form 10-K

On April 2, 2001, Global Crossing filed with the SEC its Annual Report on Form 10-K for the fiscal year ended December 31, 2000 (the "2000 10-K") signed by Defendants Cohrs, Winnick, Cook, Casey, Clayton, Attanasio, Conway, Hippeau, Kent, and Lee. Global Crossing reported $3.79 billion in total revenues and $1.37 billion as the Cash Portion of the Change in Deferred Revenue for the full year 2000. The 2000 10-K reported sales-type lease revenue of $350 million and revenue from amortization of prior period IRUs of $28 million from the Carrier segment. Global Crossing reported Recurring Adjusted EBITDA of $1.47 billion for Fiscal 2000. The Company reported total shareholders' equity of $11.7 billion. The Company's Cash Revenue reported in the February 14, 2001 Earnings Release was not reported in the 2000 10-K, although the cash portion of deferred revenue was reported as $1.37 billion for the full year 2000. Global Crossing also reported a net loss of $1.67 billion and a loss of $2.35 per share, as compared to net loss of $111 million and a loss of $0.35 per share in fiscal year ended December 31, 1999. The 2000 10-K reported PP&E for the period ended December 31, 2000 of $10.030 billion. The Company reported $1.7 billion as Deferred revenue. Global Crossing reported fourth quarter revenue of $997 million and net loss of $454 million, or loss of $0.58 per share. The Company represented that its financial results were accurate and in conformity with GAAP.
The 2000 10-K further reported strong growth demands for bandwidth capacity as follows:

[W]e expect the evolving needs of global enterprises, as well as trends in Internet traffic and deregulation, will result in a rapid growth in demand for global bandwidth. Global enterprises are moving many of their operations to network-based applications in order to obtain optimal efficiency and cost savings. These enterprises are using networks to interact internally as well as with partners, customers and vendors. . . . Internet traffic continues to grow at a rapid pace and non-U.S. Internet users now exceed U.S. users, although most of the content being accessed by users outside the U.S. is located within the U.S. We expect demand for additional capacity to grow along with the number of Internet users and content providers.

In addition, Global Crossing reported in the 2000 10-K that:

The trading of bandwidth via trading desks and brokers is a new industry phenomenon. While this market is still in its formative stages, we believe bandwidth trading will develop into an important sales channel for some of our services in the future.

The Company may exchange capacity with other capacity or service providers. These transactions are accounted for in accordance with Accounting Principles Board Opinion No. 29 . . . where an exchange for similar capacity is recorded at a historical carryover basis and dissimilar capacity is accounted for at fair market value with recognition of any gain or loss.

The Company used the following definition in the 2000 10-K:

Recurring Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization, or Recurring Adjusted EBITDA, is calculated as operating income (loss), plus goodwill amortization, depreciation and amortization, non-cash cost of capacity sold, stock related expenses, cash portion of the change in deferred revenue and certain non-recurring items. This definition is consistent with financial covenants contained in our major financial agreements. Our management uses Recurring Adjusted EBITDA to monitor compliance with our financial covenants and to measure the performance and liquidity of our reportable segments. This information should not be considered as an alternative to any measure of performance as promulgated under GAAP. Our calculation of Recurring Adjusted EBITDA may be different from the calculation used by other companies and, therefore, comparability may be limited.
The statements in paragraphs 576 through 583 were each false and misleading when made at the time issued for the reasons set forth above in paragraphs 451, 532, 535 and 575, and because they misrepresented or omitted material adverse facts, including that:

a. Global Crossing's accounting methods for the period through July 1999, during which the Company immediately recognized as revenue the entire value of IRU sales from long-term leases and payments for repurchasing bandwidth from customers but amortized costs over the terms of the lease were both improper under FASB No. 13 and caused a material misrepresentation of Global Crossing's revenues, profitability and the value of its assets. In fact, of the Company's reported revenues for the period, it was later disclosed that the vast majority had been improperly recognized as sales-type leases such that the services should have actually have been amortized over a 25-year period rather than immediately recognized;

b. Global Crossing's financial statements and pro forma disclosures were false and misleading because they misrepresented the cash position of the Company. By booking IRU Swaps as cash sales, Global Crossing gave the false impression that it was receiving cash in the IRU sales when this was not the case. Global Crossing compounded this fraud by using terms such as "Cash Revenue" in its pro forma disclosures to refer to artificial revenue figures that the Company should not and could not recognize even under the most liberal accounting practices. In truth, Global Crossing was rapidly running out of cash and the Company's statements above actively concealed this fact;

c. Defendants were artificially inflating Global Crossing's operating performance through improper accounting of transactions with other telecommunications companies. In a number of undisclosed transactions, Global Crossing sold capacity on its network to customers who bought capacity back in a "swap" transaction. Global Crossing
recognized the revenue from the capacity sales either up front or as deferred revenue, but recorded the cost as a capital expense instead of an operating expense. Global Crossing failed to disclose that these capacity exchanges were reciprocal transactions that were dependent upon each other;

d. By engaging in reciprocal IRU sales with other telecommunications companies, essentially "swapping" network capacity in exchange for network capacity, and accounting for such exchanges using the fair value of the capacity, Global Crossing artificially inflated its revenue and violated GAAP by recognizing any revenue in connection with such transactions because, under APB No. 29, Global Crossing should have accounted for such exchanges using its historical or cost basis of the capacity relinquished in the transactions;

e. By accounting for the value of IRUs acquired from other telecommunication companies in reciprocal IRU sales, or so-called "swap" deals, using the fair value of the capacity exchanged, Global Crossing materially overstated the value of its total assets;

f. The Company's optimistic statements of growth and success were misleading because they omitted that the Company's financial position was distorted by its accounting manipulations and it was far from the success story that had rapidly reached hundreds of millions of dollars in revenues that it portrayed;

g. The Company, and specifically the officers who signed the 2000 10-K knew that the Company was unable to sustain its business plan, as evidenced by the June 2000 Memo by Leo Hindery, because Global Crossing's business plan of building capacity for carriers and selling that capacity in the form of long term leases could be nothing more than a "transient" strategy. Indeed, as the supply of capacity increased due to more competition, and demand for
and the price of capacity declined because of changing market conditions and oversupply, Global Crossing found it increasingly difficult to meet its wholesale capacity sales targets. Moreover Global Crossing was incapable of competing with its wholesale customers for retail sales of capacity to end users; and

h. Global Crossing also contined to falsely represent robust growth and demand in the telecom industry, continuously touting growth of 100% annually and better, even though Global Crossing knew full well that such growth not only was impossible and nonexistent, but that historically such projections had been proven false. Nevertheless, based on these false representations of capacity demand, Global Crossing continued to understate its costs of sales by calculating such costs based on anticipated demand that Global Crossing knew did not exist, and sales forecasts that Global Crossing knew it could not achieve. By understating its costs of sales, Global Crossing materially overstated its reported earnings.

585. On April 17, 2001, two weeks after Global Crossing released its 2000 10-K, J.P. Morgan initiated coverage on Global Crossing with a “Buy” rating and a 12-month price target of $29. The current price of the stock on April 17, 2001 was $9.85. The report stated that “Global Crossing is accelerating its transformation to a value-added service provider.” J.P. Morgan indicated that for the full year 2001, “we expect the company to report cash revenue of $7.1 billion and adjusted EBITDA of $2.0 billion.” The report also emphasized that Global Crossing purportedly was “fully funded” and “positioned to generate free cash flow in 2002.” With regard to the Company’s reported financial results, the report stated:

Many companies have been reporting both ‘cash and GAAP results to accurately reflect the businesses’ underlying strength. We believe that the cash results are important indicators, as these results better show the cash-generation capability of these companies, which in turn reflect the companies’ ability to fund the debt structures and capital expenditures
during the construction and early operational stages of the companies' development.

586. The J.P. Morgan report further shows that analysts were misled by the Company's misleading disclosures and its creation of pro forma numbers touting cash that unbeknownst to the public was not cash at all.

43. The April 27, 2001 Registration Statement

587. On April 27, 2001, Global Crossing filed a Registration Statement and accompanying prospectus with the SEC related to the Company's offer to exchange $1 billion of the 8.7% notes that had been issued in a private offering in January 2001 for other substantially similar notes that were to be registered with the SEC. The Registration Statement and Prospectus incorporate by reference, among other SEC filings, the 2000 10-K. The Registration Statement and Prospectus also provided selected financial information, including Global Crossing's reported recurring Adjusted EBITDA of $1.469 billion for the full year 2000. In the registration materials, Global Crossing indicated that its management uses Recurring Adjusted EBITDA to "monitor compliance with its financial covenants and to measure the performance of its liquidity of its reportable segments." The Recurring Adjusted EBITDA reported by Global Crossing included the "Cash Portion of the Change In Deferred Revenue." In the Registration Statement and Prospectus, Global Crossing reported GAAP revenues of $3.789 billion, a net loss of $1.98 billion, assets of $30.19 billion, and shareholders' equity of $11.7 billion for the year ended December 31, 2000. Andersen audited the financial statements incorporated by reference in the Registration Statement and Prospectus.

588. Dawson, Winnick, Cook, Casey, Scanlon, Hindery, Porter, Cohrs, Bloom, Conway, Kehler, Kent, Raben, Steed, Annunziata, McDonald, Hippeau, and McCorkindale
signed the Registration Statement and Prospectus, and the Registered 8.7% Notes were sold to the investing public.

44. **The First Quarter 2001 Earnings Release**

589. On May 9, 2001, Global Crossing issued a press release announcing its financial results for the first quarter ended March 31, 2001. Global Crossing reported First Quarter Cash Revenue of $1.61 billion, and Recurring Adjusted EBITDA of $441 million. The Company maintained its sales target of $7.1 billion to $7.2 billion for 2001. Global Crossing, however, failed to properly emphasize that its pro forma first quarter net loss widened to $615.9 million, or $0.76 per share, compared to $474 million, or $0.64 per share for the first quarter ended March 31, 2000. Commenting on the results, Casey stated, in pertinent part:

> We are extremely pleased with our strong first quarter results, which reflect our continuing transformation from a carrier's carrier to a value-added telecommunication services provider. We continue to leverage the competitive advantages of our global network and increasingly strong sales team to expand and diversify our revenue streams. Our commercial services segment performed particularly well, with sequential growth of 12% in commercial data services.

590. With respect to capacity sales, Global Crossing stated that the following:

> Cash Revenue from the sale of capacity in the form of IRU’s was $567 million for the quarter, an increase of 69% from the first quarter of 2000 ... Included in this amount, and in Adjusted EBITDA, was $375 million received from significant carrier customers who signed contracts during the quarter to purchase $500 million of capacity on the Global Crossing Network, and to whom Global Crossing made substantial capital commitments during the quarter...

591. This disclosure, like all subsequent mentions of Global Crossing's business dealings with its customers, was false and misleading because it minimized the importance of the transactions, did not disclose that they were illusory roundtrips with no business substance or purpose that they were recorded in violation of applicable accounting rules, and that they were entirely reciprocal and dependent on each other.
On May 10, 2001, Casey and Cohrs held a conference call to discuss Global Crossing’s First Quarter 2001 earnings and results. Casey began the call by reporting record results for the quarter and touting the successful progress of Global Crossing in its purported transformation from a “carrier-to-carrier to a value-added services provider.” Specifically, Casey stated:

I’m pleased to discuss with you, with Dan [Cohrs], the progress that the Company is making in our transformation from a carrier-to-carrier to a value-added services provider. I’m happy to say that once again the company has exceeded the consensus estimate of analysts for the first quarter performance. We experienced record results in cash revenue, service revenue and adjusted EBITDA. And let me touch on that for a minute. On the cash revenue line, we had $1.613 billion of cash revenue, 39 percent growth over the comparable quarter last year and 5 percent growth sequentially. In service revenue, we had $1,046,000,000, 10 percent sequential growth and 27 percent annual growth. And on the adjusted EBITDA line, we had $441 million of adjusted EBITDA, 5 percent quarterly sequential growth and 43 percent year over year growth.

In addition, we exceeded the Street consensus in the areas that we have identified as most critical to our success of transformation as a company and that is commercial services. Commercial service revenue for the quarter was the highest ever with the largest sequential dollar and percentage growth rates. 7 percent sequential growth and 9 percent year over year, so the sequential growth rate shows that we are accelerating progress in that sector that we’ve targeted. All of the numbers that I’ve quoted and will talk about are on a pro forma basis to provide meaningful comparisons to everyone. This quarter’s strong growth, particularly in the area of commercial and service revenue, reflects what we talked about in our analyst presentation, which is our increasing focus on value-added telecommunications services designed for and offered to large global enterprises.

Casey led analysts and investors to believe that Global Crossing was thriving in what he styled a “challenging environment.” He claimed that the challenging environment and the lack of financing in the industry inhibited the supply of capacity and created economical
opportunities for Global Crossing to purchase assets. Casey explained the benefits the challenging telecom market provided to the Company as follows:

While big customers deliberated longer in making IRU decisions and were more cautious about large capital commitments -- and we've seen that obviously in a number of industries -- they also began to consider the long-term financial staying power of their suppliers. They also began to rethink their own ability and willingness to invest in large customer-owned networks and became more open to managed services from carriers like us.

Less capacity came into the market that was announced to come into the market than was originally planned. Cable systems are being canceled and combined. The Flag Tricom and the Flag Level 3 proposals in Asia are examples of this.

Lack of financing we think will continue to inhibit incremental additions of supply. And, in fact, it created opportunities for us to pick up assets more quickly and less expensively than we otherwise could have. And we said in the analyst day presentation that we would be opportunistic about doing so and we did so in the quarter.

He also claimed that the challenging environment created "more overall demand for the kinds of services that we are providing into the marketplace" because customers were now "more motivated than they were in the past to outsource their network service businesses."

With respect to revenue growth, Casey stated:

Total revenues are growing faster than projected because we are growing our data revenues as we promised to focus on. Fundamental growth is still there in the marketplace. Backbone traffic is still growing. . . . Data products also increased as a percentage of total telecom services and accounts for a higher percentage of our revenues than for most other telecom providers, which gives us comfort that our projections for strong growth in this field will continue to be met. As a percentage, data as a percentage of total telecom services was 63 percent of our cash revenue and 38 percent of our services revenue. . . . As you can tell from these results, we continue to believe that we are well positioned for rapid growth in this area and we have products and sales force designed to exploit that opportunity. We also continue to think as a result that data will increase its percentage in the total mix of our cash revenue.
595. During the conference call Casey praised the Company's overall performance, citing "an outstanding quarter with a record performance, $1.613 billion in Cash Revenue, $1.46 million in service revenue, $441 million in adjusted EBITDA, and 12% quarter on quarter growth in commercial data services." He also reiterated Global Crossing's capital expenditure plans and guidance for 2001, stating "we feel comfortable with the range of analyst expectations for the Second Quarter and have not changed our guidance for the full year of 2001."

Purportedly explaining capital spending related to capacity purchases during the quarter, Casey stated:

I mentioned earlier that the financial condition of some of our competitors has allowed us to acquire capacity at a compelling cost basis and on a schedule that we found very attractive. Although those purchases were new commitments, we are not changing our guidance on capital spending for the year, because the new commitments will be offset by a combination of network efficiencies, use of our existing inventories, significant lower prices from vendors in terms of the CAPEX that we have budgeted, we are actually spending at lower rates than we had originally planned -- not that we had planned, but that we had budgeted.

Many of these new commitments were to acquire capacity, as I said, at attractive prices, often at constructed cost basis. Obviously they are from industry players who were motivated. We think these new commitments will give us local fiber in places where buying makes more sense than building. It will allow us to acquire capacity faster than we can build it in markets where we project near term needs for more at a lower cost base than we can otherwise obtain.

It provides us physical diversity in the network as we implement a global meshed architecture to go along with the MPLS deployment that we have advanced very aggressively. We have announced, in fact, I believe that we have the largest MPLS deployment in the world of any carrier and the physical meshed architecture will leverage that deployment very successfully for customers in the data services area who are looking for higher quality of service and more reliable services.
596. In response to questions from analysts related to the capacity purchases during the quarter, Casey described the IRUs purchased from other carriers as "opportunistic acquisitions" and further stated:

We obtained capacity or facilities in local markets, and markets, that we would have obtained eventually, anyway. And we did it in an environment where people who were selling that were very motivated to sell. So there's no fundamental change in the business plan created by any of that.

597. While downplaying the significance of the IRU sales from other carriers in the First Quarter, Casey emphasized Global Crossing's commercial growth rate, which he claimed would be "back-end loaded in the year," and claimed that the Company was "repositioning the customer base" and "transforming the product portfolio." Casey stated that the rate of growth for commercial services was "accelerating" and that Global Crossing's plan to shift toward providing data services "is actually working." He also stated that IP and other data services were driving commercial services with "very strong demand" for IP traffic and bandwidth. Claiming that Global Crossing's engineers measure IP traffic "every five minutes or something," Casey reported that "IP traffic in the [network] backbone is growing . . . around 450% per year still, even during the First Quarter when the macroeconomic conditions got difficult."

598. When asked whether regional swaps of capacity with some of Global Crossing's carrier customers had increased, were helpful, or were a significant factor in signing new business, Cohrs responded:

First, with respect to regional swaps, we did no swaps of capacity back and forth between carriers. So that's the answer to that.

(Emphasis added).

599. Casey and Cohrs addressed additional questions regarding the Company's reported $625 million of capital commitments for IRU purchases as follows:
We made some new capital spending commitments during the quarter and [you asked] how would that affect revenue. It's actually part of our business plan. You know, as Tom said, we were sort of opportunistic in acquiring some capacity in certain markets, in certain places, that we might have otherwise had to build. And so we bought some capacity in various markets, but it actually fits into our business plan. In other words, we were acquiring things that just go into the network and provide either local fiber that we might have had to get in some other way or, you know, some redundant capacity for more diversity and things like that that Tom talked about. So it's not, it's not like adding new capacity in the network where you want to look for a particular ratio of revenue to capital spending. It's not that type of spending that we are talking about, so it's really hard for me to say that there's a specific revenue impact. It's kind of part -- it's more like part of our network build in fleshing out the business plan.

Casey added:

Also, I would say, you know, part of what we look at when we make these kinds of judgments, not just here but generally CAPEX, we want to do three things: We want to enhance revenue and revenue potential, we want to decrease expenses so that we replace a more expensive way of doing business, and we want to improve quality. All three of those things are at work all the time in the business plan and when we find opportunities to do that those are the ones that we examine.

600. At the end of the day of the conference call, Global Crossing's stock price closed at $14.10 per share, and at the end of the month, Global Crossing's stock price began to descend. Yet, the stock price was not reflective of the Company's actual financial health. While the entire telecommunication industry was dealing with an economic downturn, dropping stock prices and numerous bankruptcy filings, Global Crossing's stock price, although affected by the industry downturn, was still artificially inflated such that it was trading at a multiple of what it would have been trading at had the public been told about the Company's true condition.

601. In fact, contrary to Cohrs' and Casey's explicit public statements, by this time in 2001, Global Crossing's swaps had increased to a frantic pace. The Company had become
wholly dependent on the reciprocal, illusory transactions to create an illusion of growth and value and the public did not even know about them.

46. **The First Quarter 2001 10-Q**

602. On May 15, 2001, Global Crossing filed with the SEC its Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 (the "2001 First Quarter 10-Q") signed by Cohrs. Global Crossing reported first quarter consolidated Cash Revenue of $1.61 billion, of which $1.08 billion was consolidated revenue and $531 million was Cash portion of the change in deferred revenue. Sales-type lease revenue accounted for $18 million and Amortization of Prior Period IRUs accounted for $18 million of the Company's Carrier segment revenues. Global Crossing reported Recurring Adjusted EBITDA of $441 million. Global Crossing also reported net loss of $616 million and a loss of $0.70 per share, as compared to net loss of $303 million and a loss of $0.38 per share in the first quarter ended March 31, 2000. PP&E reported for the quarter was $10.915 billion. The Company reported Deferred Revenue of $2.24 billion. The Company reported total shareholders' equity of $10.327 billion. Language in the filing also assured investors and analysts that its contents were accurate and in conformity with GAAP.

603. The First Quarter 2001 10-Q also contained the following false and misleading statements:

During the three months ended March 31, 2001, $375 in consideration, which is included in the $441 of Recurring Adjusted EBITDA below and in the $1,613 of cash revenue above, was received from significant Carrier customers who signed contracts during the quarter to purchase $500 of capacity on the Global Crossing Network, and to whom the Company made substantial capital commitments during the quarter.

During the quarter, the Company also entered into several agreements with various Carrier customers for the purchase of capacity and co-location space. These transactions were implemented in order to acquire cost-effective local network expansions; to provide for cost-effective alternatives to new construction in certain markets in which the Company anticipates shortages of capacity; and to provide additional
levels of physical diversity in the network as the Company implements its
global mesh architecture.

604. These statements were false and misleading in several respects. First, Global Crossing did not “purchase” capacity from other telecom carriers, as that term is commonly understood. Rather, it engaged in reciprocal, round-trip transactions where the Company traded capacity with other carriers to create the appearance of revenue where there was none. Second, Global Crossing did not enter into these agreements to “provide for cost-efficient alternatives to new construction,” or “to provide additional levels of physical diversity in the network,” as the Company reported. Rather, Global Crossing needed these swap transactions to create the appearance of revenue growth for what were, in essence, economically worthless transactions. Lastly, the statement did not disclose the reciprocal nature of these transactions, in that the purported “sales” of capacity to other carriers were contingent on Global Crossing purchasing like amounts of capacity from the very same carriers – essentially “round tripping” capacity and funds to create the appearance of revenue.

47. Winnick and Casey Speak at the 2001 Shareholder's Meeting

605. On or about June 13, 2001, Winnick and Casey presented financial and other information to Global Crossing's shareholders at the Company's annual meeting. Winnick delivered a message to the shareholders that the Company was "focused" and that "significant accomplishments will be made." Winnick said that since its inception, Global Crossing accessed over $21 billion of capital and "put it to good use." Ironically, notwithstanding his and other Defendants’ secret IRU swap approach to build the false appearance of an exuberant cash flow and healthy cash revenues, Winnick stated:

We don't live in a world with excuses and we don't live in a world of denial. We live in a world of pure reality. We believe, notwithstanding the wreckage, the telecom and technology markets, will provide us greater
opportunities as we push this Company ahead in the new frontiers of tomorrow.

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The telecom index is down over 75% from a year ago. Even though we’re down 65%, that doesn’t work. We don’t want to be down anything, so for those shareholders who are asking whether we can get the stock up, we’re plowing those fields every single day in building this great Company.

606. Winnick next told the shareholders that Global Crossing “did over $5 billion in revenues in the year 2000” and that “[w]e built this Company for long-term investors.” He declared that the past year “has been a year of great accomplishment for this Company” with “Cash Revenues up over $4 billion” and “current adjusted EBITDA up over $850 million from a year ago.” Winnick claimed that Global Crossing “transformed the telecommunications industry by “creat[ing] new world standards” and “bringing broadband to the world.” Winnick also proclaimed that the network was the “key” to Global Crossing’s strategy and future and that “credibility” separated Global Crossing from other telecom players. To emphasize his point, Winnick boldly stated, “If you look at credibility in the world of telecom, particularly to the new age players, we’re at the top of the list.”

607. In his speech, Winnick portrayed Defendants Clayton, Casey, Gorton, Cohrs, Cook, and Walsh as “unsung heroes” of Global Crossing. Expressing dismay that almost 90% of stock options granted to Global Crossing employees were under water, Winnick thanked the shareholders for approving a proposal to increase the shares outstanding so that the Company could provide more shares to the employees in reward for their “sacrifices to build this Company.”

608. With respect to bandwidth capacity, Winnick stated:

There’s nowhere near enough bandwidth to satisfy the appetite for broadband, the specialized applications over the next ten years - it’s not even close. We started as a first mover and we never looked back. We
just kept on moving. . . we're going to stay the course and we're going to continue to take market share and open up new markets for our Company.

609. After Winnick turned the meeting over to Casey, Global Crossing's CEO at the time, Casey reported:

'In 2000, we also made a number of significant corporate steps that reflected our commitment to switch focus from simply building networks and selling IRUs, those big empty pipes that we sold to carriers, to developing and offering services to a wide variety of customers. . . . All through this period of very active acquisition mode, we continued to grow our revenue and cash flow, our adjusted EBITDA performance. We exceeded the expectations of those who follow us in the Wall Street community and part of the reason for that success is the commitment of the team at Global Crossing but also it is because we have developed and through some of these acquisitions, through our own organic efforts, we developed a diverse set of revenue and cash contributors. . . . we began to develop and accomplish some ballast in the revenue and income statement going forward. And we feel good about the consistent performance that we are able to obtain through this period of heavy activity.'

610. Casey also claimed that Global Crossing had "generated a substantial amount of revenue in a short period of time out of the IRU business." He claimed that the revenue from the IRU business "could be seen as paying for the underlying costs of the network itself." Casey summarized the Company's progress through First Quarter 2001 as follows:

'Moving into the year 2001, let me just summarize very quickly how this progress reflected itself in our first quarter performance. As you can see, the year-on-year... first of all, you have 2001. We had a billion six of cash revenue, which was 39% growth over the first quarter of 2000. And we had $441 million of recurring adjusted EBITDA, which was up 54%. So, again, quarter on quarter, our growth rates are very strong. Our commercial revenue, that is the revenue from these kinds of customers that we are targeting, was also very strong - 75 from just the fourth quarter of 2000 to the first quarter of 2001. So if you annualize that growth rate...again, we feel quite good about the progress that we are making on the task that we have set out for ourselves.'

611. These optimistic statements about the state of Global Crossing's operations were utterly false. In the face of an industry-wide slowdown, Global Crossing was not the well-
positioned, financially sound entity presented to the public. It was instead a Company with virtually no legitimate revenues that was on the verge of collapse.

48. **The June 22, 2001 WSJ Article**

612. On June 22, 2001, *The Wall Street Journal* published an article about Global Crossing occasioned by the Company's recent completion of its 100,000-mile network titled "Global Crossing Finds That the Race Has Just Begun - As Company Completes World-Wide Network, It Faces a Market in Distress." The article noted that, "The demand for bandwidth -- which industry observers once assumed would grow 40% to 50% per year -- is instead only growing at about 20%. At the same time, prices for that bandwidth are falling fast -- as much as 60% according to some estimates, as hundreds of competitors all nibble at the same piece of overbuilt pie. The amount of underused long-haul fiber capacity in the U.S. is about 97%. . . .And Global Crossing has been one of the hardest hit."

613. On June 22, 2001, Global Crossing issued a press release refuting the June 22, 2001 *Wall Street Journal* article. In it, the Company stated:

It is unfortunate that the Journal made some serious factual errors and misunderstood Global Crossing's business plan. Three important factual errors are as follows:

Global Crossing is not "burdened with about $14.4 billion in debt from financing to help build its network." The fact is that Global Crossing has total debt of approximately $7.5 billion and its business plan is fully funded.

It is not true, as a headline says, that "Global Crossing builds network but no one's buying." The fact is that Global Crossing has reported approximately $5.8 billion of cash revenue in the past 12 months. Moreover, as stated in our press release yesterday, current customers include carriers such as Deutsche Telekom, British Telecom, Telecom Italia and Qwest; institutions such as SWIFT, the British Government and the U.S. Navy; and corporations such as JP Morgan Chase, Procter & Gamble, Merck, Sony, Pfizer, Microsoft, NEC, American Express, Yahoo! BB, CNBC Europe, Fujitsu and Direct TV.
Global Crossing does not have 1,500 unanticipated competitors. The fact is that nobody else has a state-of-the art global network linking 27 countries and over 200 major cities in Europe, North America, South America and Asia. Most of the competitive networks under construction are having funding problems and may never be completed.

Regarding Global Crossing's business plan, the following facts should be understood:

Global Crossing is not heading in a "far different" direction than its original vision. It has long planned to move beyond a wholesale "carrier's carrier" model to exploit the power of its global network to serve commercial customers and create shareholder value.

The Company always expected to have competition - and thoroughly planned for it.

The Company always expected rapid price reductions for bandwidth, and all of its projections have assumed such declines. Indeed, Global Crossing is the driver of lower prices, not the victim of them. Global Crossing is taking full advantage of its lower cost structure to continuously improve the cost/value equation for customers by providing sophisticated services over its seamless, wholly owned network.

614. The Company's denial was a total contradiction of the true facts known internally at the Company.

49. The Second Quarter 2001 Earnings Release

615. On August 1, 2001, Global Crossing issued a press release announcing its financial results for the second quarter ended June 30, 2001 (the "Second Quarter 2001 Earnings Release"). The Company reported second quarter Cash Revenue of $1,620 million and recurring Adjusted EBITDA of $472 million. The Company reported that losses had increased to $629.6 million, or $0.78 per share, compared to $365.4 million, or $0.62 per share in the second quarter of fiscal year 2000. In addition, Global Crossing reduced its forecast for Cash Revenue in 2001, from $7.1 - $7.2 billion to $6.4 - $6.9 billion and announced that it planned to eliminate 2,000 jobs, approximately 15% of its workforce, to reduce expenses by $160 million to $170 million annually.
Global Crossing continued touting the Company's strong financial health. Casey, commenting on the financial results for the second quarter 2001, stated:

Our core businesses continued to make good progress in the second quarter. Our Telecommunications Services Service Revenue grew 5% sequentially. . . and, in particular, sequential Commercial Data Service revenue growth of 11%, excluding equipment sales. We believe our commercial and data services are the drivers of our future growth and we did well in the second quarter in these critical areas. In addition, our carrier IRU revenue remains very strong and we have already reported over $1.1 billion of such sales in the first two quarters, representing over 50% of our full year targets. These are accomplishments that take on a special meaning in the current difficult environment.

The Company attributed the widening losses not to an ongoing failure of the Company's business, but to financial difficulties experienced by some of the Company's customers, an industry wide downturn, and a slowing economy. Casey is quoted in the release as saying:

We have not been immune to the downturn in the industry and the slowing of the economy. . . In an environment in which the capital markets are constrained, Global Crossing is fully funded and a stand-out by that measure in the telecommunications industry. We have emphasized in the past the unparalleled geographic reach of our global network. That asset -- unique in all the world -- takes on added competitive advantage as we now rapidly deploy our global network operating system.

With respect to sales of capacity, the Second Quarter 2001 Earnings Release reported:

Cash Revenue from the sale of capacity in the form of IRU's was $567 million for the quarter, an increase of 38% from the second quarter of 2000 and flat sequentially. Included in this amount, and in Recurring Adjusted EBITDA, was $345 million received from significant carrier customers who signed contracts during the quarter to purchase $381 million of capacity on the Global Crossing Network, and to whom Global Crossing made substantial cash commitments during the quarter . . .

On August 2, 2001, the Company's share price declined $1.32, or 19%, to $5.68, a 52-week low. In an attempt to bolster the Company's share price, Casey told reporters, "Our
stock has been trading irrationally based on highly inaccurate rumors and groundless speculation."

50. The Second Quarter 2001 Earnings Conference Call

On August 2, 2001, Defendants Casey and Cohrs held a conference call to discuss Global Crossing's reported Second Quarter 2001 earnings and results. Casey began the call by announcing that "once again, Global Crossing reported record results." Providing specific results, Casey stated:

As those of you who follow us know, we are committed to transforming Global Crossing into a services provider, and our second quarter results show that we continue to make excellent progress on that course. Specifically, telecommunication services—service revenues grew 5 percent sequentially, which is a 21.5 percent annualized growth rate. Commercial service and in particular data services drove our growth in this area. We recorded the highest ever level of commercial service revenue and commercial data service revenue, which we are targeting because of the specific advantages of our network offerings, experienced very strong sequential growth of 11 percent, excluding IPC sales, and that is more than a 51.5 percent annualized growth rate. In addition, our carrier IRU revenue remains strong, and we have already achieved more than half of the full year original forecast. So even in a difficult macro-economic environment, where capital markets are constrained, Global Crossing's current growth rates are the highest of any major telecom services provider. The competitive landscape is populated by companies who do not have the breadth or the depth of offerings to challenge the strength of our global network. We provide portability across multiple routes with total global visibility and management control at the transport, the routing and the service platform layers, allowing us to build a network that is better, faster, and cheaper than those of our competitors. We believe that these attributes are making our IP services the most attractive offering in the market.

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As a result of our cost reduction efforts, Global Crossing recorded its highest adjusted EBITDA margin quarter at 29.1 percent since we closed the Frontier merger in September of '99. This was driven by lower operating costs in the quarter, and these, in fact, were 400 basis points lower than the first quarter of 2001. With that being said, let me now focus on some of the specifics of our financial highlights for the quarter. As I mentioned in aggregate we reported record results. For consolidated continuing operations, we reported cash revenue of $1.62 billion, which is a 26 percent growth rate over the same period in 2000. Service revenue,
we reported $1,053,000,000, a 20 percent annual growth rate, and an adjusted EBITDA we reported $472 million, a 33 percent growth rate over the same period in 2000. Within our telecommunications services segment, which is comprised of the two operating businesses generating recurring revenue, that is the commercial sector and the carrier sector, but excludes the activities of our Global Marine business, we also experienced healthy growth. The cash revenue from telecom services was $1,457,000,000, a 25% annual growth rate, and the associated EBITDA was $448 million, or 38 percent annual growth rate.

621. Casey touted strong growth in Global Crossing's carrier business, claiming that the Company "experienced another strong quarter in cash revenue...with $959 million, which is a 32% year-over-year growth rate."

622. In slightly lowering growth projections for Third and Fourth Quarter 2001, Casey stated:

The financial problems experienced by some of our carrier customers, which I mentioned, have resulted in a revenue run rate reduction of approximately $280 million by our calculations. Although we met our first quarter guidance, and we are closing the second quarter, we no longer believe that the growth rates we had originally forecast for the second, third and fourth quarter of 2001 will be met. We are therefore reducing our full year 2001 projections for cash revenue, GAAP revenue and service revenue. We now expect continuing operations to generate approximately $6.4 to $6.9 billion in cash revenue. This is still a significant growth rate. This range would represent a 21 to 30 percent increase over 2000 results, very, very strong growth in this market. We are trimming the adjusted EBITDA guidance $1.6 to $2 billion, which would still be a 10 to 37 percent increase over pro forma 2001 adjusted EBITDA results. And we feel that the current consensus of analyst estimates for recurring net income for both the full year 2001 and the third quarter 2001 are reasonable. Under our new forecast guidance, our full-year projections still call for approximately 60 percent growth in commercial data revenues and 50 percent growth in carrier data service revenues. As I said, we feel that the churn in the weaker carrier data service customers will be temporary, and while it resets the starting point, stronger carriers should begin to replace those facing financial difficulties as was witnessed in our carrier voice segment during the first part of the year. Our new growth rates, and let me reiterate this, our new growth rates are still higher than any of our peers... We have also reduced our CAPEX for 2001 to be less than $4.5 billion, and we've done this as a result of the obvious lower network volumes that
our forecast anticipates, better efficiency in the use of the network, use of existing inventories and lower than planned purchases from our equipment vendors.

623. Casey claimed that Global Crossing's IRU purchases during the quarter continued to add capabilities and value to the Company's assets. Specifically, he stated:

While there may be some short-term weakening in the macroeconomic environment, Global Crossing has, since its inception, been on a steady upward course of growth by adding capabilities and value to a unique set of assets that is attractive to the enterprise class of customer, and to the carrier class of customer. The carrier IRU market is obviously suffering a slowdown from the weak macroeconomic environment, and yet even in this market we have projected $2 billion plus in 2001. It's important to have some sense of this, this is more than three to four times the projected revenues of our competitors in the sector, three to four times their projected revenue. When the market rebounds, Global Crossing should be the big beneficiary of the recovery due to the maturity and penetration of our network, of our products, of our worldwide sales force that we have been consistently developing over these last four years. In addition, the structural changes we are undergoing internally allow us to become more efficient and more aggressive competitors in the marketplace. Our products and sales force are aligned to match the demands of our seven targeted sales channels. The global realignment will allow us to generate higher operating margins because it will facilitate integration, efficiency and the appropriate allocation of resources.

624. Casey also reported on the call that Global Crossing's business plan "remain[s] fully funded" with "about $2 billion of cash" and "$1.7 of revolver availability . . . with $3.7 billion of liquidity." Cohrs projected "free cash flow breakeven for late 2002."

625. An analyst from Deutsche Bank asked whether "local and colo [co-location] swap-type deals or barter transactions" were "part of a requirement by large carriers [Global Crossing] may be having discussions with," and Casey responded:

From the beginning of the year we said we would going to be opportunistic in purchasing assets from people who were distressed, basically. And we have a network that we're trying to make more functional, trying to get it deeper. We want to get it into the local metropolitan areas. We have opportunities now with people who have facilities that we can integrate into our network and make it more of a
mesh, make it more deep, make it redundant, get it into the cities, get colo space where we need it, and we can do all that faster and cheaper than by building it with our own cash by picking up some assets from some of the people. That's what we're doing. When we said we were going to that at the beginning of the year, we did it in the first quarter when we talked about it, we did it in the second quarter when we talked about it in the second quarter. It's nothing other than us moving ourselves forward quickly in ways that we think are efficient for the Company and that accelerate our progress into the market.

The Deutsche Bank analyst further asked:

Tom, can I ask a quick follow-up? On the distressed assets that you say you're buying, it would have cost you a dollar to build one of those assets, right? A dollar for a dollar? But, if you go out there, what would be the range of values that you're sort of paying for for assets? Is it 50 cents on the dollar? And secondly, on the range that you've given for revenue, would it be safe to say that the range is wide because you may be dealing with some very large customers, and if those contracts come in you hit the top end of the range, or if they come in this year or not, you're sort of towards the bottom end?

Casey responded:

Yes, with respect to the prices, they vary. Sometimes what we're trying to achieve is time to market. Sometimes what we're trying to achieve is a rare resource of facility. Sometimes we're trying to achieve just pure cost savings. So it's a mix of different - we have different objectives in the different transactions. And with respect to the size of the orders, with respect to the upside potential in the IRU guidance, you can assume that we would not have mentioned a potential upside unless we were sufficiently engaged in conversations with people to at least think that the opportunity existed.

Cohrs added:

One point on the assets that we're buying. As we've made these commitments, which are new commitments in the last two quarters, we've brought our capital spending forecast down. So, you can conclude from that that we're getting very good prices on assets that we think we can use in the network.
627. An analyst at Prudential Securities asked for clarification, indicating that "it looks like in your IRU business there's certain amount of revenue that's really just swapped with other carriers," and Cohrs emphatically stated:

"There are no swaps."

(Emphasis added).

Cohrs added:

These are transactions that we do with other carriers. The way the business is, if we're going to buy assets, if we're going to buy telecom assets we have to buy it from other carriers. That's who sells assets like this. So, I mean Tom I think explained in some detail what we're doing and why we're buying the assets that we're buying. And these are not swap transactions. If they were swaps, they would not be recognized as cash revenue. They would not be recognized as GAAP revenue or as cash revenue because in order to qualify as cash revenue, the cash amounts have to go into the deferred revenue account on the balance sheet. And the auditors, Arthur Andersen goes through all these transactions, goes through the criteria, says these are not swaps. They're transactions where we buy capacity or various assets and at the same time those are our customers. Carriers are our customers. And so, the reason we're disclosing this is because it is becoming sizable in the last two quarters, and we thought it was good disclosure to disclose it, but they are not swaps.

628. The Prudential analyst further asked:

So, could you give just some sense for what your expectations are for that going forward? What portion of your IRU business would you expect to be offset by some other type of business with the same carrier?

Cohrs evasively responded:

Well, what we're doing, as I said, we're buying assets, we're buying assets from carriers that we're using in the network, and as we do that, we're bringing our overall CAPEX down. So we're essentially buying things rather than building them. Now as we get to the point where we no longer need to buy assets to finish out the network, we won't be buying assets. It's a capital spending question really.
Casey embraced Cohrs’ explanation, and added:

This is Tom. I think that's the important point that this is - this is, in terms of cash, these are dollars that we're spending anyway to get assets. And all we're trying to do is, and Luann started the questions with a comment on the disclosure that Jack was endorsing. All we're trying to do is be very clear in our disclosures. But these are dollars. We consider these to be CAPEX dollars. We would be spending money in the network on a CAPEX dollars anyway, so that's how we think about this expenditure.

629. An analyst from U.S. Bancorp Piper Jaffray asked a follow-up question regarding the IRU transactions during the quarter, asking "isn't this similar to payment in kind, and instead of using cash, you're just using your asset to gain a position at a very cheap price elsewhere in the world?" Casey curtly responded:

Again, we are looking at it as though it was CAPEX, and we treat it as CAPEX, and so to the extent that we can be efficient about CAPEX if you want to look at it that why that's fine. But we look at it as CAPEX to deepen the network, to broaden the network, to make the network more reliable, etc.

630. The Piper Jaffray analyst further queried with respect to IRU transactions whether Global Crossing's "strong strategic positioning is beneficial because you have something that a lot of foreign carriers want, is that correct?" And Casey responded: "Absolutely."

631. The Company was not only swapping capacity, the misleading numbers cited by Cohrs and Casey were entirely dependent upon those swaps.

51. The Second Quarter 2001 10-Q

632. On August 15, 2001, Global Crossing filed with the SEC its Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 (the "Second Quarter 2001 10-Q") signed by Cohrs. Global Crossing reported second quarter consolidated Cash Revenue of $1,620 million, of which $1,069 million was consolidated revenue and $551 million was the Cash Portion of the Change in Deferred Revenue. Amortization of prior period IRUs accounted for $16 million of
the Company's Carrier segment. The Second Quarter 2001 10-Q reported recurring Adjusted EBITDA of $472 million. The Company also reported a net loss of $630 million, or $0.70 per share, compared to $365 million, or 0.55 per share in the second quarter ended June 30, 2000. PP&E for the quarter was stated at $11.823 billion. The Company reported deferred revenue of $2.69 billion. The Company reported total shareholders' equity of $8.815 billion. Language in the filing also assured investors and analysts that its contents were accurate and in conformity with GAAP.

633. With respect to its capacity sales and purchases, the Company provided as follows:

Consideration received during the three and six months ended June 30, 2001 of $345 [million] and $720 [million], respectively, which is included in the $472 [million] and $913 [million] of Recurring Adjusted EBITDA below and in the $1,620 [million] and $3,233 [million] of cash revenue above, was received from significant carrier customers who signed contracts to purchase $381 and $881 of capacity during the three and six months ended June 30, 2001, respectively. In addition, the Company has made cash commitments to these carrier customers of $358 [million] and $625 [million] for the three months ended June 30, 2001 and March 31, 2001, respectively, including the cost of the possible construction of the Caribbean system.

634. The Company further reported:

We entered into several agreements with various carrier customers for the purchase or lease of capacity and co-location space. These transactions were implemented in order to acquire cost-effective local network expansions; to provide for cost-effective alternatives to new construction in certain markets in which the Company anticipates shortages of capacity; and to provide additional levels of physical diversity in the network as the Company implements its global mesh architecture. The cash commitments totaled $358 and $625 for the three months ended June 30, 2001 and March 31, 2001, respectively, including the cost of the possible construction of the Caribbean system previously mentioned.

635. These statements were false and misleading in several respects. First, Global Crossing did not “purchase” capacity from other telecom carriers, as that term is commonly
understood. Rather, it engaged in reciprocal, round-trip transactions where the Company traded capacity with other carriers to create the appearance of revenue where there was none. Second, Global Crossing did not enter into these agreements to “provide for cost-efficient alternatives to new construction,” or “to provide additional levels of physical diversity in the network,” as the Company reported. Rather, Global Crossing needed these swap transactions to create the appearance of revenue growth for what were, in essence, economically worthless transactions. Andersen specifically approved of the Company’s decision to conceal the reciprocal nature of these IRU swaps. Indeed, in an e-mail dated August 7, 2001, Andersen drafted language and specifically counseled Global Crossing on how to spin the disclosure of IRU sales to other telecom companies without disclosing the reciprocal nature of the deals.

636. In October 2001, the Company announced plans to merge with Asia Global Crossing. The decision to merge was a desperate attempt by Global Crossing to get access to badly needed cash but the merger never happened. Shortly thereafter, the Company secretly retained The Blackstone Group in November 2001 to advise it on restructuring options.

637. Still, the Company did not disclose its financial crisis. Instead, Winnick, Cohrs and others painted a completely false picture of the Company's situation. Incredibly, in October 2001, Winnick was quoted as saying, “The global telecommunications industry is in a period of rapid transition ... [b]ut opportunity has never been greater.” Even more incredibly, in October 2001, Cohrs claimed that Global Crossing was still "very liquid" even without the merger with Asia Global Crossing. The only liquid thing at Global Crossing at the time was, perhaps, the leftover champagne from the sales of insider trades.
C. Asia Global Crossing's False and Misleading Statements

1. The Asia Global Crossing Initial Public Offering

On October 12, 2000, Asia Global Crossing completed its IPO in which it sold 68 million shares of Asia Global Crossing Class A common stock at $7.00 per share. On November 8, 2000, Asia Global Crossing sold an additional 500,000 shares at $7.00 in connection with the exercise of the underwriters' over-allotment option. The 68,500,000 shares of Asia Global Crossing Class A Common Stock were registered on a Form S-1 registration statement filed with the SEC on or about May 23, 2000, as amended on July 13, 2000, August 7, 2000, September 5, 2000, September 27, 2000, October 3, 2000, October 5, 2000, and October 6, 2000 (the "AGX IPO Registration Statement") and offered to the investing public through a related prospectus dated October 6, 2000, filed with the SEC on October 10, 2000 (the "AGX IPO Prospectus"), which was incorporated in the AGX IPO Registration Statement (collectively, the "AGX IPO Offering Materials"). The AGX Registration Statement was signed by Winnick, Cook, Legere, Scanlon, Casey, Hindery, Clayton, Hippeau, Koll, Brownstein, Conway, Kent and Riesenfeld.

Defendants Goldman Sachs and SSB acted as joint book-running managers and each were responsible for 20,519,000 shares. Other key members of the underwriting syndicate were: Merrill Lynch – 3,672,000 shares; Chase Securities – 3,060,000 shares; CIBC World Markets – 3,060,000 shares; Credit Suisse – 3,060,000 shares; Deutsche Bank – 3,060,000 shares; Lehman Brothers – 3,060,000 shares; and ABN AMBRO – 1,225,000 shares. Bear Stearns, A.G. Edwards, First Union, RBC Dominion Securities, Wasserstein Perella, Advest, Gerard KlauerMattison, Guzman & Co., Kaufman Bros., McDonald Investments, Monness, Crespi, Hardt & Co., Ramirez & Co., Raymond James, Scott & Stringfellow, and Stephens were also underwriters of Asia Global Crossing's IPO. Each of these underwriters, either directly or
through their affiliates, had other material business relationships with Global Crossing through the provision of large lines of credit and other financing for Global Crossing and its affiliates.

640. The AGX IPO Offering Materials included Asia Global Crossing's financial statements. Certain of the financial statements were derived from financials audited by Andersen, which were included in the AGX Offering Materials. Asia Global Crossing derived the remaining data from unaudited financial statements. In the AGX IPO Offering Materials, Asia Global Crossing reported Cash Revenue of $175 million and Adjusted EBITDA of $133 million for the six months ended June 30, 2000. Asia Global Crossing reported GAAP revenue of $109 million. Asia Global Crossing reported a net loss of $31 million for the six months ended June 30, 2000 and total assets of $1.9 billion, PP&E of $1.4 billion, and shareholder's equity of $750 million as of June 30, 2000.

641. The AGX IPO Prospectus also contained an extensive discussion of the business operations of Asia Global Crossing. In the MD&A section, Asia Global Crossing misrepresented that, "all of our cash revenue is from the sale of wholesale capacity to carrier customers" This was completely false since, as shown by the Company's internal documents, only 10% of these revenues were "real" revenues from unaffiliated, non-swap partners. In addition, Asia Global Crossing falsely stated that, "although prices are expected to continue to decline, we anticipate that the impact of our revenue will be offset by the increasing demand for bandwidth capacity." To the contrary, Asia Global Crossing knew or was reckless in not knowing that there was a capacity glut as well as competition from impending new technologies that were displacing its business, and that, as a result, there would be no increase in demand for Asia Global Crossing's products and services. As shown by the Company's undisclosed, internal documents, based upon current pricing, Asia Global Crossing needed to sell 90% of its available
capacity just to recover its cable construction costs—an impossible task. It was these very same undisclosed facts that lead Hindery to conclude in his extraordinary, undisclosed memo that Global Crossing’s and Asia Global Crossing’s business model was doomed and they would not be able to fool the market much longer.

642. To entice potential investors prior to the IPO, Global Crossing transferred overstated assets to Asia Global Crossing. Note 3 to the consolidated financial statements of Pacific Crossing, set forth in the AGX IPO Prospectus, states that the total net value of Pacific Crossing’s property and equipment at June 30, 2000 was $1.1 billion. The AGX IPO Prospectus failed to disclose that the value of those assets was impaired because: (a) price declines were anticipated over the next several years due primarily to increased competition, technology advances, and strategic alliances; (b) in June 2000 certain capacity purchased by Asia Global Crossing and held for sale was reduced from $48 million to $10 million because the company had no alternative use and could not dispose of it for more than $10 million, which was a clear indication of price declines; and (c) there was no viable future for the business, which included the businesses that were to become known as Asia Global Crossing. In fact, Hindery suggested that these businesses be disposed of, thus calling into serious question the value of Asia Global Crossing’s assets as of the IPO. By not recognizing the impairment of long-lived assets in the AGX Prospectus, the Asia Global Crossing Individual Defendants violated GAAP, specifically FASB 121—“Accounting for the Impairment of Long-Lived Assets and For Long-Lived Assets to Be Disposed Of.” Indeed, on February 26, 2002, 15 months after the IPO, Asia Global Crossing announced, concerning the Pacific Global transfer, that it “expects that an additional asset impairment charge will be taken in the final results for the fourth quarter of 2001. At the
end of 2001, the carrying value of these assets was approximately $1.2 billion, *all or part of which may be subject to such a charge.*

643. In the AGX IPO Prospectus, Asia Global Crossing also disclosed that Global Crossing was going to contribute its 50% interest in HGC to Asia Global Crossing upon completion of the IPO. The AGX IPO Prospectus contained pro forma financial information, which purportedly reflected the expected impact of the HGC transaction and other transactions as if they had been completed prior to the IPO. That pro forma information indicated that Asia Global Crossing valued its interest in HGC in excess of $500 million. The value of HGC was overstated, as reflected by Asia Global Crossing's October 2002 restatement of its financials to reflect charges for an impairment of its investment in HGC.

644. The Asia Global Crossing IPO Prospectus described its ambitious business plan as follows:

*We intend to be a leading pan-Asian telecommunications carrier that provides Internet, data and voice services to wholesale business customers.***

*By the end of 2001, we expect our network to connect the principal commercial and financial centers across Asia. In addition, we will offer our customers worldwide Internet services and data services through seamless connectivity within the Global Crossing network which, inclusive of our network, is expected to span approximately 162,544 route kilometers, serving five continents, 27 countries and more than 200 major cities.*

*We intend to capitalize in the anticipated significant growth in Asian internets and telecommunications traffic and the increasingly favorable regulatory environment. Our strategy is to form strategic alliances or joint ventures in key markets in order to gain first-mover advantage, more readily penetrate local markets, overcome regulatory barriers and develop exclusive relationships with leading telecommunications providers in the Asian markets we intend to serve.***
We intend to replicate network and service capabilities in each market to which we extend our network. We also expect to benefit from Global Crossing’s telecommunications, sales and marketing expertise.

645. The Prospectus reassured potential investors that Asia Global Crossing had sufficient funding through an agreement with Global Crossing:

Global Crossing has agreed to lend us up to $400 million on a subordinated basis. . . . [.] has committed to keep half this facility available for borrowings until December 31, 2002 and has committed to keep the remainder of this facility available for borrowings until we achieve certain financial performance targets.

646. Throughout the AGX Class Period, the defendants, all highly experienced business people who simultaneously served on both the Asia Global Crossing and Global Crossing boards, knew or were reckless in not knowing that Global Crossing was incapable of funding Asia Global Crossing and that Global Crossing would not fulfill this obligation. Global Crossing was financially dependent on transactions with affiliated companies, reciprocal sales, and swaps and knowingly understated the amount of capacity it needed to sell in order to pay off the construction of its network. There also was substantial non-public information available to Asia Global Crossing and the underwriters of the Asia Global Crossing IPO that the existing business model for Asia Global Crossing was doomed to fail, as reflected in the June 5, 2000 Hindery memo.

647. Nonetheless, Asia Global Crossing falsely stated in the IPO Offering Materials that its business plan was fully funded: "Based upon anticipated levels of operations, we believe that our future cash flows from operations, together with the net proceeds of these offerings and our ability to raise capital, will be adequate to meet these anticipated requirements."

648. The shortcomings of Global Crossing’s financial stability, and the viability of its business plan, was of little concern to Legere, as he had Grubman in his side-pocket. In a status
report dated August 7, 2000, Legere stated, "Excellent meeting with Jack Grubman in Hong Kong at which he reiterated his full (and BULLISH) support for our business plan."

649. The statements in paragraphs 638 through 648 were each false and misleading when made at the time issued for the reasons set forth above and because they misrepresented or omitted material adverse facts, including that:

a. Asia Global Crossing's financial statements and pro forma disclosures were false and misleading because they misrepresented the financial position of the Company. By booking IRU Swaps as cash sales, Asia Global Crossing gave the false impression that it was receiving cash in the IRU sales when this was not the case. Asia Global Crossing compounded this fraud by using terms such as "Cash Revenue" and "proportionate cash revenue" in its pro forma disclosures to refer to artificial revenue figures that the Company should not and could not recognize even under the most liberal accounting practices. In truth, Asia Global Crossing was rapidly running out of cash and the Company’s statements above actively concealed this fact;

b. Defendants were artificially inflating Asia Global Crossing’s operating performance through improper accounting of transactions with other telecommunications companies. In a number of undisclosed transactions, Asia Global Crossing sold capacity on its network to customers who bought capacity back in a "swap" transaction. Asia Global Crossing recognized the revenue from the capacity sales either up front or as deferred revenue, but recorded the cost as a capital expense instead of an operating expense. Asia Global Crossing failed to disclose that these capacity exchanges were reciprocal transactions that were dependent upon each other;

c. By engaging in reciprocal IRU sales with other telecommunications companies, essentially “swapping” network capacity in exchange for network capacity, and
accounting for such exchanges of similar assets using the fair value of the capacity, Asia Global Crossing artificially inflated its revenue and violated GAAP by recognizing revenue in connection with such transactions. In accordance with APB No. 29, Asia Global Crossing should have accounted for such exchanges using its historical or cost basis of the capacity relinquished in the transactions rather than the fair value;

d. By accounting for the value of IRUs acquired from other telecommunications companies in reciprocal IRU sales, or so-called “swap” deals, using the fair value of the capacity exchanged, Asia Global Crossing materially overstated the value of its total assets;

e. The Company’s optimistic statements of growth and success were misleading because they omitted that the Company’s financial position was distorted by its accounting manipulations and it was far from the success story that had rapidly reached hundreds of millions of dollars in revenues that it portrayed;

f. The pro forma financial information in the Asia Global Crossing IPO Prospectus concerning HGC was false and misleading when made based on the decline of broadband capacity prices. HGC’s value had permanently declined and the loss of value in this investment should have been disclosed. Indeed, on August 30, 2002, Global Crossing announced that Asia Global Crossing’s interest in HGC would be written down by $450 million, which represented the difference between the proceeds received and the carrying value of Asia Global Crossing’s interest in HGC. By not recognizing the impairment of long lived assets in the AGX Prospectus, the Asia Global Crossing defendants violated Asia Global Crossing’s own policy and GAAP;
The Asia Global Crossing IPO Prospectus was false and misleading because defendants knew or were reckless in not knowing that Asia Global Crossing's business plan was not "fully funded." The Asia Global Crossing IPO Prospectus emphasized that Asia Global Crossing's business would be relying, \textit{inter alia}, upon Global Crossing as a major source of its funding;

Asia Global Crossing knew that its business plan was not fully funded because of the decline in wholesale bandwidth pricing and the existing capacity glut;

Asia Global Crossing knew that Global Crossing would be unable to make available the $400 million in funding to Asia Global Crossing, based upon the deterioration in Global Crossing's own business operations; and

Asia Global Crossing and its management knew that the company was unable to sustain its business plan, as evidenced by the June 2000 Memo by Leo Hindery, because Asia Global Crossing's business plan of building capacity for carriers and selling that capacity in the form of long term leases could be nothing more than a "transient" strategy. Indeed, as the supply of capacity increased due to more competition, and demand for and the price of capacity declined because of changing market conditions and oversupply, Asia Global Crossing found it increasingly difficult to meet its wholesale capacity sales targets. Moreover, Asia Global Crossing was incapable of competing with its wholesale customers for retail sales of capacity to end users. This failure to disclose the existence of the Hindery memo and/or its underlying conclusions violated the disclosure obligations triggered by an initial public offering of securities to the investing public including, without limitation, Item 303(a)(3)(ii) of Regulation S-K (17 C.F.R. pt. 229) which requires, \textit{inter alia}, that registrants:

\textit{Describe any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or}
unfavorable impact on the net sales or revenues or income from
continuing operations. (Emphasis added)

k. Asia Global Crossing understated its cost of sales and thereby overstated
its earnings, the value of the capacity available for sale, and the value of its property plant and
equipment.

Asia Global Crossing stated in the AGX Prospectus that, "[it has] a limited history
upon which [it] can rely in planning and making the critical decisions that will affect our future
operating results. Similarly, because of the relatively immature state of our business, it will be
difficult for investors to evaluate our prospects . . . Our limited history makes it difficult for
investors to gauge our capability in making these decisions." Asia Global Crossing, however,
knew of existing adverse trends in its business, as evidenced by the Hindery memo.

2. The November 8, 2000 Earnings Release

On November 8, 2000, Asia Global Crossing issued its first earnings release since
becoming a public company (the "AGX Third Quarter 2000 Release"), announcing
"Proportionate Cash Revenue" of $57.7 million and "Proportionate Adjusted EBITDA" of $9
million for the third quarter ended September 30, 2000. Asia Global Crossing reported revenues
of $21.8 million with a net loss of $23.3 million for the three months ended September 30, 2000.
For the nine months ended September 30, 2000, Asia Global Crossing reported Proportionate
Cash Revenue of $208.6 million and Proportionate Adjusted EBITDA of $86.6 million.
Reported revenue for the nine-month period was $130.5 million and the net loss was $54.8
million.

Asia Global Crossing used several defined pro forma financial performance
measures in the AGX Third Quarter 2000 Release, which purportedly, "reflect the market and
economic results of the business . . ." These measures were defined as follows:
"Adjusted EBITDA" refers to operating income (loss) plus goodwill and intangible amortization, depreciation and amortization, non-cash cost of capacity sold, stock related expenses and the cash portion of the change in deferred revenue, which definition is consistent with the financial covenants contained in the company's major financing agreements.

"Cash Revenue" refers to reported revenue plus the cash portion of the change in deferred revenue.

"Proportionate Cash Revenue" refers to the sum of the AGX ownership percentage of the Cash Revenue of each of Asia Global Crossing, Hutchison Global Crossing, and Global Access Limited (the "Combined Entities") after eliminating certain inter-company transactions. Cash Revenue not assigned to specific systems is also excluded.

"Proportionate Adjusted EBITDA" refers to the sum of the AGX ownership percentage of the Adjusted EBITDA of each member of the Combined Entities [which includes Asia Global Crossing, HGC, and GAL] after eliminating certain inter-company transactions. Cash Revenue not assigned to specific systems is also excluded.

"Group Customer Cash Revenue" represents the total of all Cash Revenue received by the company and its non-consolidated affiliates from third parties without reference to AGX ownership percentages.

653. Commenting on the reported results, Asia Global Crossing's CEO at the time, Legere, claimed that Asia Global Crossing's "solid sales reflect the growing demand for bandwidth and related services in the Asian region. Demand for bandwidth in Asia continues to accelerate and is growing at more than 75 percent per year, driven by deregulation and the growth of the Internet and corporate data traffic. In addition, Asia Global Crossing is benefitting (sic) from being the clear first mover in this space."

3. The Asia Global Crossing Third Quarter 2000 10-Q

654. On November 20, 2000, Asia Global Crossing filed with the SEC its quarterly report on Form 10-Q for the quarter ended September 30, 2000, signed by Riesenfeld (the "AGX Third Quarter 2000 10-Q"). Asia Global Crossing reported "Proportionate Cash Revenue" of $57.7 million, "Cash Revenue" of $73 million, revenue of $21.8 million, "Proportionate Adjusted
EBITDA" of $9 million, Adjusted EBITDA of $42 million for the third quarter ended September 30, 2000. Asia Global Crossing reported a net loss of $23.3 million for the three months ended September 30, 2000 and total assets of $2 billion, PP&E of $1.7 billion, and shareholder's equity of $750 million as of September 30, 2000. For the nine months ended September 30, 2000, Asia Global Crossing reported “Proportionate Cash Revenue” of $208.6 million, “Cash Revenue” of $247 million, revenue of $130 million, “Proportionate Adjusted EBITDA” of $86.6 million, Adjusted EBITDA of $175 million, and a net loss of $55 million. Asia Global Crossing improperly used “proportionate metrics” and non-GAAP terms purportedly because such metrics more accurately reflected in Asia Global Crossing’s financial performance.

655. Asia Global Crossing falsely represented that “cash flows from operations, together with the net proceeds from our IPO and Senior Notes, available borrowings under Pacific Crossing-1 credit facility, and if necessary, subordinated notes, will be adequate to meet our anticipated requirements for working capital, capital expenditures, discretionary investments, interest payments and scheduled principal payments for the foreseeable future.” To instill confidence that there was access to additional funding through subordinated notes from Global Crossing, Asia Global Crossing included two subordinated notes as exhibits to the AGX Third Quarter 2000 10-Q, each providing for $200 million of credit from Global Crossing.

4. The Asia Global Crossing Senior Notes Registration Statement

656. Concurrent with the IPO, Asia Global Crossing issued $408 million 13.375% senior notes due October 15, 2010 (the “AGX Senior Notes”) in a private offering to Chase Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Deutsche Bank, Goldman Sachs, SSB, ABN AMRO and Barclays Capital Inc. (the “Initial Purchasers”). To ensure the AGX Senior Notes would be registered with the SEC and become freely tradeable to the
investing public, Asia Global Crossing entered into a Registration of Rights Agreement with the Initial Purchasers. The AGX Senior Notes were exchanged pursuant to a Form S-4 registration statement filed with the SEC on or about January 10, 2001, as amended on February 9, 2001 (the "AGX Notes Registration Statement") and offered to the investing public through a related prospectus dated February 9, 2001, filed with the SEC on February 12, 2001. The AGX Notes Registration Statement incorporated by reference financial statements for fiscal years 1998 and 1999 which were audited by Andersen. The AGX Notes Registration Statement was signed by Winnick, Cook, Legere, Scanlon, Casey, Clayton, Hippeau, Brownstein, Conway, and Riesenfeld.

657. The AGX Notes Registration Statement continued to emphasize that Asia Global Crossing had adequate sources of capital to fund its business plan, including its "anticipated requirements for working capital, capital expenditures, discretionary investments, interest payments and scheduled principal payments for the foreseeable future."

658. On January 10, 2001, around the time-period of the AGX Senior Notes registration, Asia Global Crossing announced the Hong Kong landing of its East Asia Crossing sub-sea cable system. Legere was quoted in a press release as saying:

"The landing of East Asia Crossing marks the completion of the first segment of the first pan-Asian system. Customers in Hong Kong will have unprecedented pan-Asian and pan-world connectivity.... We chose to bring East Asia Crossing to Hong Kong first because of the demand for broadband capacity and its emerging role as a leading telecommunications hub in the region."

As a result, the trading price of Asia Global Crossing's stock went from $7.063 on January 10, 2001 to a high of $11.188 on January 31, 2001.
On February 26, 2001, Asia Global Crossing issued a press release touting its joint venture with DACOM Corporation to provide a terrestrial link between Seoul, South Korea and Global Crossing’s pan-Asian East Asian Crossing. Legere was quoted as saying:

Asia Global Crossing and DACOM Corporation, Korea's leading provider of international IP communications, announced today that they have formed a 49:51 joint venture called DACOM Crossing to enhance Korea's pan-Asian and pan-world broadband connectivity.

In a market that has the highest Internet user penetration in Asia, it is essential for Asia Global Crossing to partner with an established leader like DACOM that can help us strengthen our first-mover advantage and fulfill our vision of a city-to-city network. Business in Korea will benefit from the unprecedented capacity and increased competition DACOM Crossing will bring.

Unfortunately for investors, the company's public optimism was just a ruse. Unbeknownst to the investing public, Asia Global Crossing was rapidly running out of the capital needed to fund its various projects and ventures, and, Asia Global Crossing could not depend upon Global Crossing for previously committed funding. Although Asia Global Crossing could not depend upon its parent company to fund its expected construction costs of more than $2.5 billion as Legere claimed in November 2000, Legere continued to send the market reassuring messages about Asia Global Crossing's financial position and future prospects.

5. **The February 12, 2001 Earnings Release**

On February 12, 2001, Asia Global Crossing issued a press release (the "AGX February 2001 Release"), announcing its results for the first full year of operations and touting a "strong Fourth Quarter." Asia Global Crossing reported Proportionate Cash Revenue of $321.8 million and Proportionate Adjusted EBITDA of $135.9 million for the year ended December 31, 2000. Asia Global Crossing also reported revenue of $153.6 million with a net loss of $146.9 million for the year ended December 31, 2000. For the three months ended December 31, 2000, Asia Global Crossing touted a "Proportionate Cash Revenue" increase of 95% over the third
quarter (to $112.3 million) and a "Proportionate Adjusted EBITDA" increase of 447% (to $49.2 million) over the third quarter. Reported revenue for the three month period was $22.3 million and the net loss was $50.4 million.

662. According to Legere, "Demand for Internet connectivity and telecommunications services is growing faster in Asia than anywhere else in the world." By this point however, there was widespread knowledge in the industry of a capacity glut. Undeterred by the reality of the market, Asia Global Crossing represented that it would meet the phantom increase in demand with a fully funded business plan: "With the proceeds of the IPO and a high yield bond offering, as well as cash from operations, Asia Global Crossing's current business plan remains fully funded." Asia Global Crossing's business plan was not fully funded. As stated in paragraph 649, its revenue was derived from transactions with affiliates, reciprocal sales, and swaps and knowingly understated the amount of capacity it needed to sell in order to pay off the construction of its network. Moreover, the overlapping officers and directors of Asia Global Crossing knew that it could not count on the $400 million line of credit from Global Crossing. At this time, however, Asia Global Crossing was doing a good job "fooling the market": the trading price of Asia Global Crossing stock was artificially propped back up to $9.969 on February 12, 2001.


reported GAAP revenue of $153.6 million, PP&E of $1.914 billion, total shareholders' equity of $1.764 billion, and a net loss of $146.9 million for the year ended December 31, 2000. For the three-months ended December 31, 2000, Asia Global Crossing touted a "Proportionate Cash Revenue" increase of 95% over the third quarter (to $112.3 million) and a "Proportionate Adjusted EBITDA" increase of 447% (to $49.2 million) over the third quarter. Reported GAAP revenue for the three-month period was $22.3 million and the net loss was $50.4 million.

While Asia Global Crossing stated that "these consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States," it urged the public to rely upon its misleading pro-forma financial disclosures. The AGX 2000 10-K assured investors and analysts that its contents were accurate and in conformity with GAAP. Andersen certified that the financial statements presented fairly, in all material respects, the financial position and cash flows of Asia Global Crossing.

In the AGX 2000 10-K, Asia Global Crossing made the following statement:

Concurrently with the closing of our initial public offering, we entered into two subordinated notes (the "Subordinated Notes") with Global Crossing. Under the terms of the Subordinated Notes, Global Crossing committed to loan us up to $200 million under each note which can be reduced by Global Crossing in an amount based on any net cash proceeds received by us from (a) the issuance of any shares of our capital stock subsequent to our initial public offering (excluding 500,000 shares sold as part of the exercise by the underwriters of their over-allotment option in connection with the initial public offering) and (b) the issuance of any indebtedness which meets certain conditions under the terms of the Subordinated Notes. One of the Subordinated Notes is available for borrowings until certain conditions are met, and the second Subordinated Note is available for borrowings until December 31, 2002. The Subordinated Notes mature on April 15, 2011 and bear interest at a rate of 14.875% per annum. Interest shall be payable in cash semi-annually in arrears on April 15 and October 15 of each year, commencing on April 15, 2001. However, interest due on or before October 15, 2005 will be paid by increasing the outstanding principal amount. We are permitted to use the proceeds of the Subordinated Notes to pay a portion of the costs of
building our network, operating expenses, interest on our indebtedness and
genereal corporate purposes.

666. Asia Global Crossing's business plan, however, was not fully funded. As stated
in paragraph 649, its revenue was derived from transactions with affiliates, reciprocal sales, and
swaps and knowingly understated the amount of capacity it needed to sell in order to pay off the
cost of the construction of its network. Moreover, the overlapping officers and directors of Asia
Global Crossing knew that it could not count on the $400 million line of credit from Global
Crossing.

667. The statements in paragraphs 651 through 666 were each false and misleading
when made for the reasons set forth in paragraph 662 and because they misrepresented or
omitted material adverse facts, including that:

a. Asia Global Crossing's financial statements and pro forma disclosures
were false and misleading because they misrepresented the financial position of the Company.
By booking IRU Swaps as cash sales, Asia Global Crossing gave the false impression that it was
receiving cash in the IRU sales when this was not the case. Asia Global Crossing compounded
this fraud by using terms such as "Cash Revenue" and "proportionate cash revenue" in its pro
forma disclosures to refer to artificial revenue figures that the Company should not and could not
recognize even under the most liberal accounting practices and which actually double-counted
revenue under an undisclosed, "fair value" measurement. In truth, Asia Global Crossing was
rapidly running out of cash and the Company's statements above actively concealed this fact;

b. Defendants were artificially inflating Asia Global Crossing's operating
performance through improper accounting of transactions with other telecommunications
companies. In a number of undisclosed transactions, Asia Global Crossing sold capacity on its
network to customers who bought capacity back in a "swap" transaction. Asia Global Crossing
recognized the revenue from the capacity sales either up front or as deferred revenue, but recorded the cost as a capital expense instead of an operating expense. Asia Global Crossing failed to disclose that these capacity exchanges were reciprocal transactions that were dependent upon each other;

c. By engaging in reciprocal IRU sales with other telecommunications companies, essentially “swapping” network capacity in exchange for network capacity, and accounting for such exchanges of similar assets using the fair value of the capacity, Asia Global Crossing artificially inflated its revenue and violated GAAP by recognizing revenue in connection with such transactions. In accordance with APB No. 29, Asia Global Crossing should have accounted for such exchanges using its historical or cost basis of the capacity relinquished in the transactions rather than the fair value;

d. By accounting for the value of IRUs acquired from other telecommunications companies in reciprocal IRU sales, or so-called “swap” deals, using the fair value of the capacity exchanged, Asia Global Crossing materially overstated the value of its total assets;

e. The Company's optimistic statements of growth and success were misleading because they omitted that the Company's financial position was distorted by its accounting manipulations and it was far from the success story that had rapidly reached hundreds of millions of dollars in revenues that it portrayed;

f. Asia Global Crossing knew that its business plan was not fully funded because of the decline in wholesale bandwidth pricing and the existing capacity glut;

g. Asia Global Crossing knew or or recklessly disregarded that Global Crossing would be unable to make available the $400 million in funding to Asia Global
Crossing, based upon the deterioration in Global Crossing's business operations, which doomed Asia Global Crossing;

h. Asia Global Crossing failed to disclose known existing trends described in the June 5, 2000 memorandum from Hindery to Winnick, Casey and Cook, which concluded that Asia Global Crossing's businesses model was doomed to fail,

i. Asia Global Crossing knowingly understated the amount of capacity it needed to sell in order to pay off the cost of the construction of its network; and

j. Asia Global Crossing understated its cost of sales and thereby overstated its earnings, overstated the value of the capacity available for sale, and overstated the value of its property plant and equipment.

7. The Asia Global Crossing 2001 Proxy Statement

668. On or about April 27, 2001, Asia Global Crossing filed with the SEC its proxy statement on Schedule 14A for its 2001 annual shareholder meeting, which was also mailed to all shareholders of Asia Global Crossing. The proxy statement made the following representation with respect to Asia Global Crossing's credit facility from Global Crossing:

Concurrent with the closing of our initial public offering in October 2000, we entered into a subordinated standby credit facility with Global Crossing. Under the credit facility, Global Crossing has agreed to lend us up to $396.50 million on a subordinated basis. Global Crossing has committed to keep half of this facility available for borrowings until December 31, 2002, and has committed to keep the remainder of this facility available for borrowings until we achieve certain performance targets. We are permitted to use the proceeds of the credit facility to pay a portion of the costs of building out our network, operating expenses, interest on the credit facility and other indebtedness and for general corporate purposes.
8. The Asia Global Crossing Stock Incentive Plan Registration Statement

669. On or about April 27, 2001, Asia Global Crossing registered 83,193,768 shares of Class A Common Stock for employee benefits pursuant to a Form S-8. The Form S-8 incorporated by reference all the statements made in, inter alia, (a) Asia Global Crossing's 424(b) Prospectus (Registration No. 333-53480) filed on February 12, 2001; and (b) the AGX 2000 10-K and was, therefore, materially false or misleading for the very same reasons as those documents were, as alleged above. The April 27, 2001 Registration Statement was signed by Winnick, Cook, Legere, Scanlon, Casey, Attanasio, Clayton, Conway, Green, Hippeau, Kent, Knook and Riesenfeld.

9. The May 2, 2001 Earnings Release

670. On May 2, 2001, Asia Global Crossing issued a press release (the "AGX First Quarter 2001 Release") in which it reported strong financial results for the quarter ended March 31, 2001: "Proportionate Cash Revenue" up 114% over Q1 2000, "Proportionate Adjusted EBITDA" up 138% over the same period." Asia Global Crossing reported "Proportionate Cash Revenue" of $205.5 million and "Proportionate Adjusted EBITDA" of $147.6 million. The press release quoted defendant Legere as stating that:

We had a strong quarter that exceeded our guidance, keeping us on track to achieve our financial goals for the year. With larger carriers making larger-than-expected capacity commitments to our network, even before it is fully operational, Asia Global Crossing had a record quarter in terms of capacity sold and Proportionate Cash Revenue.

Legere's statements had the desired effect of artificially propping up Asia Global Crossing's stock price, which doubled in price – from $3.5 on April 9, 2001 to $7.05 on the May 2, 2001.
10. The Asia Global Crossing First Quarter 2001 10-Q

On May 15, 2001, Asia Global Crossing filed with the SEC its quarterly report on Form 10-Q for the quarter ended March 31, 2001, signed by Riesenfeld (the "AGX First Quarter 2001 10-Q"). Asia Global Crossing reported Proportionate Cash Revenue of $205.5 million, Cash Revenue of $279.5 million, revenue of $9.5 million, Proportionate Adjusted EBITDA of $147.6 million, and Adjusted EBITDA of $240 million for the third quarter ended March 31, 2001. Asia Global Crossing reported a net loss of $61 million for the three months ended March 31, 2001 and total assets of $3.8 billion, PP&E of $2.2 billion, and shareholder's equity of $1.7 billion as of March 31, 2001.

Asia Global Crossing again used non-GAAP terms, which it called "proportionate metrics", that misleadingly overstated Asia Global Crossing's financial position under the pretext that such metrics were an accurate measure of Asia Global Crossing's business. The AGX First Quarter 2001 10-Q under a heading of "Basis of Presentation" made the following statement with respect to Asia Global Crossing's accounting policies:

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial reporting and Securities and Exchange Commission ("SEC") regulations .... In the opinion of management, the unaudited interim consolidated financial statements reflect all adjustments necessary to fairly present the results of operations, financial position and cash flows for the periods presented.

The AGX First Quarter 2001 10-Q made the following statement with respect to sources of funding:

Concurrently with the closing of the initial public offering, we entered into a subordinated standby credit facility with Global Crossing. Under the credit facility, Global Crossing has agreed to lend us up to $400 million on a subordinated basis. Global Crossing has committed to keep half of this facility available for borrowings until December 31, 2002, and has committed to keep the remainder of this facility available for borrowings until we achieve certain performance targets. We are permitted to use the
proceeds of the credit facility to pay a portion of the costs of building out our network, operating expenses, interest on the credit facility and other indebtedness and for general corporate purposes. Borrowings under the credit facility will bear interest at a rate of 14.875%. The credit facility will mature six months after the maturity date of the Senior Notes, and no principal will be payable until maturity.

674. The AGX First Quarter 2001 10-Q listed that the company had total assets as of March 31, 2001 of $3.8 billion and total liabilities of $1.99 billion. As Asia Global Crossing subsequently admitted, the AGX First Quarter 2001 10-Q was false and misleading because its assets and liabilities were incorrect during this time period, causing them to eventually be restated.

11. **Legere's June 2001 Interviews**

675. In an interview with Anette Jonsson of *Dow Jones Newswires* on June 21, 2001, Legere misrepresented Asia Global Crossing's financial position, stating: "We have 'all the cash we need until we are cash-flow positive in 2002 when our networks are completed.'" Legere added, "I don't need economic progression to succeed in the short-term because I am taking market share by going into the market with a scarce asset."

676. In an interview on CNBC's Squawk Box with anchor Mark Haines, on June 25, 2001, Legere falsely stated that there was a scarcity of sub-sea capacity in Asia, that Asia Global Crossing was diversifying its revenue streams and was contemplating selling its stock on an Asian stock exchange (implying that there was a growing market for Asia Global Crossing stock). Legere stated:

> Asia Global Crossing focuses mainly on Asia. And in this whole almost sensational period about bandwidth and bandwidth glut, a very important dissection [sic] is to ask the question are we talking about terrestrial fiber, which is huge amounts of conduit with a very small incremental cost to lay additional capacity, or Sub C [sic], which is very scarce? And if we're talking about Asia and the rest of the world and what you find is the scarest link in that whole chain is Asian Sub C [sic]. And very importantly is that any two points in the economic community of Asia talk
to each other through the sea. So the opportunity we are focusing on is very scarce and over the past year, many projects have been scaled back. And therefore the supply situation is quite rational. So I think Asia Global Crossing is focusing on a very unique part of that opportunity.

As to diversification, Legere said:

One of the pieces of both we and Global Crossing strategy is to lay this 200 city worldwide broadband POP to POP network and sell wholesale capacity, which I believe we our [sic] uniquely positioned to be the only provider of wholesale bandwidth, but very quickly to be putting the platforms in to immediately sell international private line, I.P. transit, ATM frame relay and Carrier VFR and certainly full suite of I.P.-VPN (ph). We just made an acquisition of a company, I.X. (Unintelligible) IPC from our parent and even in year one, our cash revenue will have nine percent from service moving up over the years. So clearly we are diversifying our revenue stream, as is our parent Global Crossing.

With respect to listing on an international exchange, Legere stated:

Well, if we IPOed in the Nasdaq in October and since then and during the road show as we spoke with investors throughout Asia, one of the things
services contracts. As a result of our strong financial results for the first half of the year, we are increasing guidance for the full year 2001."

13. The Asia Global Crossing Second Quarter 2001 10-Q


679. The AGX Second Quarter 2001 10-Q (on page 8) under a heading of "Basis of Presentation" made the following statement with respect to Asia Global Crossing's accounting policies:

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial reporting and Securities and Exchange Commission ("SEC") regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the unaudited interim consolidated financial statements reflect all adjustments necessary to fairly present the results of operations, financial position and cash flows for the periods presented.

680. The AGX Second Quarter 2001 10-Q (on page 18), under a heading of "Liquidity and Capital Resources," stated that:

Under the Parent Credit Facility, Global Crossing has agreed to lend us up to $400 million on a subordinated basis. Global Crossing has committed to keep half of this facility available for borrowings until December 31, 2002, and has committed to keep the remainder of this facility available
for borrowings until we achieve certain performance targets. We are permitted to use the proceeds of the Parent Credit Facility to build out our network, to pay operating expenses, interest on the Senior Notes, the Parent Credit Facility and other indebtedness and for general corporate purposes. Borrowings under the Parent Credit Facility will bear interest at a rate of 14.875%. The Parent Credit Facility will mature six months after the maturity date of the Senior Notes, and no principal will be payable until maturity.

681. The Second Quarter 2001 10-Q was also the first and only reference that Asia Global Crossing made to capacity exchanges with other carriers. The report stated:

The Company may exchange capacity with other capacity or service providers. These transactions are accounted for in accordance with Accounting Principles Board Opinion No. 29 “Accounting for Non-monetary Transactions”, where an exchange for similar capacity is recorded at a historical carryover basis and dissimilar capacity is accounted for at fair market value with recognition of any gain or loss.

682. This representation was false and materially misleading because Asia Global Crossing did not, in fact, account for IRU swaps with other carriers in accordance with APB No. 29. By improperly characterizing capacity as “dissimilar,” Asia Global Crossing recognized revenue on IRU swaps with other telecom carriers in violation of GAAP. Capacity exchanged for capacity, by definition, is a like kind exchange and APB No. 29 precludes the recognition of revenue based on such transactions.


683. On October 4, 2001, Asia Global Crossing issued a press release, subsequently filed with the SEC as an attachment to a Form 8-K on October 5, 2001, under the headline of "Global Crossing and Asia Global Crossing In Discussions To Merge To Better Meet Customer Needs For Seamless Global Services." Incredibly, less than a year after Global Crossing had spun-off Asia Global Crossing in a IPO that took $455 million from investors, Global Crossing stated that Asia Global Crossing had already exhausted the opportunities of the Asian markets
and that a merger of the two companies would result in "operational efficiencies" and "enhancement of product-service integration." The press release stated:

Global Crossing Ltd. (NYSE: GX) and Asia Global Crossing (NYSE: AX), which is approximately 59 percent owned by Global Crossing, today announced that they are in preliminary discussions to merge the two companies. The companies cited continuing consolidation in the telecommunications industry and the evolving needs of their global customers as motivation for their decision.

The companies also announced:

John Legere, currently president and chief executive officer of Asia Global Crossing, will also assume the chief executive officer position at Global Crossing effective immediately.

Tom Casey, currently vice chairman and chief executive officer of Global Crossing, will remain vice chairman and a director of Global Crossing, where he will oversee the disposition of non-core assets and financing activities.

Global Crossing intends to divest two non-core assets: Global Marine Systems Limited and IPC. Gary Winnick, Chairman of both Global Crossing and Asia Global Crossing, stated that in addition to strategic benefits, a combination would result in cost savings, operational efficiencies and enhancement of product-service integration.

Winnick said, "The global telecommunications industry is in a period of rapid transition. Competition is more intense. Customers are more demanding. But opportunity has never been greater. We believe John Legere is the right executive to lead our global business. John will now focus our strategy on leveraging our unique global network to deliver world-class services to enterprises," said Winnick. "John Legere is a seasoned telecommunications executive with global experience who has successfully managed operations in North America, Europe, and Asia. He is absolutely the right choice to lead Global Crossing as we bring the world onto our network."

Legere said, "We have an historic opportunity to become the market leader as the global economy recovers. In its short history, Asia Global Crossing was able to establish the right partnerships in the leading markets of the Asia Pacific region, to accelerate our entry in each country and to extend our network to Asia's dynamic business centers. Now those vital agreements are in place, and we need a single focused company to capture opportunities along every point of our seamless global network. This agile,
combined and focused enterprise is just what's needed in a global marketplace that changes and moves at the speed of light.

Added Legere, "Our global network offer and the advanced disruptive technology applications that only Global Crossing is able to seamlessly deliver on a worldwide basis will change the way business is done in every major city on the planet."

Casey said, "I am convinced that combining Global Crossing and Asia Global Crossing and divesting non-core assets are the right strategic moves at this stage in our development. I look forward to continuing to work closely with Gary Winnick and John Legere during the transition period." The management of both companies supports the concept of a merger. However, the form of a potential transaction is still to be determined and is subject to board, shareholder, and regulatory approvals.

Asia Global Crossing and Global Crossing, however, knew that the proposed merger would not result in cost savings, operational efficiencies, enhancement of either companies' products or services and the merger would do nothing to enhance the prospects of either company since they each had defunct business plans. Furthermore, both companies lacked the financing necessary to implement their respective business plans. The proposed merger was so unpopular with Wall Street that, on November 5, 2001, Asia Global Crossing issued a press release, subsequently filed with the SEC as an attachment to a Form 8-K filed on November 6, 2001, announcing that, "due to current market conditions, [Asia Global Crossing and Global Crossing] have terminated discussions regarding a merger." No further explanation was provided.

15. Legere Continues to Hype the Market in the Fall of 2001

Legere hyped Asia Global Crossing's new comprehensive suite of Internet Protocol Virtual Private Networks ("IP VPN") services in an October 16, 2001 press release. Legere stated, "We've created flexible, converged communications solutions that meet the rapidly evolving needs of our customers . . . . Because we own, operate, and manage the world's
most extensive fiber optic backbone, our customers have virtually unlimited freedom – we can take them as far as they want to go, as fast as they want to get there." Legere, however, was well aware that there was insufficient demand for this service and his statements intentionally misled investors about the company's prospects for future growth.

687. On October 31, 2001, Asia Global Crossing announced that, "it has been granted the Specific Service Provider and Value Added Service Provider Licenses by the [South Korean] Ministry of Information and Communications." CEO Legere, falsely touting the demand for bandwidth in South Korea, stated, "We recently landed in Korea and...we have obtained the required licenses. Asia Global Crossing is well-positioned to address the growing bandwidth demand in Korea."

688. Contrary to Legere's statement, in the Fall of 2001 there was a glut of network capacity. Even if there was excess demand, financially, Asia Global Crossing was in no position to build additional bandwidth in South Korea. The October 31, 2001 press release was highly misleading to investors that were unaware of the bandwidth glut. Nevertheless, Legere's statements had the desired effect of artificially inflating the stock price, which went from $0.45 in October 9, 2001 to $2.15 on November 19, 2001.

16. The November 7, 2001 Earnings Release

689. On November 7, 2001, Asia Global Crossing issued a press release (the "AGX Third Quarter 2001 Release") reporting that for the quarter ended September 30, 2001, it had $128.9 million in Proportionate Cash Revenue, an increase of 102% over $63.9 million in the third quarter of 2000, and Proportionate Adjusted EBITDA, which purportedly served as a measure of operating performance, was $41.4 million for the quarter versus $6.7 million in the
same quarter in the previous year. The press release also quoted defendant Legere as stating
that:

In a challenging environment for telecommunications service providers, Asia Global Crossing turned in another solid performance in the third quarter. New bandwidth commitments -- as well as an increase in recurring services revenue -- enabled us to meet our financial goals for the quarter. We are also maintaining our previously announced guidance for the year after adjusting for the anticipated sale of IPC Asia.

690. Riesenfeld added:

We are pleased with our third quarter results, especially in light of the challenging environment faced by virtually all telecommunications companies . . . In the third quarter of 2001, the company was at or above the high end of all of our original guidance metrics, which were $80-$120 million for Proportionate Cash Revenue, $10-$30 million for Proportionate Adjusted EBITDA and a net loss of $0.16-$0.18 per share . . . On a quarter-to-quarter basis, we are particularly encouraged by the continuing growth we are seeing in recurring services revenue.

17. The Asia Global Crossing Third Quarter 2001 10-Q

691. On November 14, 2001, Asia Global Crossing filed with the SEC its quarterly report on Form 10-Q for the quarter ended September 30, 2001, signed by Riesenfeld (the “AGX Third Quarter 2001 10-Q”). Asia Global Crossing reported Proportionate Cash Revenue of $128.9 million, Cash Revenue of $83 million, revenue of $33.5 million, Proportionate Adjusted EBITDA of $41.4 million, and Adjusted EBITDA of $17.5 million for the third quarter ended September 30, 2001. Asia Global Crossing reported a net loss of $88.1 million for the three months ended September 30, 2001 and total assets of $4.1 billion, PP&E of $2.6 billion, and shareholder's equity of $1.7 million as of September 30, 2001. For the nine months ended September 30, 2001, Asia Global Crossing reported Proportionate Cash Revenue of $540.3 million, Cash Revenue of $617.4 million, revenue of $74.8 million, Proportionate Adjusted EBITDA of $300.2 million, and Adjusted EBITDA of $433.6 million. Net loss for the nine-month period was $231.9 million. Asia Global Crossing used “proportionate metrics” and non-
GAAP terms purportedly because such metrics are relevant in Asia Global Crossing's business objectives.

692. The AGX Third Quarter 2001 10-Q (on page 8) under a heading of "Basis of Presentation" made the following statement with respect to Asia Global Crossing's accounting policies:

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial reporting and Securities and Exchange Commission ("SEC") regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the unaudited interim consolidated financial statements reflect all adjustments necessary to fairly present the results of operations, financial position and cash flows for the periods presented.

693. The AGX Third Quarter 2001 10-Q (on page 19), under a heading of "Liquidity and Capital Resources," stated that:

Under the Parent Credit Facility, Global Crossing has agreed to lend us up to $400 million on a subordinated basis. Global Crossing has committed to keep half of this facility available for borrowings until December 31, 2002, and has committed to keep the remainder of this facility available for borrowings until we achieve certain performance targets. We are permitted to use the proceeds of the Parent Credit Facility to build out our network, to pay operating expenses, interest on the Senior Notes, the Parent Credit Facility and other indebtedness and for general corporate purposes. Borrowings under the Parent Credit Facility will bear interest at a rate of 14.875%. The Parent Credit Facility will mature six months after the maturity date of the Senior Notes, and no principal will be payable until maturity.

694. On Global Crossing's third quarter earnings release conference call, Legere was asked to provide clarity on the relationship between Global Crossing and Asia Global Crossing on the credit facility. Legere responded:

On the Asia Global Crossing front, there has been some noise in the last 24 hours associated with representatives of the bondholders, expressing
their opinion about Asia Global Crossing and the credit line. I think as the Global Crossing CEO today, the only thing I can tell you is that Asia Global Crossing does have a valid $400 million facility that they're paying for the rights to have, and should they come to Global Crossing and request to pull down part of all of that facility, we're obligated to respond, and we will. So that's – it is a valid facility. They have not requested to pull it down. They do have a right to it. If they do, we have the right to honor that obligation.

695. On December 20, 2001, Asia Global Crossing issued a press release, subsequently filed with the SEC as an attachment to a Form 8-K filed on December 21, 2001, disclosing that it had made a request for funding under the $400 million subordinated line of credit from Global Crossing and the requested funding was not provided within the time set forth in the line of credit agreement. The press release also disclosed that discussions were expected to continue between Asia Global Crossing and Global Crossing with respect to the $400 million line of credit.

696. The statements in paragraphs 668 through 695 were each false and misleading when made for the reasons set forth above and in paragraphs 649 and 667, and because they misrepresented or omitted material adverse facts, including that:

a. Asia Global Crossing’s financial statements and pro forma disclosures were false and misleading because they misrepresented the financial position of the Company. By booking IRU Swaps as cash sales, Asia Global Crossing gave the false impression that it was receiving cash in the IRU sales when this was not the case. Asia Global Crossing compounded this fraud by using terms such as “Cash Revenue” and “proportionate cash revenue” in its pro forma disclosures to refer to artificial revenue figures that the Company should not and could not recognize even under the most liberal accounting practices and which actually double-counted revenue under an undisclosed “fair value” measurement. In truth, Asia Global Crossing was rapidly running out of cash and the Company’s statements above actively concealed this fact;
b. Defendants were artificially inflating Asia Global Crossing's operating performance through improper accounting of transactions with other telecommunications companies. In a number of undisclosed transactions, Asia Global Crossing sold capacity on its network to customers who bought capacity back in a "swap" transaction. Asia Global Crossing recognized the revenue from the capacity sales either up front or as deferred revenue, but recorded the cost as a capital expense instead of an operating expense. Asia Global Crossing failed to disclose that these capacity exchanges were reciprocal transactions that were dependent upon each other;

c. By engaging in reciprocal IRU sales with other telecommunications companies, essentially "swapping" network capacity in exchange for network capacity, and accounting for such exchanges of similar assets using the fair value of the capacity, Asia Global Crossing artificially inflated its revenue and violated GAAP by recognizing revenue in connection with such transactions. In accordance with APB No. 29, Asia Global Crossing should have accounted for such exchanges using its historical or cost basis of the capacity relinquished in the transactions rather than the fair value;

d. By accounting for the value of IRUs acquired from other telecommunications companies in reciprocal IRU sales, or so-called "swap" deals, using the fair value of the capacity exchanged, Asia Global Crossing materially overstated the value of its total assets;

e. The Company's optimistic statements of growth and success were misleading because they omitted that the Company's financial position was distorted by its accounting manipulations and it was far from the success story that had rapidly reached hundreds of millions of dollars in revenues that it portrayed;
f. Asia Global Crossing knew that its business plan was not fully funded because of the decline in wholesale bandwidth pricing and the existing capacity glut;

g. Asia Global Crossing knew that Global Crossing would be unable to make available the $400 million in funding to Asia Global Crossing, based upon the deterioration in Global Crossing's business operations, which doomed Asia Global Crossing;

h. Asia Global Crossing knew that it was unable to sustain its business plan, as evidenced by the June 2000 Memo by Leo Hindery, because Asia Global Crossing's business plan of building capacity for carriers and selling that capacity in the form of long term leases could be nothing more than a "transient" strategy. Indeed, as the supply of capacity increased due to more competition, and demand for and the price of capacity declined because of changing market conditions and oversupply, Asia Global Crossing found it increasingly difficult to meet its wholesale capacity sales targets. Moreover, Asia Global Crossing was incapable of competing with its wholesale customers for retail sales of capacity to end users. This failure to disclose the existence of the Hindery memo and/or its underlying conclusions violated the disclosure obligations triggered by an initial public offering of securities to the investing public including, without limitation, Item 303(a)(3)(ii) of Regulation S-K (17 C.F.R. pt. 229) which requires, inter alia, that registrants:

Describe any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on the net sales or revenues or income from continuing operations. (Emphasis added)

i. Asia Global Crossing understated its cost of sales and thereby overstated its earnings, the value of the capacity available for sale, and the value of its property plant and equipment.
D. The Truth About Global Crossing's Difficulties Begins To Emerge But Global Crossing Denies The Problems And Continues To Conceal The Fraud

1. The October 4, 2001 Press Release

On October 4, 2001, Global Crossing issued a press release, announcing that its financial performance would be substantially below current analyst expectations for the third quarter. The Company reported that Cash Revenue would be only $1.2 billion, rather than the projected $1.6 billion, and Adjusted EBITDA would be "significantly less than $100 million," rather than the $362 million forecast and reiterated many times earlier in the year. The Company also announced that Legere had become CEO replacing Casey. Global Crossing stated that its missed revenues and earning targets were caused by lower prices. The press release further stated:

Global Crossing said today it expects its financial performance to be substantially below current analyst expectations for the third quarter ended September 30, 2001, due primarily to a sharp falloff in wholesale sales of indefeasible rights of use (IRUs) to carrier customers....

Global Crossing said that it is disappointed that it did not meet its projections for IRU sales, but noted that terms offered to the Company by potential customers during the third quarter were uneconomic. To accept such terms would not have been in the long term interest of Global Crossing shareholders nor been in line with the Company’s standards of financial discipline. The Company noted that various analysts have recently projected that IRU demand will grow in the future as the world economy improves, and as carriers purchase capacity they need to relieve network congestion as their utilization rates approach historic highs.

In response to the news, the Company's share price dropped 49%, or $1.02 to $1.07 per share, in trading of 75.7 million shares, making it the third most-active U.S. stock.

Global Crossing also announced in the October 4, 2001 press release that Legere, who had been the Chief Executive Officer of Asia Global Crossing since February 2000, was also going to serve as the Chief Executive Officer of Global Crossing.
Rather than using the October 4, 2001 press release to disclose the true facts, however, Global Crossing used the press release to further mislead analysts and the investing public. The press release was titled: "Global Crossing and Asia Global Crossing in Discussions to Merge to Better Meet Customer Needs for Seamless Global Services." The first half of the press release was devoted to information about the Company's potential merger with Asia Global Crossing. The companies cited continuing consolidation in the telecommunications industry and the evolving needs of their global customers as motivation for their decision. Commenting on the potential merger, Winnick said:

The global telecommunications industry is in a period of rapid transition. Competition is more intense. Customers are more demanding. But opportunity has never been greater. We believe John Legere is the right executive to lead our global business.

(Emphasis added).

Legere is quoted as saying:

We have an historic opportunity to become the market leader as the global economy recovers . . . This agile, combined and focused enterprise is just what's needed in a global marketplace that changes and moves at the speed of light . . . Our global network offer and the advanced disruptive technology applications that only Global Crossing is able to seamlessly deliver on a worldwide basis will change the way business is done in every major city on the planet.

Commenting on its financial position, the Company stated in the press release as follows:

Global Crossing In Strong Financial Position; Company Has $2.4 Billion In Cash At End of Third Quarter

Global Crossing said it remains in a strong financial position with ample liquidity to execute its business plan. The Company has approximately $2.4 billion in cash at the end of the third quarter before any divestitures. In addition, the Company had previously stated that capital expenditures will continue to decrease significantly in 2002, reflecting the completion of its core network and the planned completion of its Asian extension in
the first quarter of 2002. Global Crossing intends to further reduce capital expenditures and expenses to better align its spending with current revenue expectations.

2. The October 8, 2001 Los Angeles Business Journal Article

The Los Angeles Business Journal, commenting on Global Crossing’s optimism in an October 8, 2001 article titled “Stock, Bondholders Flee as Global Crossing Struggles” stated as follows:

Winnick last week declined to comment, but Global CFO Dan Cohrs told Bloomberg News that “even in the face of a severe downtown, we will not run out of money.”

Casey said in a statement that he remained “extremely confident in Global Crossing’s business strategy and the fact that we will emerge from the current downturn as an industry leader well positioned for long-term growth.”

Casey blamed what he called “irrational trading” in the company’s stock on “highly inaccurate rumors and groundless speculation.” The company expects to end 2001 with between $1.7 billion and $2.1 billion in cash and liquidity. Next year, capital expenditures will decrease once Global Crossing’s Asian extension is completed in the first quarter of 2002, Casey said.

3. The October 15, 2001 Telephony Article

Through October 2001, the Company continued to mislead and downplay its dire financial status. Commenting on Global Crossing’s business plan, an October 15, 2001 Telephony article titled “Global Crossing Starved by Glut” stated as follows:

Dan Cohrs, executive vice president and chief financial officer of Global Crossing, thinks the market is overreacting. “Guess what? We missed one,” he said. “People are acting as if the world’s just ended.”

Legere and Cohrs maintain that IRU sales will come back in 2002 because carriers have worked through their inventories and are using more than 50% of capacity. “The network planners are screaming to buy capacity, and the CFOs won’t let them,” Cohrs said. Because they doubt Wall Street will buy that, however, Legere and Cohrs are crafting a business plan that weans the company off its dependence on wholesale capacity deals.
"The IRU business has always been somewhat of a mystery," Legere said. "We're going to lay out a plan and stop this charade."

4. The October 22, 2001 BusinessWeek Article

BusinessWeek commented on Global Crossing's new CEO, Legere, on an October 22, 2001 article. The article stated in relevant part:

New CEO Legere says he is confident that Global Crossing will weather the current storm just fine. He is taking steps to reduce the company's capital spending, sell off nonstrategic assets, and reacquire the 40% of Global Crossing's Asia operations that Winnick sold to the public last year. "There's no network like the one we built," says Legere. "The market is coming back."

5. The October 29, 2001 Fiber Optic News Interview

On October 29, 2001, Fiber Optic News published an interview with Legere, titled "Meet Global Crossing's New Mr. Fixit," which states in relevant part:

FON: You're the fifth CEO Global Crossing has had in three years. Do you expect to be in this position for several years at least?

Legere: I think it took'em a while to get it right. Obviously I joke about it because you can't be sensitive to it. The only thing that I can speak about personally is if you look at the company and you look at the phase we're in, and you look at my skills and experiences - they match. I've managed large teams in Asia, and in Europe and in the United States. And I've spent over 20 years delivering products and services to global multinational corporations. I've also run teams, at least two times, that were over 10,000 people. So I've got the identical skill set you need to run the business.

And we are anticipating continuing to explore the possible merger of Global Crossing and Asia Global Crossing. So it makes sense to hedge in that direction and move towards having one CEO over two companies. It's a question we're going to continue to get, but I think that my skills will suggest that it was a good choice.

Legere used the interview as an opportunity to further minimize the Company's problems and to contravene any potentially negative information about the Company. To this end, the October 29, 2001 interview continued as follows:
FON: Credit Suisse First Boston analyst Dan Reingold said in a recent research report that Global Crossing "is under severe stress - top line, balance sheet and cash flow - and now, in effect, a reorganization is going on that will likely dilute equity holders and not necessarily solve the problems given the severity of the revenue miss in the third quarter." Your response?

Legere: I think Dan joins a large group of Wall Street analysts that are best characterized right now as angry. And I think it's important to acknowledge that.

We made a series of announcements, basically none of which Wall Street liked. We announced another CEO. We announced a $300 million miss driven by the IRU [indefeasible rights of use] market in Q3 - clearly something that caught them by surprise but indicative of a trend in the industry if you saw some of TyCom's [TCM] numbers recently released. The fact is that a $300 million miss might be characterized as a good quarter.

We also announced the intent to investigate merging Global Crossing and Asia Global Crossing, and neither set of shareholders liked that. Global Crossing shareholders are concerned about dilution, and Asia Global Crossing shareholders felt that they had a unique Asian asset that they were quite interested in.

* * *

Now we did announce that we have $2.4 billion of cash, and we announced that we are investigating the sale of some non-strategic assets to provide an additional cash cushion, but it also raised concerns about liquidity.

And to be specific to the subsea space, what happened here is, historically the subsea part of our industry, and certainly a piece of what we do here at Global Crossing, has been a bit arrogant. When we announced numbers, we provided very little information. We never provided price per unit information, we never provided capacity utilization information, we never provided specific details about any aspect of our sales outside of the cash.

And when you announce a huge miss, that's when your lack of having provided detailed information in the past puts you in a very difficult spot. Because without any further visibility, what the analysts do is just assume that there is no more business in that space and they erase that portion from your revenue line.

So in the short term you've got analysts looking at our debt load, assuming IRUs are gone - which is a bad assumption - and they're looking at our cash burn rate, which in effect will never be the same as it has been.
historically because we’ve completed building our network. And when you extrapolate those and you worry about debt covenants, all of a sudden the world declared us dead.

* * *

Now for me, that is a huge short-term challenge because I’ve got to get out, provide visibility and transparency, show under any scenario how we’ve got financial health and liquidity. Otherwise, customers will be concerned and it could become a self-fulfilling prophecy.

FON: So you feel that analysts are making judgments about Global Crossing based upon equations that are not accurate?

Legere: Right. We have one problem. I can see all my numbers and forecasts - they can’t.

6. The Third Quarter 2001 Earnings Release

On November 13, 2001, Global Crossing issued a press release announcing results for the third quarter ended September 30, 2001 (the “Third Quarter Earnings Release”). Global Crossing reported third quarter Cash Revenue of $999 million, a Recurring Adjusted EBITDA Loss of $16 million, and a recurring net loss of $550 million, or $0.62 per share.

Commenting on the financial results, Legere, Global Crossing’s fourth CEO during the Class Period, said:

Over the past several weeks, the Global Crossing management team has reviewed every aspect of our business, from capital and operating expenses to our corporate culture, and to establish a position as one of the world’s leading telecommunications service providers, we have defined an initial ‘inter-city’ focus as part of an integrated strategy and business plan. Clearly, the downturn in the macro-economic environment had an impact on our business during the quarter, particularly within the IRU market. However, certain segments continue to demonstrate strong growth, which is in line with our new inter-city business focus. In fact, due to continued penetration of enterprise customers by our worldwide sales force, record Commercial Data Revenue results were posted in the quarter, up 43% over third quarter 2000....Capital expenditures will drop dramatically as network expansion ends in early 2002, and most of our capital spending becomes linked to carrying additional volumes on the network.

As before, the Company introduced some negative financial information but failed to fully disclose the true facts. The Third Quarter 2001 Earnings Release stated that:
For the quarter ending December 31, 2001, Global Crossing expects its continuing operations . . . to generate approximately $825 - $850 million in Cash Revenue, $725 - $750 million in Service Revenue and a Recurring Adjusted EBITDA January 23, 2003 loss of $150 - $175 million. The Company stated that the current consensus of analysts' estimates of Recurring Net Income for the fourth quarter 2001 are reasonable.

Despite the weak macro-economic environment, Global Crossing expects to make continued progress in penetrating the commercial enterprise market and to maintain a relatively stable base of recurring revenues from its carrier customers. For these reasons, Global Crossing expects Service Revenue for its continuing operations for the fiscal year ending December 31, 2002 to grow by approximately 10% and the Company to approach EBITDA break-even through continued reductions in operating expenses. In addition to this forecast, the Company expects approximately $1 billion in IRU sales as Global Crossing believes the wholesale market is poised for recovery.

Focusing on the Company's Telecommunications segment, the press release stated:

Despite the softening economic environment, Commercial Data Revenue increased 43% over third quarter 2000 results and 3% sequentially, consistent with the Company's increased focus on providing managed services to global enterprises and further demonstrating Global Crossing's increasing market share in a world becoming more data centric.

Since January 1, 2001, the Company has entered into new commercial service contracts which are expected to result in a total of approximately $1.8 billion in additional revenue to the Company over the life of the contracts, including new contracts totaling $208 million signed during the third quarter. Sales in commercial markets experienced continued growth, with revenue from customers in large enterprise segments up 35% annually.

7. The November 27, 2001 Press Release

Commenting on positive business developments, Global Crossing announced the launch of its worldwide optical wavelength communications service on November 27, 2001.

Explaining the benefits of the new service, the press release said:

According to a recent Yankee Group report, wavelength services revenue will increase significantly over the next five years, going from an estimated $700 million in the U.S. market alone this year, to nearly $8 billion by 2005.
Legere is quoted as saying:

No other carrier can offer that kind of end-to-end, worldwide service. That's a distinct advantage for businesses trying to maximize their presence in the global marketplace.

8. The Third Quarter 2001 Earnings Conference Call

710. On or about November 14, 2001, Cohrs and Global Crossing's newly appointed CEO, Legere, held a conference call to discuss Global Crossing's Third Quarter 2001 earnings and results. Legere outlined a new plan for the Company and stated that he believed Global Crossing "will be a successful long-term player in the telecommunications place." He described a new integrated strategy and business plan for Global Crossing, which he said:

meets [challenges in the industry] realistically and head on, so that we can become the premier provider of networking services to carriers and enterprises among the world's top two-hundred cities, with a phased approach, starting with the focus on the inter-city business.

711. Legere reported the following financial results for Third Quarter 2001:

For continuing operations, we reported cash revenues of $999 million; recurring adjusted EBITDA, a loss of $16 million; and recurring net loss of $150 million. The net loss applicable to common shareholders was $3.4 million.

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These results are 100 percent consistent with the guidance we gave you on Oct. 4th for cash revenues of $1.2 billion and recurring adjusted EBITDA, which we stated would be significantly below $100 million. Now, although we saw some weakness in the IRU market this quarter, the recurring part of our business demonstrated stable revenues.

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Overall then, these results in a very tough telecommunications market, are in line with our most recent expectations and do show a solid recurring base from which we will grow.

712. When asked why the Company's $15 billion network needed reciprocal deals, Cohrs stated:

You were asking about what we get when we do the so-called reciprocal deals. And you were saying why are we buying assets? Why don't we
just build them? The simple answer is when we buy them, we buy them cheaper than we can build them. Having spent the last four years building backbone network all over the world, we have not built every single bit of capacity and co-lo space that we will ever need. So what we have said for the last three quarters is that we have the backbone all over the world. There are places that we need to either go, that we don't go; and it is much more efficient to buy it than build it. Especially at the prices we are able to get in the marketplace today. So, we are looking at – the type of things we buy are wavelengths or possibly dark fiber or possibly ducts in obscure places that we just don't want to go build to. Co-location space in out of the way locations where we don't want to go in and take a lot of it but we do need to buy some of it. In some cases, we are talking about additional capacity in the form of wavelength on routes that we actually have assets, but we project that we will need more capacity in the near future. And so, this is really exactly what we have been saying for the last three quarters. The simple answer is, it is just cheaper and faster and more efficient to go buy it instead of build everything we're trying to do.

Before ending the conference call, Legere acknowledged that Global Crossing was in a situation where its bank covenants and ratios used to monitor performance "will not be met," but he declared that the Company has "at this point no issue with cash."

9. The Third Quarter 2001 10-Q

On November 14, 2001, Global Crossing filed with the SEC its Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 (the "Third Quarter 2001 10-Q") signed by Cohrs. Global Crossing reported third quarter Cash Revenue of $999 million, of which $793 million was GAAP Revenue and $206 million was the Cash Portion of the Change in Deferred Revenue. Amortization of prior period IRUs accounted for $36 million of the Company's Carrier segment. Global Crossing reported recurring Adjusted EBITDA of $17 million. Global Crossing also reported a net loss of $3.35 billion, or $3.28 per share, compared to $544 million, or 0.62 per share in the third quarter ended September 30, 2000. PP&E for the quarter was $12.058 billion. The Company reported deferred revenue of which $2.76 billion. The Company reported total shareholders' equity of $6.884 billion and represented that its financial results were accurate and in conformity with GAAP.
715. The Third Quarter 2001 10-Q also contained the following false and misleading statements:

During the quarter, the Company entered into several agreements with various carrier customers for the purchase or lease of capacity and co-location space. These transactions were implemented in order to acquire cost-effective local network expansions; to provide for cost-effective alternatives to new construction in certain markets in which the Company anticipates shortages of capacity; and to provide additional levels of physical diversity in the network as the Company implements its global mesh architecture. The cash commitments totaled $190, $358, and $625 for the three months ended September 30, 2001, June 30, 2001, and March 31, 2001, respectively, including the cost of possible construction of the Caribbean System, described below.

Revenues for the three months ended September 30, 2001 increased $15 over the same period ended September 30, 2000 due to growth in the commercial sector offset by a decline in consumer revenue and flat results from our carrier group. Commercial revenue increased $39 over third quarter results from the previous year, a 12% increase, mainly driven by growth in data services such as private line, frame relay, ATM, and IP services. The increase in demand for these services has been primarily driven by the expansion of our network compared to the same period in the prior year as well as an increase in demand for data centric services.

716. The statements in paragraphs 697 through 715 were each false and misleading when made at the time issued for the reasons set forth above in paragraphs 649, 667 and 696, and because they misrepresented or omitted material adverse facts, including that:

a. Global Crossing's accounting methods for the period through July 1999, during which the Company immediately recognized as revenue the entire value of IRU sales from long-term leases and payments for repurchasing bandwidth from customers but amortized costs over the terms of the lease were both improper under FASB No. 13 and caused a material misrepresentation of Global Crossing's revenues, profitability and the value of its assets. In fact, of the Company's reported revenues for the period, it was later disclosed that the vast majority
had been improperly recognized as sales-type leases such that the services should have actually have been amortized over a 25-year period rather than immediately recognized;

b. Global Crossing's financial statements and pro forma disclosures were false and misleading because they misrepresented the cash position of the Company. By booking IRU Swaps as cash sales, Global Crossing gave the false impression that it was receiving cash in the IRU sales when this was not the case. Global Crossing compounded this fraud by using terms such as "Cash Revenue" in its pro forma disclosures to refer to artificial revenue figures that the Company should not and could not recognize even under the most liberal accounting practices. In truth, Global Crossing was rapidly running out of cash and the Company's statements above actively concealed this fact;

c. Defendants were artificially inflating Global Crossing's operating performance through improper accounting of transactions with other telecommunications companies. In a number of undisclosed transactions, Global Crossing sold capacity on its network to customers who bought capacity back in a "swap" transaction. Global Crossing recognized the revenue from the capacity sales either up front or as deferred revenue, but recorded the cost as a capital expense instead of an operating expense. Global Crossing failed to disclose that these capacity exchanges were reciprocal transactions that were dependent upon each other;

d. Global Crossing was drawing down on its credit facility by removing money from its secured creditors and placing that money in another bank to prevent its secured creditors from cutting off the Company's supply of cash when and if they discovery Global Crossing's true financial condition;
e. By engaging in reciprocal IRU sales with other telecommunications companies, essentially "swapping" network capacity in exchange for network capacity, and accounting for such exchanges using the fair value of the capacity, Global Crossing artificially inflated its revenue and violated GAAP by recognizing any revenue in connection with such transactions because, under APB No. 29, Global Crossing should have accounted for such exchanges using its historical or cost basis of the capacity relinquished in the transactions;
f. By accounting for the value of IRUs acquired from other telecommunication companies in reciprocal IRU sales, or so-called "swap" deals, using the fair value of the capacity exchanged, Global Crossing materially overstated the value of its total assets; and
g. The Company's optimistic statements of growth and success were misleading because they omitted that the Company's financial position was distorted by its accounting manipulations and it was far from the success story that had rapidly reached hundreds of millions of dollars in revenues that it portrayed.

10. The December 24, 2001 Fortune Article

717. In a December 24, 2001 Fortune article, Global Crossing's CEO, Legere, continued to dispute that there were any problems with the Company's business and again distanced the Company from any industry wide negative information. Legere did say that telecommunications companies had failed to properly inform investors about the details of the swap transactions yet disclaimed any notion that this practice was wrong, or out of the ordinary:

Legere admits that telcos left investors in the dark about the deals. "The industry gave no information," he says. "We showed a huge cash number, but we didn't answer questions about price, supply, capacity, or the number of units." While he won't say the practice was wrong, he does allow that shareholders may have been confused about the robustness of revenues.
Legere's statements in the Fortune article, while acknowledging the existence of swaps, perpetuated Global Crossing's fraud because he concealed the fact that Global Crossing's reported "cash revenues" depended in large part, if not wholly, on these swap transactions. Moreover, Legere attempted to legitimize the practice by suggesting that the swaps were supported by actual business needs when instead, the "price, supply, or the number of units" that were involved in capacity swaps, had no relationship to the actual needs of Global Crossing or its rivals, but instead were driven entirely by the need to meet earnings estimates. This essential fraud would only be discovered much later.

11. The December 28, 2001 Press Release

On December 28, 2001, Global Crossing announced that it had reached agreement with a consortium of banks led by J.P. Morgan Chase and Citibank for a waiver of potential violations of certain financial covenants in the Company's credit agreement with the consortium. This waiver resolved concerns that the Company would be out of compliance with these covenants at the end of the year 2001. The agreement provided for a waiver of the relevant financial covenants through February 13, 2002. Legere said:

We expect to continue discussions with our bank lenders about the terms of our bank credit agreement as we pursue discussions with potential equity investors

Unfortunately for Global Crossing investors, those discussions were not fruitful.

720. The statements set forth above in paragraphs 717 through 719 were false and misleading when made at the time issued because they misrepresented or omitted material adverse facts, for the reasons set forth above in paragraph 716.
E. The Truth About Global Crossing Comes Out

1. The January 28, 2002 Bankruptcy Filing

On January 28, 2002, Global Crossing announced that it filed for Chapter 11 protection in the Bankruptcy Court as well as bankruptcy protection from the Bermuda Supreme Court in Hamilton. Legere stated:

Ours is a balance sheet issue, not an operational one . . . and today's actions are intended to directly address this issue. Even with the financial uncertainty we've recently experienced, customers have continued to choose our network over many others. With this restructuring, we'll put financial uncertainty behind us and the power of our network will once again become the primary factor in the minds of our customers.

The Company also announced that two Asia-based companies, Hutchison and Singapore Technologies Telemedia Pte. Ltd., have said they will invest $750 million in the company in return for a controlling share of Global Crossing. Commenting on the investment and the Company's financial outlook, Legere stated:

We believe this new equity investment from parties as strong as Hutchison Whampoa and Singapore Technologies Telemedia validates our confidence in the strong future of our company. This investment, along with the financial and operational restructuring that we're implementing, will strengthen our balance sheet and enable Global Crossing to build a sustainable business upon its existing unmatched global network. With this restructuring, we believe we can become the global leader providing networking services among the world's top 200 cities to global enterprises and carriers. . . .

With a strengthened balance sheet and reduced debt, we are confident that Global Crossing will be in an excellent position to take advantage of its unique global network, growing customer base, and outstanding service capabilities to create substantial value in the coming years. We are committed to an expedited restructuring process.

The New York Stock Exchange promptly delisted Global Crossing's stock. At the time the stock was delisted, the Company's common stock was trading at $0.51 per share. Later the same day, the stock price had fallen to $0.130 per share, with a volume of 45,862,400 shares,
and on January 29, 2002, the Company's stock traded at $0.092 per share, with a total of 133,206,300 shares traded.

724. On January 30, 2002, two days after Global Crossing declared bankruptcy, The Wall Street Journal and The Los Angeles Times reported that during at least 2001, the Company was engaged in barter transactions on which it improperly recognized revenue in violation of GAAP. Also, The Los Angeles Times article publicly disclosed the existence of Olofson's letter:

A finance executive at ailing Global Crossing Ltd. warned the firm's top attorney in August that the company's financial condition was being enhanced with misleading accounting techniques, according to a letter obtained by the Los Angeles Times.

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The Company vehemently denied Olofson's accusations:

This is a situation we are very familiar with, has thoroughly been investigated both internally and externally, and is without merit," the company said in a statement. "Mr. Olofson is a former employee who is trying to draw parallels to the Enron situation for his own personal gain. The company believes that Mr. Olofson's threat to take this issue public through the filing of a lawsuit unless he was paid a substantial amount of money speaks for itself.

2. The February 4, 2002 Press Release

725. On February 4, 2002, days after commencing bankruptcy proceedings, and after the Los Angeles Times exposed the company's receipt of Olofson's letter, Global Crossing issued the following statement:

In August 2001, the company received a letter from Roy Olofson, who was at that time a vice-president-finance of the company, raising concerns about certain accounting and financial reporting matters of Global Crossing and its subsidiary Asia Global Crossing. Mr. Olofson claimed that it was improper for the company to have reported pro forma values for Cash Revenues and Adjusted EBITDA (earnings before interest tax depreciation and amortization) because the numbers are not measures of cash receipts or earnings and because the amounts were allegedly inflated by including amounts for which the cash was not received or where there had been non-monetary exchanges of capacity.
On February 27, 2002, Reuters reported that Global Crossing had announced that it expected to report a massive loss for the fourth quarter of 2001, caused in part by writing down the value of $8 billion dollars of purported intangible assets and goodwill and several billions of dollars worth of network assets.

**F. The Aftermath**

After Global Crossing filed for bankruptcy on January 28, 2002, it announced a proposed bail-out by which Hutchinson and Singapore Tech. would pay $750 million for a 79% stake in the Company. Investors loudly criticized the plan as a low-ball offer for a Company with assets they had been led to believe were worth tens of billions of dollars.

These criticisms heightened just days later when it was revealed in an article in the *New York Times* that Winnick and Green, another director of Global Crossing, had links to Hutchinson and Singapore Tech. In the fall of 2001, Winnick and Green invested $25 million in and became part-owners of K1 Ventures Ltd. ("K1 Ventures"), a Singapore-based investment company. K1 Ventures is effectively controlled by Temasek Holdings, which also owns Singapore Tech. – one of the partners to the proposed bail-out of Global Crossing. Once Winnick's and Green's connection with Singapore Tech. was revealed, Winnick resigned as a director from K1 Ventures.

Following the public disclosure of the Whistleblower Letter on January 29, 2002, the scope of Global Crossing's fraudulent accounting slowly became known. Newspapers from the *Wall Street Journal* to the *Los Angeles Times* reported on the story. The U.S. Attorney's office in Los Angeles began a criminal investigation into Global Crossing, two separate Congressional committees scheduled hearings and demanded documents, and the SEC launched its own investigation into the fraud.

731. Under the supervision of the Bankruptcy Court, Global Crossing's financials were revealed to be utterly false. It has been disclosed that the Company's alleged $12 billion network will be written down in value by at least $10 billion. Instead of $624 and $418 million in cash from operations in 2000 and 2001, it really received only $394 million in 2000 and had a negative $352 million in cash from operations in 2001. Its carrier sales in 2000 and 2001 were approximately $1 billion and $495 million, rather than the $1.3 billion and $1.2 billion they had claimed.

732. On August 2, 2002, the SEC announced the obvious: transactions in which telecom companies exchanged capacity, were required to be accounted for under APB No. 29, using the historical cost of the capacity exchanged, and neither party to the transaction was to recognize any "revenue" as part of the deal. The American Institute of Certified Public Accountants ("AICPA") announced the SEC's action in a memorandum to its members:
SEC Communicates Its Position on IRU Capacity Swap to SEC Regulations Committee

August 2, 2002

The SEC staff has communicated the following staff position regarding IRU Capacity Swaps to the SEC Regulations Committee:

The SEC staff has concluded that all IRU capacity swaps consisting of the exchange of leases should be evaluated within paragraph 21 of APB 29. That is, if a swap involves leases that transfer the right to use similar productive assets, the exchange should be treated as the exchange of similar productive assets, irrespective of whether the "outbound" lease is classified as a sales-type lease, direct financing lease or operating lease and irrespective of whether the "inbound" lease is classified as a capital lease or an operating lease. The staff believes that the lease classification criteria of FAS 13 are not an appropriate basis for an entity to "filter" a determination of whether the exchange involves similar productive assets. This conclusion is based on the thought that the right to use an asset, i.e., a lease, is in fact an asset and not a service contract, irrespective of whether such asset is recognized in a company's balance sheet.

This conclusion would require that IRU capacity swaps involving the exchange of leases be recognized based on the carrying value of the assets exchanged, rather than at fair value. The staff did point out that exchanges involving sufficient boot would still be treated as part monetary and part nonmonetary as per EITF 01-2 (EITF 86-29).

The staff expects that registrants will apply this guidance historically to IRU capacity swap transactions that occurred in prior years and, if appropriate, restate their financial statements. The CEO and CFO should be advised to give consideration to this matter prior to certifying the financial statements previously filed with the SEC.

733. The SEC's position was an explicit clarification of what had been required by APB No. 29 all along. The SEC was attempting to ensure that no one would ever again try the fraud perpetrated by Global Crossing. Some observers, like J. Edward Ketz, a professor of accounting in Penn State's Smeal College of Business Administration, publicly questioned whether there was even a need for the SEC's statement on IRU swaps: "Now in August of this year [2002] the SEC informs us that the telecoms should not be recognizing profit on these
swaps of bandwidth (excepting in cases where cash is transferred). Why? Because these transactions involve similar assets! Like, duh! Any non-Arthur Andersen accountant knows that!"

734. The same day of the SEC's announcement, August 2, 2002, the Bankruptcy Court overseeing Global Crossing's bankruptcy confirmed a plan of reorganization whereby Hutchinson and Singapore Tech. agreed to invest $250 million ($500 million less than the original proposal) for a 61.5% interest (down from 79%) in Global Crossing upon its emergence from Chapter 11. Global Crossing agreed to pay $300 million in cash and issue $200 million in notes to secured lenders and unsecured creditors. In addition, secured lenders of Global Crossing would share a 6% stake in the new company, and unsecured creditors would share in a 32.5% interest. Thus, Global Crossing was valued at $406.5 million, rather than the $10.9 billion it had carried on its books right up to its bankruptcy.

735. On October 17, 2002, the Committee of Unsecured Creditors in Global Crossing's bankruptcy proceedings demanded that Winnick resign from Global Crossing, which he did on December 30, 2002.

736. On October 21, 2002, Global Crossing issued a press release announcing that it would restate its financial statements for the nine months ended September 30, 2001, to erase all "revenue" it booked improperly from IRU swap deals. Global Crossing disclosed that it would reduce reported revenues by approximately $19 million, reduce each of net income and shareholders equity by approximately $13 million, and reduce each of total assets and total liabilities on the September 30, 2001 balance sheet by approximately $1.2 billion. For the year ended December 31, 2000, Global Crossing said that the restatement would reduce Net Cash Provided by Operating Activities and Cash Used in Investing Activities by approximately $230
million each. Global Crossing explained that in this restatement it would account for IRU swaps using the historical carryover basis of the capacity exchanged, pursuant to APB No. 29, resulting in no recognition of revenue for such exchanges. According to the press release:

Global Crossing estimated that the restatement of financial statements for the nine months ended September 30, 2001, contained in its Quarterly Report on Form 10-Q, would reduce previously reported revenue of $2.437 billion by approximately $19 million, and would increase the net loss of $4.772 billion by approximately $13 million. Total Assets and Total Liabilities and Shareholders' Equity of $25.511 billion would each be reduced by approximately $1.2 billion, and each of Net Cash Provided by Operating Activities and Net Cash Used in Investing Activities would be reduced by approximately $770 million, resulting in no change in net cash flow.

* * *

The revised accounting treatment of transactions that occurred in 2000 would, however, have material effects on Net Cash Provided by Operating Activities and Cash Used in Investing Activities, each of which would be reduced by approximately $230 million. Global Crossing intends to work with its new independent accountants, once they are appointed, to develop the details of restatements required for periods in 2000.

737. By conceding that it had overstated Net Cash Provided by Operating Activities and Cash Used in Investing Activities, Global Crossing admitted that it had booked $230 million in improper swap transactions in 2000 and over $770 million in 2001.

738. Further, in a Monthly Operating Statement Global Crossing filed in its bankruptcy proceedings in November 2002, the Company listed assets of $11.978 billion, but revealed that it anticipated that it would have to write down the reported value of its long lived assets by at least $10 billion:

The Company recently prepared its revised financial plan for 2003 through 2006, including the related cash flow forecast. The Company is currently in the process of evaluating this data to determine the potential impairment of its long lived assets. As a result of the foregoing, the Company has not yet completed its tangible asset valuation under SFAS 121 and the financial statements included herein do not reflect any write down of tangible asset value...The Company is in the process of completing its
detailed assessment of the remaining asset value and the appropriate allocation thereof among entities and asset categories, but currently estimates that the net write down will be at least $10 billion (including the $1.2 billion announced in the 10-21-02 press release)."

(Emphasis supplied).

G. Asia Global Crossing Keeps The Hope Alive

739. On or about January 28, 2002, after Global Crossing's announcement that it had filed for bankruptcy protection, Asia Global Crossing stated that it did not expect Global Crossing's bankruptcy to have any immediate effect on Asia Global Crossing's internal operations or customer service. It further stated, when commenting on Global Crossing, that Asia Global Crossing was a "separate corporation, with separate stockholders, creditors, employees, network assets and operations."

740. On or about February 5, 2002, William Barney ("Barney"), Asia Global Crossing's Chief Operating Officer, stated that the company's prospects remained intact despite Global Crossing's bankruptcy filing. Barney further stated that Asia Global Crossing's intention was to grow its sales faster than the regional market was growing. He claimed that Global Crossing's bankruptcy would not have an impact on Asia Global Crossing, falsely stating: "What happens with the parent company doesn't necessarily affect us as a subsidiary. We're a separate company, we have separate financials, we have our own debt and clearly we have our own business plans . . . as an Asian business, a majority of our traffic and our business is actually in Asia. The fact that we're connected to them gives us a global footprint but that's almost where it stops." Barney also stated that despite that the $400 million line of credit was not made available, Asia Global Crossing "is not desperate for additional funds. . . . At this point we are looking at all options but I think we are going as business as usual for the time being and we'll see where we go. There's no immediate need for us to get funding."
741. On February 14, 2002, Asia Global Crossing issued a press release announcing that its fourth quarter and full year 2001 earnings release originally scheduled for February 19, 2002, had been postponed until February 26, 2002, and that the related analyst call had been cancelled.

742. On February 26, 2002, Asia Global Crossing issued a press release preliminarily reporting its financial results for the fiscal-quarter and year-ended December 31, 2001, as follows:

Revenue was $46.7 million for the fourth quarter compared to $29.2 million for the same quarter last year. Year-on-year revenue comparisons are influenced by the fact that the company discontinued sales-type lease transactions at the beginning of 2001. Sales-type leases recognize revenue up-front rather than amortizing it over the life of the contract. Fourth quarter 2000 revenue included $15.1 million from sales-type leases. Excluding revenue from transactions accounted for as sales-type leases, fourth quarter 2001 revenue was $46.7 million compared to $14.1 million for the same period last year.

Asia Global Crossing's recurring services revenue was $41.6 million in the quarter, showing 43 percent growth over the previous quarter. Included in this amount is $8.1 million related to a reciprocal transaction. Without this reciprocal transaction, recurring services revenues would have been up 15 percent quarter-on-quarter.

Revenue was $121.5 million for the year, compared to $166.7 million for year 2000. Year 2000 revenue included $138.3 million from transactions accounted for as sales-type leases. Excluding such revenue, 2001 revenue was $121.5 million compared to $28.4 million for year 2000. This year-on-year growth is primarily attributable to the fact that the company's network infrastructure and product offerings were at a significantly more developed stage in 2001 than in 2000.

743. On or about March 8, 2002, it was reported that Barney stated that Asia Global Crossing could survive without the support of Global Crossing. Barney stated that it had asked its partners and other investors for help in exchange for an equity stake. He stated that Asia Global Crossing had sent a private placement memo to potential investors and hoped to secure
financing in the next two or three months. Barney further claimed that Asia Global Crossing was able to operate as a stand-alone entity as the company's rivals relied on other global operators to serve customers in other parts of the world and did not rule out new equity coming from Hutchison and Singapore Technologies Telemedia ("STT"). He also stated that the company was in discussions with creditors about restructuring a $700 million non-recourse debt in Pacific Crossing.

744. On April 4, 2002, Asia Global Crossing announced that it had reached financing agreements with KDDI-SCS and NEC, each of whom were constructing segments of Asia Global Crossing's pan-Asian East Asia Crossing sub-sea cable system, which were expected to reduce Asia Global Crossing's capital expenditure payments by approximately $230 million for the 2002 financial year.

745. On April 29, 2002, Asia Global Crossing announced that it had reached an agreement for Hutchison Telecommunications Limited to acquire Asia Global Crossing's 50 percent interest in HGC, its 42.5 percent interest in ESD Services and its 50 percent interest in Hutchison Globalcenter, for a total consideration of US$120 million in cash. In connection with Hutchison's buy out of Asia Global Crossing's stakes in three joint ventures, defendant Scanlon stated: "The $120 million will extend our runway well into 2003."

746. On or about June 3, 2002, Asia Global Crossing announced that it received multiple takeover bids, but did not expect to make a decision for at least several weeks. An Asia Global Crossing spokesperson stated that: "This is the first round in a long process . . . . It will be several weeks before there is anything definite." Defendant Scanlon stated: "We are very pleased with the indications of interest we have received." Scanlon stated that further discussions would be required with each interested party. However, some potential buyers of Asia Global
Crossing's assets stated they would opt for an alternative route to a debt-equity restructuring. They stated they would rather pursue an auction during bankruptcy proceedings, believing that Asia Global Crossing could not survive beyond the end of the year when its cash was expected to run out.

747. On or about June 11, 2002, Barney claimed to be confident that Asia Global Crossing's problems were behind it. He stated: "I haven't had a call in three weeks asking about the financial state of the company." He further stated that he expected to be able to announce new investors within weeks. Barney stated that there were only two or three cable telecommunications carriers which operated in the Asian region and that it was other markets that were severely oversupplied. The company had cash reserves of $317 million in May, which were sufficient to continue operating for the rest of the year, according to Barney.

748. On July 19, 2002, however, Asia Global Crossing issued a press release announcing that its majority-owned subsidiary Pacific Crossing Ltd. ("PCL") and certain affiliates of PCL commenced voluntary Chapter 11 cases in the United States Bankruptcy Court in Delaware. The press release attributed the bankruptcy filing to current market conditions for wholesale capacity over the past few quarters and "the slowdown in sales of wholesale capacity over the past few quarters". Significantly, Asia Global Crossing stated that it did not expect PCL's bankruptcy filing to affect its own on-going debt and equity restructuring effort.

749. Three months later, however, on October 24, 2002, Asia Global Crossing issued a press release announcing that it would be restating its financial results. According to the press release, total assets and liabilities would be reduced by $141 million from $4.144 billion to $4.003 billion; cash flow from operating activities for the nine months ended September 30,
2001 would be reduced by $68 million from $479 million to $411 million; and revenues for the fourth quarter of 2001 would be reduced by $8.4 million.

750. The restatement was necessitated, in large part, by Asia Global Crossing's involvement in illusory reciprocal or swap transactions, many of which involved the double-counting of revenue with affiliated companies.

751. Asia Global Crossing's statements in the period following the announcement of Global Crossing's bankruptcy, as described in paragraphs 721 through 750, were each false and misleading because Asia Global Crossing:

(i) was dependent upon economically worthless swaps and reciprocal transactions as its primary source of reported revenue;

(ii) deliberately concealing the fact that it was engaging in swap transactions;

(iii) materially overstating the value of its assets which were impaired because of price declines caused by increased competition, technology advances and strategic alliances;

(iv) using false and misleading pro forma financial information that improperly depicted Asia Global Crossing's revenue;

(v) using "revenue shredding" to fraudulently allocate revenue between various subsidiaries and affiliates so that they could double-count the revenues; (vi) failing to disclose that Asia Global Crossing needed to sell 90% of its available capacity just to recover its cable construction costs; and

(vi) failing to disclose to the public known existing trends that doomed Asia Global Crossing's businesses model to failure.

H. Asia Global Crossing Files for Bankruptcy

752. Despite its previous and continuous assertions to the contrary, Asia Global Crossing filed for bankruptcy protection on November 17, 2002. That same day, Asia Global
Crossing announced that it had signed a definitive agreement to sell substantially all of its operations and assets to Asia Netcom Corporation Limited, a new company organized by China Netcom.

753. On March 10, 2003, Asia Global Crossing announced the sale of substantially all of its operating subsidiaries, excluding Pacific Crossing and related entities, to Asia Netcom Corporation Limited, a company organized by China Netcom Corporation. SSB was the financial advisor to the Asia Netcom consortium.

I. Government Investigations Of SSB

754. SSB's complex scheme to enrich itself, and its parent Citigroup, at the expense of the investing public, set off a tidal wave of investigations in 2002 by, among others, the New York State Attorney General's Office (the "NYAG"), the National Association of Securities Dealers ("NASD"), the United States Congress, the SEC and the NYSE. These investigations concentrated on SSB's complex scheme of guaranteeing positive research by Grubman and other analysts, as well as spinning IPO shares to executives in exchange for lucrative investment banking business. The investigations showed that SSB's stock analysis as well as its underwriting due diligence were non-existent shams.

755. The results of the various probes revealed that SSB and other investment banks had regularly published biased analyst reports and provided company executives with improper "perks" as part of a concerted effort to drum up investment banking business.

756. In response to increasing public outrage, Citigroup terminated Grubman, Jay Mandelbaum, the head of SSB's retail stock selling division, and Michael Carpenter, SSB's CEO. John Huffman, SSB's head of global research, retired and Kevin McCaffrey, who was in charge of domestic research, was reassigned.
On September 8, 2002, Citigroup appointed Charles O. Prince, Citigroup's General Counsel, as Chairman and Chief Executive Officer of the Global Corporate and Investment Bank.

Citigroup released a statement by its Chief Executive Officer, Stanford I. Weill, apologizing for the company's actions. In a subsequent interview, Weill stated that "certain of our activities do not reflect the way we believe business should be done. That should never be the case, and I am sorry for that." After Weill apologized, Citigroup formally acted to separate research from investment banking. On October 30, 2002, Citigroup created Smith Barney, a new independent private client and equity research group, and hired Sallie Krawcheck as Chairman and CEO of Smith Barney. November 25, 2002, Citigroup adopted its own investment banking and research integrity guidelines, which, among others, prohibits research analysts from working with investment banking on mergers and acquisitions activity.

On December 23, 2002, government regulators unveiled a global settlement in which 10 firms agreed to pay $1.4 billion, including $900 million in penalties, $450 million for independent research over five years, and $85 million for investor education. SSB's share of $400 million was twice as much as any other investment bank. In addition, SSB agreed to pay $5 million to settle an investigation by the NASD relating to false and misleading analyst reports written by Grubman and Gochuico and issued by SSB regarding Winstar Communications. Citigroup, SSB's parent, announced that it would take a $1.3 billion charge to earnings to settle the regulatory and private litigation stemming from SSB's stock-research and IPO practices.

Grubman, once among the most powerful men on Wall Street, was revealed as a crook and a liar. To settle charges leveled by New York's Attorney General, Grubman personally agreed to pay a $15 million fine and agreed to a lifetime ban from the securities
industry. Further, it was revealed that Grubman had even lied on his resume, claiming that he graduated from the Massachusetts Institute of Technology, when he actually attended Boston University. Even more curious, Grubman, who was an amateur boxer in high school, claimed that he grew up in South Philadelphia, a section of the city made famous by Sylvester Stallone in "Rocky," when he actually grew up in the Northeast part of the city. Responding to charges of deception relating to his alma mater, Grubman said it was "a stupid mistake on my part. . . . At some point, I probably felt insecure, and it perpetuated itself."

761. The NASD, NYSE and SEC found that Grubman and SSB violated NASD and other regulations during the Class Period. For example, the NASD found that "SSB Failed to Manage Conflicts of Interest Between Research and Investment Banking." The NASD as well as other regulators also found that "Investment Bankers Successfully Pressured Grubman to Maintain Positive Ratings on Stocks," as well as that "SSB and Grubman Published Fraudulent Research That Promoted [Focal] and [Metromedia Fiber], Two of SSB's Investment Banking Clients." Significantly, the NASD also found that "SSB Failed to Supervise Adequately the Activities of Its Research Analysts." The NASD concluded that SSB and Grubman violated several NASD rules, SEC regulations and various provisions of the Exchange Act, including Exchange Act Section 15(c), 15(f), 17(a)(1), Rules 17a-3 and 15c-2, thereunder, NYSE Rules 401, 476(a)(6), 472 and NASD Conduct Rules 2110, 2210(d)(1), and 2210(d)(2), 3110, and 3010.

762. On April 28, 2003, the New York State Attorney General, the SEC, NASD and NYSE announced the conclusion of an investigation of allegations of undue influence of investment banking interests on securities research at various investment banks. SSB was specifically identified at the conclusion of the investigation as having issued fraudulent research
reports including reports lacking any good faith basis as well as reports including exaggerated or unwarranted claims about the covered companies.

VII. SCIENTER

A. Individual Defendants' Scienter

763. As alleged herein, the Individual Defendants had both the motive and opportunity to commit fraud. Their opportunity to cause Global Crossing to issue false and misleading disclosures to the investing public is obvious and beyond dispute: as the key officers and directors of Global Crossing, they were the chief spokesmen for the Company in all public statements and dealings with analysts and other market participants, and had control, responsibility, and direct involvement with the contents of press releases and documents filed with the SEC and disseminated to the market. Their motives to commit fraud were many including the desire to conceal the adverse facts alleged herein in order to enable Global Crossing to raise more than $20 billion from debt and equity offerings throughout the Class Period on favorable terms to enable the Company to rapidly expand through acquisitions fueled by Global's inflated stock according to Winnick's design, and the ability to profit from sales of Company stock that was artificially inflated due to the fraud. Winnick rewarded their efforts with lucrative compensation packages, nepotistic hiring policies, and a stream of stock options that flowed like water.

764. During the Class Period, Global Crossing insiders sold over $1.3 billion of the

Company's stock as follows:

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<th>NAME</th>
<th>DATE</th>
<th>PRICE</th>
<th>SHARES SOLD</th>
<th>PROCEEDS</th>
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</tr>
<tr>
<td>Date</td>
<td>Period</td>
<td>Rate</td>
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<td>Total</td>
</tr>
<tr>
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</tr>
<tr>
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<td>$36.050</td>
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Class Period Totals: 487,310 $15,076,259

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<th>Share</th>
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</tr>
</thead>
<tbody>
<tr>
<td>04/11/00</td>
<td>CEO &amp; Vice</td>
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Class Period Totals: 796,635 $24,573,668

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<tbody>
<tr>
<td>05/31/01</td>
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Class Period Totals: 672,789 $8,678,978

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<tbody>
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<td>06/21/99</td>
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<td>$62.750</td>
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<td>$18,200,638</td>
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<td>Director</td>
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Class Period Totals: 340,950 $21,394,613

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Class Period Totals: 24,305,908 $860,236,999
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<th>Compensation</th>
<th>Total Shares</th>
<th>Total Value</th>
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<td>06/21/99</td>
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<td>1,244,992</td>
<td>$78,123,248</td>
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<tr>
<td>President &amp; Chief Operating Officer</td>
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<td>$33.000</td>
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<td>Abbott L. Brown</td>
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<td>$46,476,478</td>
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<td>$37,917,462</td>
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<tr>
<td>Barry Porter</td>
<td>06/21/99</td>
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<td>577,969</td>
<td>$36,267,555</td>
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<td>$33.000</td>
<td>100,000</td>
<td>$3,300,000</td>
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<td>54,384</td>
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<td>68,944</td>
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<td>Chief Administrative Officer</td>
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<td>Class Period Totals:</td>
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<tr>
<td>Name</td>
<td>Date</td>
<td>Opening</td>
<td>Closing</td>
<td>Shares</td>
</tr>
<tr>
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<td>----------</td>
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<td>S. Wallace Dawson</td>
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<td>$502,541</td>
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<td>121,642</td>
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<td>81,576</td>
<td>$5,118,894</td>
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</tr>
<tr>
<td>Officer</td>
<td></td>
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<tr>
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<td></td>
<td></td>
<td></td>
<td>81,576</td>
</tr>
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<td>06/21/99</td>
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<td>39,972</td>
<td>$2,508,243</td>
</tr>
<tr>
<td>President</td>
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<td></td>
<td></td>
<td>39,972</td>
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<td>K. Eugene Shutler</td>
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<td>27,408</td>
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</tr>
<tr>
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<td></td>
<td>27,408</td>
</tr>
<tr>
<td>Norman Brownstein</td>
<td>05/08/00</td>
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<td>40,000</td>
<td>$1,410,800</td>
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<tr>
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</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>40,000</td>
</tr>
<tr>
<td>William Conway, Jr.</td>
<td>03/19/01</td>
<td>$15.07</td>
<td>26,557</td>
<td>$400,214</td>
</tr>
<tr>
<td>Director</td>
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<td></td>
<td></td>
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<tr>
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<td></td>
<td></td>
<td>26,557</td>
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<td><strong>GRAND TOTALS:</strong></td>
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</table>

In addition, Winnick's private investment firm, PCG, sold 8.5 million shares during the Class Period and realized $385,411,930 in connection with those sales:

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<tr>
<th>Name</th>
<th>Date</th>
<th>Opening</th>
<th>Closing</th>
<th>Shares</th>
<th>Realized</th>
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<td></td>
<td>12/27/99</td>
<td>$3.33</td>
<td>230,000</td>
<td>$765,900</td>
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<td></td>
<td>04/10/00</td>
<td>$33.00</td>
<td>4,498,941</td>
<td>$148,465,053</td>
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<td></td>
<td>04/11/00</td>
<td>$33.20</td>
<td>11,552</td>
<td>$383,526</td>
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</tr>
<tr>
<td></td>
<td>04/12/00</td>
<td>$33.15</td>
<td>3,395</td>
<td>$112,544</td>
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</table>
During the Class Period, Plaintiffs purchased Global Crossing stock contemporaneously with Defendants' illegal insider sales. The following chart compares Lead Plaintiffs purchases with Defendants' Class Period sales. Several of the Defendants' insider trades occurred on the same day or within days of Lead Plaintiffs and numerous other class members purchasing Global Crossing stock:

<table>
<thead>
<tr>
<th>Party Name</th>
<th>Date</th>
<th>Transaction</th>
<th>Shares</th>
<th>Price Per Share</th>
<th>Cost</th>
<th>Proceeds</th>
</tr>
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<td>Purchase</td>
<td>50,000</td>
<td>$35.463</td>
<td>$1,773,125</td>
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</tr>
<tr>
<td>Brownstein</td>
<td>5/8/2000</td>
<td>Sale</td>
<td>40,000</td>
<td>$35.270</td>
<td>$1,410,800</td>
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</tr>
<tr>
<td>PERS</td>
<td>5/9/2000</td>
<td>Purchase</td>
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<td>$33.563</td>
<td>$335,625</td>
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<tr>
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<td>Purchase</td>
<td>23,618</td>
<td>$31.166</td>
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<tr>
<td>Clayton</td>
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<td>Sale</td>
<td>70,000</td>
<td>$29.500</td>
<td>$2,065,000</td>
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<tr>
<td>Clayton</td>
<td>8/11/2000</td>
<td>Sale</td>
<td>50,000</td>
<td>$29.500</td>
<td>$1,475,000</td>
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<td>Purchase</td>
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<td>$28.999</td>
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<tr>
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<td>9/5/2000</td>
<td>Sale</td>
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<td>$36.050</td>
<td>$3,605,000</td>
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<tr>
<td>Gorton</td>
<td>9/5/2000</td>
<td>Sale</td>
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<tr>
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<td>Purchase</td>
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<td>Purchase</td>
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<tr>
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<td>Purchase</td>
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<td>$16.100</td>
<td>$128,800</td>
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<tr>
<td>Cohrs</td>
<td>3/6/2001</td>
<td>Sale</td>
<td>75,000</td>
<td>$13.920</td>
<td>$1,044,000</td>
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<td>Cohrs</td>
<td>3/6/2001</td>
<td>Sale</td>
<td>75,000</td>
<td>$13.930</td>
<td>$1,044,750</td>
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<tr>
<td></td>
<td>Date</td>
<td>Type</td>
<td>Quantity</td>
<td>Price</td>
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<td>Gorton</td>
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<td>25,000</td>
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<td>$430,000</td>
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<td>Scanlon</td>
<td>3/6/2001</td>
<td>Sale</td>
<td>158,748</td>
<td>$13.93</td>
<td>$2,211,360</td>
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<tr>
<td>Conway</td>
<td>3/19/2001</td>
<td>Sale</td>
<td>26,557</td>
<td>$15.07</td>
<td>$400,214</td>
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<tr>
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<td>3/22/2001</td>
<td>Purchase</td>
<td>70,000</td>
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<td>Purchased</td>
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<td>$16,630,226</td>
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</tbody>
</table>

767. The Individual Defendants' scienter is demonstrated by much more, however, than an inference derived from motive and opportunity. As described, there is ample, direct evidence of their patently fraudulent conduct including: (i) direct involvement in economically worthless IRU swap transactions; (ii) a concerted effort by the Company's most senior management to hide the true facts regarding Global Crossing's cash flow from the investing public; (iii) specific efforts to use fraudulent IRU swaps in order to boost reported revenue in quarterly earnings releases; (iv) fabricating "business purposes" for IRU swaps in an effort to deceive shareholders; (v) lying to shareholders and denying the existence of economically worthless IRU swaps; and (vi) attempts to squelch public reports of the true nature of the Company's reported sales, revenue and asset values and efforts to cover up the fraud when it was finally leaked to the investing public.

B. **Asia Global Crossing Defendants' Scienter**

768. In addition to the facts set forth above which show the Asia Global Crossing defendants' knowledge or reckless disregard of the falsity of their statements, the following motives existed with respect to the successful completion of the Asia Global Crossing IPO:
a. a $850 million loan for Pacific Crossing I, arranged by defendants CIBC, Deutsche Bank and Goldman Sachs, was made substantially more secure and likely to be repaid;

b. a line of credit on which The Chase Manhattan Bank, an affiliate of defendant Chase Securities, acted as the administrative agent, was made substantially more secure and likely to be repaid;

c. defendants facilitated the amendment of a $1 billion revolving credit facility for Global Crossing with respect to which defendants J.P. Morgan Securities, Goldman Sachs Credit Partners L.P., a corporate affiliate of defendant Goldman Sachs, SSB, Merrill Lynch, CIBC and Deutsche Bank acted as syndicators or arrangers, thereby earning substantial additional fees and increasing the creditworthiness of the underlying revolving credit facility; and

d. defendants engaged in reciprocal transactions or swaps with other telecommunications companies to inflate its reported revenue in order to artificially inflate the price of Asia Global Crossing securities and to induce investors to purchase Asia Global Crossing securities;

769. After the IPO, the Asia Global Crossing defendants' motive and opportunity to commit fraud continued. Their opportunity to cause Asia Global Crossing to issue false and misleading disclosures to the investing public is obvious and beyond dispute: as the key officers and directors of Asia Global Crossing, they were the chief spokesmen for Asia Global Crossing in all public statements and had control, responsibility, and direct involvement with the contents of press releases and documents filed with the SEC and disseminated to the market.

770. The Asia Global Crossing defendants also had the desire to conceal the adverse facts alleged herein in order to enable Asia Global Crossing to raise more than $880 million from
debt and equity offerings throughout the Asia Global Crossing Class Period on favorable terms to enable Asia Global Crossing to rapidly expand through numerous joint ventures, partnerships and affiliations fueled by Asia Global Crossing's artificially inflated stock.

771. The Asia Global Crossing defendants' scienter is demonstrated by much more, however, than an inference derived from motive and opportunity. As described, there is ample, direct evidence of their patently fraudulent conduct including: (i) engaging in reciprocal transactions or swaps with other telecommunications companies to inflate its reported revenue in order to artificially inflate the price of Asia Global Crossing securities and to induce investors to purchase Asia Global Crossing securities; (ii) a concerted effort by Asia Global Crossing's most senior management to hide the true facts regarding Asia Global Crossing's cash flow from the investing public; (iii) fabricating "business purposes" for IRU swaps in an effort to deceive shareholders; (iv) lying to shareholders and denying the existence of economically worthless IRU swaps; (v) efforts to cover up the fraud when it was finally leaked to the investing public; (vi) materially overstating the value of its assets which were impaired because of price declines caused by increased competition, technology advances and strategic alliances; (vii) materially overstating its revenue by booking IRU sales as sales-type lease transactions where revenue for the full term of the lease was improperly recognized up front rather than amortized over the term of the lease, in violation of FIN 43; (viii) using false and misleading pro forma financial information that improperly depicted Asia Global Crossing's revenue and growth; (ix) using "revenue shredding" to fraudulently allocate revenue between various subsidiaries and affiliates so that they could double-count the revenues; (x) failing to disclose that Asia Global Crossing needed to sell 90% of its available capacity just to recover its cable construction costs; and (xi)
failing to disclose to the public known existing trends that doomed Asia Global Crossing's businesses model to failure.

C. Andersen's Scienter

772. Andersen was the so-called "independent auditor" of Global Crossing from the Company's inception in 1997 until 2002, when the accounting firm was convicted of obstruction of justice relating to the Department of Justice's investigation into the collapse of Enron Corporation, and Andersen was thereafter precluded from serving as the independent auditor of any public company. In the capacity of independent auditor, Andersen was responsible for ensuring, for the investing public, that the financial statements prepared by Global Crossing's management complied with GAAP.

1. Andersen Abandoned Its Auditing Responsibilities As It Attempted To Build A Consulting Practice

773. The "independent auditor" serves an invaluable role in this nation's economy. The accuracy and reliability of a company's public financial disclosures are necessary to ensure that investors are provided with such truthful information on which they can base investment decisions. In this regard, the independent auditor serves the very public function of ensuring the integrity of the securities market, and owes ultimate allegiance to the shareholders and creditors of the reporting corporation, and to the investing public as a whole. The United States Supreme Court has observed that these obligations require the independent auditor to maintain "total independence" from the company whose financial statements it audits, and to exhibit "complete fidelity to the public trust":

By certifying the public reports that collectively depict a corporation's financial status, the independent auditor assumes a public responsibility transcending any employment relationship with the client. The independent public accountant performing this special function owes ultimate allegiance to the corporation's creditors and stockholders, as well as to the investing public. This 'public watchdog' function demands that
the accountant maintain total independence from the client at all times and requires complete fidelity to the public trust.


774. For most of the 20th century, an audit opinion from Andersen was considered the “gold standard” in the industry. However, as competition increased, pressure grew on auditing firms to generate revenue from non-audit related services. Indeed, Andersen increasingly relied on business consulting and related services to support its auditing practice. While consulting revenue accounted for 15% of Andersen's revenue in 1970, this figure exploded to over 50% in the late 1990's. Compounding this pressure was the fact that, in 1988, Andersen's consulting business was spun off into a sister organization, Andersen Consulting, under an agreement that required Andersen Consulting to pay up to 15% of its revenue to support Andersen's auditing practice. This arrangement came to an abrupt halt in 1997, when a French arbitrator ruled that Andersen materially breached this revenue sharing agreement by attempting to develop its own consulting practice, in direct competition with Andersen Consulting, and that Andersen Consulting could sever its ties with Andersen without paying a $14.5 billion termination payment that was called for under the contract that had bound siblings.

775. In an effort to first keep pace with Andersen Consulting, and later to replace the revenue lost in the divorce, Andersen expanded its own consulting practice. Columbia Business School professor and former Andersen partner Barbara Ley Toffler explained: “The idea was to build Arthur Andersen into a big consulting firm . . . That was the way to ultimately sustain the kinds of revenues and the kind of compensation that people were used to.”

776. By fall 2000, Andersen was reporting “record revenue” of $3.6 billion for the fiscal year ended August 31, 2000.
However, Andersen's efforts to grow its consulting practice ultimately caused the once stellar accounting firm to trade integrity for profits, and to ignore the fact that its primary obligation as an independent auditor was to ensure that its clients' accounting practices were transparent, reliable, and most of all accurate. Professor Toffler explained that the firm's focus on income generated through consulting compromised the integrity of the auditing practice: "Now they had an opportunity to be part of much more glitzy firms, and equity partners started making enormous amounts of money.... What became available became seductive."

In marketing materials dated April, 2000, for example, Andersen proclaimed that "[t]he rules of business have changed" and that to succeed companies were required to adopt new business models that created new ways of measuring value: "Arthur Andersen's vision is to be the partner for success in the new economy. The firm helps clients find new ways to create manage and measure value in the rapidly changing global economy." (Emphasis supplied).

Andersen's reliance on new "business models" with "new" measures of "value" was ultimately revealed as a sham as client after client of the auditing firm has restated its earnings, admitting that the "business models" they adopted, and which were created, managed and approved by Andersen, produced fundamentally misleading financial results:

- **CMS Energy** - disclosed that it overstated 2000 and 2001 revenue by including artificial "round trip" energy trades;
- **Dynegy** - *improperly* used a complex series of economically worthless financial transactions, dubbed "Project Alpha," to cut taxes and *artificially* increase cash flow;
- **Enron** - *improperly* hid debt in off-balance sheet accounting through the use of a complex web of sham business "partnerships;"
d. **Haliburton** – improperly recorded revenue from cost overruns on large construction jobs;

e. **Merck** – improperly recorded $12.4 billion in revenue from the company’s pharmacy-benefits unit from 1999 through 2002 that the subsidiary never actually collected;

f. **Qwest** – artificially inflated revenue for 2000 and 2001 through artificial capacity swaps and equipment sales;

g. **WorldCom** – artificially inflated revenue by improperly booking $3.8 billion in expenses as “capital expenditures,” improperly booking sales, and wrongfully classifying assets and bad debts;

h. **Xcel Energy** – artificially inflated revenues by engaging in “round trip” energy trades from January 1, 1999 through 2002; and

i. **Peregrine Systems** – artificially boosted revenue by as much as $250 million from April 1999 through the end of 2001 by improper accounting practices relating to stock options and by booking the sales of accounts receivable as revenue.

In all, over 30 of Andersen’s clients restated their financial results in 2002 alone. In addition, Andersen has been implicated in some of the biggest financial scandals of recent years. It was the “independent auditor” of almost every large telecom or energy firm that failed spectacularly in 2002, including Enron, WorldCom, Quest and Global Crossing, and it was convicted of obstruction of justice for shredding documents in an effort to derail federal investigations into the collapse of Enron. Indeed, in just the last five years, Andersen paid over $513.3 million to settle private claims and SEC charges that it mislead investors by issuing false and fraudulent audit reports relating to Boston Market Trustee Corp., Baptist Foundation of Arizona, Department 56, Sunbeam, Colonial Realty and Waste Management.
Inside of one year, Andersen's once stellar image was ruined, and the accounting firm became a symbol of incompetence and greed. As even President George W. Bush quipped: "We just got a message from Saddam Hussein. The good news is that he's willing to have his nuclear, biological and chemical weapons counted. The bad news is he wants Arthur Andersen to do it."

In its dealings with Global Crossing, Andersen, true to its mission of generating fees and revenue, was more interested in drumming up business, than it was in ensuring that the financial statements it audited were prepared in accordance with GAAP.

Indeed, in 2000, while Global Crossing paid Andersen just over $2 million in fees relating to its audit of the Company's financial statements, Global Crossing paid Andersen nearly 6 times that amount – almost $12 million – for "other" services.

Through its intimate and well-paid relationship with Global Crossing's management, Andersen became the primary accomplice of the telecommunications firm in perpetuating the fraud that ultimately caused the downfall of the Company.

Indeed, Andersen was more than just a neglectful auditor of Global Crossing; it was a willing participant in Global Crossing's fraud. Perrone helped Global design the swap deals while he was the partner at Andersen responsible for Global Crossing's account, and then left Andersen to become the Senior (and six months later, Executive) Vice President in charge of Finance at Global Crossing where he oversaw the Company's use of swaps. Further, while Perrone was directing Global Crossing's financial accounting, others at Andersen worked closely with Global Crossing and Perrone to arrange swap deals with both domestic and international telecommunications companies, including other clients of Andersen, and Andersen's international sister firms organized under Andersen Worldwide. Indeed, throughout 2000 and
2001, Andersen also served as the independent auditor for Qwest Communications International, Inc. ("Qwest"), Flag Telecom Holdings, Inc. ("Flag Telecom"), Versatel Telecom ("Versatel"), Level 3 Communications, Inc. ("Level 3"), WorldCom Inc. ("WorldCom"), CMS Energy Corporation ("CMS"), and Enron Corporation ("Enron"), among others. Every one of these companies has since been forced to restate its reported earnings to, inter alia, reverse its accounting for improperly recognized revenue created through worthless swap transactions. In 2000 and 2001 Andersen received well over $100 million in fees from these companies alone.

786. As a result of its longstanding relationship with Global Crossing and the nature of the accounting and auditing services rendered to the Company, Andersen personnel, including Perrone and Mark Fagan, the Andersen audit partners responsible for the Global Crossing account, were regularly present at Global Crossing’s corporate headquarters throughout the year and had continual access to and knowledge of Global Crossing’s private and confidential corporate financial and business information, including internal monthly financing statements, Board minutes and internal memoranda, and thus was aware of the true facts as alleged herein concerning the true nature of Global Crossing’s actual financial condition and business prospects. Further, former and present Global Crossing executives testified before Congress that Andersen reviewed every public filing, earnings release, and quarterly financial report released by the Company.

787. The recognition of revenue through reciprocal IRU swaps, a clear violation of APB No. 29, was known throughout Andersen, including at the very levels of the firm where ethical concerns are supposed to override business expediency. Andersen PSG, the very group that within Andersen was supposed to trumpet professionalism and adherence to best industry practices was well aware of the swaps scheme. In fact, when junior Andersen auditors assigned
to Qwest questioned the propriety of Andersen's accounting on no less than eight occasions, Andersen PSG was quick to quash their concerns and insist that the Qwest team follow the party line.

788. Other Big Five accounting firms disagreed with Andersen's accounting, but from Andersen's perspective that was the entire point: The firm was marketing an overly aggressive accounting program by which it intended to push the limits of ethical accounting, and was using this policy to distinguish itself within the industry in order to build its consulting business. In the end, Andersen abandoned its auditing obligations in favor of the fees it realized from consulting. Just as Andersen abused the accounting rules to create "revenue" for its clients, this same abuse created enormous revenue for the firm in the form of multi-million dollar consulting fees.

2. Andersen Knew That Global Crossing's and Asia Global Crossing's Accounting Practices Were Misleading

789. For the years 1998, 1999 and 2000, Andersen certified that the financial statements prepared by Global Crossing's management complied with GAAP. Andersen also certified that the financial statements prepared by Asia Global Crossing's management for the year ended December 31, 2000 complied with GAAP.

790. Global Crossing's and Asia Global Crossing's accounting practices for 1998 through 2001 failed to comply with the many provisions of GAAP, including:

a. Accounting Principles Board Opinion No. 29, Accounting for Nonmonetary Transactions. APB Opinion No. 29 requires non-monetary exchanges of similar assets to be recorded using the historical cost, or book value of the item relinquished as part of the exchange. By recognizing revenue based on the fair market value of network capacity exchanged as part of reciprocal IRU sales in which Global Crossing and Asia Global Crossing
exchanged "like kinds" of network capacity or bandwidth with other members of the telecommunications industry, Global Crossing and Asia Global Crossing violated APB Opinion No. 29;

b. **FASB Statement No. 121 – Accounting for Impairment of Long Lived Assets and Long Lived Assets to be Disposed Of.** FASB Statement No. 121 requires an annual evaluation of the market value of long-lived assets carried on the corporation's books, and adjustments to the book value of assets carried to reflect declines in the market value. Global Crossing and Asia Global Crossing did not appropriately discount the value of network capacity carried on the Company's books to properly reflect declines in the market value of that capacity and the duplication in certain capacity owned by the Company as a result of network capacity obtained through swap transactions. Indeed, Global Crossing admitted that it had overstated its property and equipment purchases for the nine months ended September 30, 2001, by at least $11 billion and announced that the financial statements for December 31, 2002, when issued, will include "a multi-billion dollar write-down of tangible assets." By failing to properly depreciate the value of assets held by the Company, Global Crossing artificially inflated its net worth and gave investors a misleading picture of the Company's financial position.

c. **FASB Statement No. 131 – Disclosures About Segments of a Business Enterprise and Related Information.** FASB Statement No. 131 requires the separate presentation and disclosure of appropriate revenue and expense line items by separate segments of the business enterprise, with accompanying information explaining the disclosures. By misstating GAAP revenue, Global Crossing and Asia Global Crossing inaccurately disclosed the segment information required to be disclosed under FASB Statement No. 131. Both Global Crossing and Asia Global Crossing failed to separately account for revenue and expenses relating to the
service portions of IRUs in the periods that the Companies treated IRUs as same-type leases. Further, both Global Crossing and Asia Global Crossing understated their cost of sales and thereby overstated their earnings, the value of their capacity available for sale, and the value of their property plant and equipment;

d. **APB Opinion No. 9 – Reporting the Results of Operations.** APB Opinion No. 9 requires companies to accurately present the financial results of the corporation's operations, and to disclose net income as a reflection of all items of profit and loss recognized during the period. By improperly recognizing revenue on reciprocal IRU sales in violation of APB No. 29, Global Crossing and Asia Global Crossing misstated the results of its operations in violation of APB Opinion No. 9. Further, both Global Crossing and Asia Global Crossing understated their cost of sales and thereby overstated their earnings, the value of their capacity available for sale, and the value of their property plant and equipment;

e. **FASB Statement No. 130 – Reporting Comprehensive Income.** FASB Statement No. 130 requires companies to accurately state the income received by the corporation in a reported period. This Statement establishes standards for the reporting of comprehensive income and its components in a full set of general-purpose financial statements. By recognizing revenue on IRU sales that qualified as non-monetary exchanges under APB No. 29, Global Crossing and Asia Global Crossing inflated its income and violated the reporting requirements of FASB Statement No. 130. Further, both Global Crossing and Asia Global Crossing understated their cost of sales and thereby overstated their earnings, the value of their capacity available for sale, and the value of their property plant and equipment;

f. **SEC Staff Accounting Bulletin No 101 – Revenue Recognition in Financial Statements.** SEC Staff Accounting Bulletin No. 101 requires a company that recognizes revenue
on sales-type leases to defer recognition of that portion of the payments made or to be made under the long term lease that account for services to be provided by the company over the course of the long term lease agreement. Global Crossing and Asia Global Crossing treated certain IRU sales as sales type leases with full immediate revenue recognition. Global Crossing and Asia Global Crossing violated SEC Staff Accounting Bulletin No. 101 by not deferring recognition of this revenue for the portion of the purchase price relating to services;

g. Statement of Financial Accounting Concepts No. 1 - Objectives of Financial Reporting by Business Enterprises. Statement of Financial Accounting Concepts No. 1 provides that the goal of financial reporting is that of transparency and reliability. Financial reporting should provide information to aid present and potential investors, creditors and other users of financial statements in assessing the amounts, timing, and uncertainty of prospective cash receipts. Since investors' and creditors' cash flows are related to enterprise cash flows, financial reporting must provide information sufficient to enable creditors, investors, and other users of financial statements to evaluate the cash flows of the reporting enterprise. By structuring deals to hide the reciprocal nature of IRU sales, and by falsely inflating the Companies' reported revenue through the use of reciprocal IRU sales, Global Crossing and Asia Global Crossing violated Statement of Financial Accounting Concept No. 1. Further, both Global Crossing and Asia Global Crossing understated their cost of sales and thereby overstated their earnings, the value of their capacity available for sale, and the value of their property plant and equipment;

statements must be reliable, transparent, truthful, and accurately reflect the financial performance of the company. By falsely inflating its reported revenue through the use of economically worthless reciprocal IRU sales, Global Crossing and Asia Global Crossing violated FASB Statement of Accounting Concepts No. 2. Further, both Global Crossing and Asia Global Crossing understated their cost of sales and thereby overstated their earnings, the value of their capacity available for sale, and the value of their property plant and equipment;

i. **Statement of Financial Accounting Concepts No. 5 – Recognition and Measurement in Financial Statements of Business Enterprises.** Statement of Financial Accounting Concepts No. 5 provides generally that the revenue recognized by a corporation in its financial statements must accurately reflect the business operations of the company. By falsely inflating its reported revenue through the use of economically worthless reciprocal IRU sales, Global Crossing and Asia Global Crossing violated Statement of Accounting Concepts No. 5 by inaccurately reflecting the business operations of the Companies;

j. **SEC Regulation S-K, Item 303- Management's Discussion and Analysis of Financial Condition and Results of Operations.** SEC Regulation S-K states the requirements applicable to the non-financial portion of a companies registrations statements filed with the SEC. Item 303 requires, in pertinent part, that a filer, "Identify any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way. If a material deficiency is identified, indicate the course of action that the registrant has taken or proposes to take to remedy the deficiency. Also identify and separately describe internal and external sources of liquidity, and briefly discuss any material unused sources of liquid assets." Global Crossing and Asia Global Crossing, by failing to identify known trends that had rendered their respective
business plans unsustainable, as indicated in the June 2000 Hindery memo, violated SEC Regulation S-K, Item 303.

k. **Statement of Financial Accounting Concepts No. 2 -- Qualitative Characteristics of Accounting Information.** Statement of Financial Accounting Concepts No. 2 says that reliability and relevance of financial statement information and disclosure are concepts that are central to GAAP. The failure to disclose the reciprocal nature of their transactions with other carriers rendered the financial statements of Asia Global Crossing and Global Crossing misleading and the notes explaining the companies' accounting policies flat out false. A fundamental tenet of GAAP is that companies disclose any and all information so as to not render their financial statements misleading. Indeed GAAP elevates substance over form in the furtherance of transparency requires companies to account for transactions based on the true economic substance of the agreement rather than how the companies choose to paper the deal. By failing to disclose the reciprocal nature of IRU swaps with other telecom carriers, Asia Global Crossing and Global Crossing violated this fundamental tenet of GAAP and publishing false and misleading financial statements.

l. **Statement of Financial Accounting Standards No. 95 -- Statement of Cash Flows.** Statement of Financial Accounting Standards No. 95 requires reporting companies to accurately set forth the cash flows of the business enterprise, and specifically requires companies to separately disclose non-monetary transactions so as not to present a misleading picture of reported cash flows. By concealing the reciprocal nature of capacity "sales" with other telecom companies, Global Crossing and Asia Global Crossing falsified their cash flows and violated SFAS No. 95 by falsely representing that such capacity exchanges with other telecom companies
increased the cash position of the Company when, in fact, the swaps were economically worthless.

3. **Andersen's Audits of Global Crossing and Asia Global Crossing Failed To Comply With GAAS**

791. GAAS, as approved and adopted by the AICPA, defines the standards of conduct for auditors in performing and reporting on audit engagements. Statements on Auditing ("SAS") are recognized by the AICPA as the authoritative interpretation of GAAS. Specifically, AICPA Professional Standards Auditing Section 220, "Independence" requires that independence in mental attitude is to be maintained by the auditor and Article IV of the Code of Professional Conduct, "Objectivity and Independence" requires a member to be independent in fact and appearance and free of conflicts of interest. Andersen failed to comply with GAAS in performing its audit work and in certifying the financial statements of Global Crossing and Asia Global Crossing. This failure is a direct result of the lack of independence inherent in the intimate and profitable relationship Andersen had with Global Crossing, Asia Global Crossing, and other telecom providers.

792. Andersen received large fees for its services to Global Crossing. For 2000 alone, Andersen received $2.3 million in audit fees and $12 million for non-audit services to Global Crossing.

793. Throughout the Class Period, Andersen had continual and unfettered access to, and knowledge of, Global Crossing's internal corporate, financial, operating and business information. Andersen had continual and complete access to the Company's business operations and ample ability to observe Global Crossing's business and accounting practices. Andersen had superior access to and knowledge of all aspects of Global Crossing's business and was well-informed as to the Company's accounting practices.
Andersen personnel were frequently at Global Crossing's facilities and corporate headquarters, and, according to Legere and Cohrs, reviewed every financial report, official and unofficial, audited and unaudited, that was disclosed by the Company to the investing public and to members of the media.

Additionally, Andersen's former senior partner in charge of the Telecommunications Practice in the Firm and lead partner on the Global Crossing engagement left the firm for a very lucrative and highly stock-based compensation package to become the Senior Vice President of Finance at Global Crossing in May 2000. His former senior standing in Andersen gave him the ability to easily control the ongoing audit and review processes performed by Andersen.

GAAS under Statements on Auditing Standards (SAS) Nos. 55 and 78, Consideration of Internal Control in a Financial Statement Audit, requires an auditor to assess a company's internal control structure which is comprised of the control environment, accounting systems, and internal control procedures in planning an audit.

The factors that negatively affect the control environment such as management's philosophy and operating style, methods of assigning authority and responsibility, the overall attitude concerning the importance of controls, and external influences affecting the industry were all evident at Global Crossing and Asia Global Crossing and should have been "red flags" to Andersen as they planned for and conducted their audit.

An effective accounting system consists of procedures and records that will accurately and completely identify, analyze, classify, record and report a company's transactions. Given the pervasiveness of improper accounting transactions and the lack of evidential support, Global Crossing's and Asia Global Crossing's accounting system should have been yet another
"red flag" to Andersen as they planned for and conducted their audit. The internal control procedures that define an effective system of internal controls such as the proper authorization of transactions, segregation of duties between authorizing and recording transactions, and the use of adequate documents to ensure the proper recording of transactions were all lacking at Global Crossing and Asia Global Crossing, and should have been yet additional "red flags" to Andersen as they planned for and conducted their audit.

799. Furthermore, in accordance with SAS No. 47, Audit Risk and Materiality in Conducting an Audit, an auditor must evaluate the company's internal control system for the following risks: (1) "control risk," or whether a misstatement will be prevented or detected on a timely basis by the entity's internal control; (2) "inherent risk," or whether the possibility exist that there will be a misstatement due to lack of internal controls; and (3) "detection risk," or whether the auditor will detect the material misstatement.

800. Global Crossing's and Asia Global Crossing's lack of internal controls or ability for senior management override of those controls made misstatement of its financial records highly likely and because Andersen violated this auditing standard they were unable to detect the material misstatements in the financial statements.

801. Under SAS No. 82, Consideration of Fraud in a Financial Statement Audit, an auditor is also responsible for detecting irregularities that will give rise to fraudulent financial reporting. In order to comply with this auditing standard Andersen should have considered, but did not, the following risk factors that were present at Global Crossing and Asia Global Crossing in planning for and conducting their audit: (1) management's attitude toward financial reporting was unduly aggressive; (2) management placed undue emphasis on meeting analysts earnings projections for both GAAP revenues and pro-forma "Cash Revenues," "Adjusted EBITDA," and
Proportionate Adjusted EBITDA;" and (3) operating results that were sensitive to economic/industry factors such as the growing supply of network capacity which was causing continuing significant declines in the valuation of these assets in the marketplace.

802. In addition to the factors set forth above, which were present and became known to Andersen during the course of the audit, GAAS also requires the auditor to assess the risk that statements are materially misstated and provides the auditor with specific factors to be considered in connection with the auditor's assessment. During the annual audits, Andersen unreasonably failed to recognize, or deliberately turned a blind eye to the existence of at least the following specific risk factors:

a. Global Crossing and Asia Global Crossing management failed to display and communicate the appropriate attitude regarding internal controls and the financial reporting process;

b. Global Crossing and Asia Global Crossing management was dominated by a small group with very significant stock holdings and options. In addition, the Companies lacked compensating controls such as effective oversight by an independent board of directors or audit committee;

c. Global Crossing and Asia Global Crossing inadequately monitored or overrode those internal controls it did have in place, particularly those relating to verifying the financial and operational justification for entering into certain reciprocal network capacity transactions;

d. Global Crossing and Asia Global Crossing management failed to correct known reportable conditions on a timely basis;
e. Global Crossing’s non-financial management, had excessive participation in developing and justifying the business reasons for certain questionable reciprocal network capacity transactions;

f. Global Crossing entered into reciprocal IRU sales agreements with other telecom companies routinely at the end of quarters;

g. Global Crossing had five different Chief Executive Officers in as many years; and

h. Global Crossing insiders sold over $1.3 billion of Company stock and the Company regularly entered into lucrative contracts with family members of Global Crossing executives.

803. GAAS also requires auditors to withhold consent for the inclusion of opinion letters in SEC filings and other publications by the company that contain information that the auditor knows to be false. Under AU Section 550, Other Information in Documents Containing Audited Financial Statements, other information in documents containing audited financial statements is relevant to determining the propriety of an audit report. Thus, if fraudulent information is contained in a document into which audited financial statements are to be included, the auditor is required to withhold its consent for the inclusion of its audit letter with that document. Here, Andersen knew that Global Crossing’s and Asia Global Crossing’s accounting and business practices were specifically designed to mislead the investing public. In fact, Andersen specifically designed the IRU swap deal and, through its infamous White Paper, instructed its clients, including Global Crossing and Asia Global Crossing, on how to create the appearance of revenue by exchanging capacity with other participants in the telecom industry. Moreover, Andersen drafted, reviewed, and approved of the Global Crossing’s fraudulent
disclosures regarding its accounting practices. For example, in Global Crossing’s 2000 10-K (filed on April 2, 2001), Global Crossing disclosed that it was accounting for capacity exchanges with other telecom carriers in accordance with APB No. 29. Andersen knew that the Company’s representation in this regard was materially misleading because it (a) failed to disclose the reciprocal nature of such IRU swaps, and (b) failed to disclose that the Company should not have recognized any revenue in connection with reciprocal IRU swaps with other telecom carriers. Andersen also knew that Global Crossing’s and Asia Global Crossing’s so-called “pro forma” financial disclosures were materially misleading but that the companies were touting those disclosures as somehow more accurate than their GAAP financials. Finally, by virtue of their deep involvement with the telecom industry, and in their direct participation with swap transactions desperately created to bump up revenue figures repeatedly from quarter to quarter, Andersen knew that demand for bandwidth capacity was greatly overstated. Consequently, Andersen knew that Global Crossing and Asia Global Crossing were improperly accounting for their costs of sales, and thus overstating their reported earnings. Despite this knowledge, however, Andersen consented to the inclusion of its clean audit opinions with reports and financial statements that Andersen knew to be false.

804. Andersen also failed to observe the following provisions of GAAS:

a. AICPA “Audit Risk Alert - 1998/99,” which provides that “auditors should be alert for significant unusual or complex transactions, especially those that occur at or near the end of a reporting period.”

b. AU § 316, Consideration of Fraud in a Financial Statement Audit, requires an auditor to “specifically assess the risk of material misstatement of the financial
statements due to fraud and ... consider that assessment in designing the audit procedures to be
performed."

c. AU § 326, *Evidential Matter*, requires an auditor to obtain sufficient
evidence to provide reasonable assurances that the financial statements are free from material
misstatements.

d. AU § 220.01, which provides that “[i]n all matters relating to the
assignment, an independence in mental attitude is to be maintained by the auditor or auditors.”

e. AU § 220.03, which requires that auditors maintain the utmost
professionalism, and to remain independent, intellectually honest, and free from any obligation
or interest in the client, its management or its owners.

805. Andersen’s failure to qualify, modify or disclaim issuing its audit opinions on
Global Crossing’s 1998, 1999, and 2000 financial statements, or Asia Global Crossing’s 2000
financial statements, when it knew or deliberately turned a blind eye to numerous facts that
showed that those financial statements were materially false and misleading caused Andersen to
violate at least the following provisions of GAAS:

a. Andersen violated the first general standard, which provides that “[t]he
audit is to be performed by a person or persons having adequate technical training and
proficiency as an auditor.” Given the complex nature of Global Crossing’s and Asia Global
Crossing’s IRU sales transactions, it was incumbent upon Andersen to ensure the individuals
who performed the audit had the requisite technical proficiency in those areas, and had
familiarity with the contractual provisions that could significantly affect the proper revenue
recognition under GAAP. Andersen failed to do so.
b. Andersen violated the second general standard, which provides that "In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor or auditors." Because of significant non-audit related fees paid by Global Crossing and the hiring of Andersen's former senior partner in charge of the Telecommunications Practice in the Firm and lead partner on the Global Crossing engagement as the Senior Vice President of Finance at Global Crossing in May 2000, Andersen lacked the requisite independence when Andersen audited the Company's financial statements.

c. Andersen violated the third general standard, which provides that "Due professional care is to be exercised in the planning and performance of the audit and the preparation of the report." Due professional care concerns what the independent auditor does and how well he or she does it. Andersen violated this standard by not recognizing the questionable nature and accounting for the reciprocal network capacity transactions required audit procedures sufficient to confirm the full nature and intent of the transactions.

d. Andersen violated the first standard of field work, which provides that "The work is to be adequately planned and assistants, if any, are to be properly supervised." This standard requires the nature, timing and extent of planning to be based in part on the auditor's experience with the entity and his or her knowledge of the entity's business. Andersen violated this standard even though they had vast industry experience. Not only did Andersen inadequately plan and supervise their audit efforts but they choose to ignore what they could not help but know. As a result of the significant services provided by Andersen, they were intimately familiar with Global Crossing's and Asia Global Crossing's businesses, including the nature and accounting for the reciprocal network capacity transactions.
e. Andersen violated the second standard of field work, which provides that "[a] sufficient understanding of internal control is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed." This standard requires the auditor to make a proper study of existing internal controls, including accounting, financial and managerial controls, to determine whether reliance thereon was justified, and if such controls are not reliable, to expand the nature and scope of the auditing procedures to be applied. In the course of auditing Global Crossing's and Asia Global Crossing's financial statements, Andersen either knew or recklessly disregarded facts that evidenced that Andersen failed to sufficiently understand Global Crossing's or Asia Global Crossing's internal control structure and/or it disregarded weaknesses and deficiencies in Global Crossing's internal control structure, and failed to adequately plan its audit or expand its auditing procedures.

f. Andersen violated the third standard of field work, which provides that "[s]ufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit." Given the widespread use of inappropriate accounting principles, it is apparent that Andersen failed to require proper evidentiary support for the Companies' financial statements.

g. Andersen violated the first standard of reporting, which provides that "[t]he report shall state whether the financial statements are presented in accordance with generally accepted accounting principles." As Global Crossing's and Asia Global Crossing's accounting practices violated GAAP, Andersen should have issued adverse or negative audit reports. In fact, not only did Andersen fail to issue an adverse or negative audit report on the audits of Global Crossing and Asia Global Crossing, but Andersen established the "industry
practices" for recording sales and exchanges of telecommunications capacity and services. Global Crossing and Asia Global Crossing relied on the guidance provided by an industry white paper authored by Andersen that set forth the principles for accounting for sales and exchanges of telecommunications capacity and services. In the October 21, 2002 press release, Global Crossing announced the Company was restating certain financial statements contained in filings previously made with the SEC, after the SEC Staff advised Global Crossing that its previous accounting for exchanges of telecommunications capacity, recorded with guidance from Andersen, did not comply with GAAP.

h. Andersen violated the second standard of reporting, which provides "[t]he report shall identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period." While the adoption of FIN 43 represented a change in accounting principle, Global Crossing and Asia Global Crossing inconsistently recorded and disclosed the effects of certain network capacity transactions throughout the periods with the assistance of Andersen. The inconsistent calculation of certain pro-forma disclosures of cash revenues, Proportionate Cash Revenue, "Adjusted EBITDA," and Proportionate Adjusted EBITDA were also made by the Companies with the complete knowledge of Andersen.

i. Andersen violated the third standard of reporting, which provides that "[i]nformative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report." The financial statement disclosures failed to adequately disclose the extent and motives of the significant reciprocal IRU capacity transactions. Andersen should have insisted on, and in fact had a professional responsibility in demanding, full and complete disclosure prior to the public release of the financial statements. Additionally, in
footnote 22 to the audited financial statements of Global Crossing as of December 31, 2000 and December 31, 1999, and for the three years ended December 31, 2000 prepared by Andersen, there are amounts disclosed relating to the "Cash Portion of the Change in Deferred Revenue" and "Recurring Adjusted EBITDA." Regulations S-X, Accounting Rules B Form and Content of Financial Statements, and S-K, and Statement on Auditing Standards (SAS) No. 32, Adequacy of Disclosure in Financial Statements, state the need for adequate disclosure in financial statements. The disclosures in footnote 22 were inadequate as there was insufficient disclosure relating to the exchange transactions that were taking place between the Global Crossing and its carrier customers. Such a disclosure would have informed the reader that a significant portion of Cash Revenue and Recurring Adjusted EBITDA was simply a result of exchange or swap transactions.

j. Andersen violated the fourth standard of reporting, which provides that "[t]he report shall either contain an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefore should be stated. In all cases where an auditor's name is associated with financial statements, the report should contain a clear cut indication of the character of the auditor's work, if any, and the degree of responsibility the auditor is taking." Andersen should have stated that no opinion could be issued by it on Global Crossing's fiscal 1999 and 2000 financial statements or issued an adverse opinion stating that those financial statements were not fairly presented. In addition, Auditing Section 341 of the AICPA Professional Standards, "The Auditor's consideration of an entity's ability to continue as a going concern" states that an auditor is to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern for one year beyond the date of the financial statements. The evaluation is based on conditions that have occurred prior to completion of the
field work. Andersen realized by the time it issued its 2000 audit report for Global Crossing on February 14, 2001 and no later than the time that the 2000 Form 10-K was filed on March 28, 2001, Global Crossing was relying heavily on swap transactions without any real increase in cash to fund its business while at the same time capital was not available in that market. Andersen should have included an explanatory paragraph in its report about the uncertainty of Global Crossings ability to continue as a going concern.

k. Andersen violated SAS No. 82, which provides that an auditor must have considered the following factors in assessing audit risk: (a) whether management compensation creates a motivation to engage in fraudulent financial reporting, (b) domination of management by a small group; (c) one's actions which are not supported by proper documentation or are not appropriately authorized; (d) reporting records or files that should be, but are not, readily available and are not promptly produced when requested; and (e) lack of timely inappropriate documentation for transactions.

1. Andersen further violated SAS No. 82, by failing to properly evaluate risks of material misstatements in Global Crossing's and Asia Global Crossing's financial records by (i) failing to exhibit the requisite professional skepticism with regard to Global Crossing's and Asia Global Crossing's financial statements, (ii) failing to assign technically proficient personnel to conduct the audits, (iii) failing to recognize that Global Crossing's and Asia Global Crossing's accounting policies were unusually aggressive, (iv) failing to ensure that Global Crossing and Asia Global Crossing maintained sufficient internal controls to prevent financial and accounting misstatements,

m. Andersen violated SAS No. 55, which provides that "[t]he auditor's understanding of internal control may sometimes raise doubts about the auditability of an entity's
financial statements," either by failing to adequately understand Global Crossing's or Asia Global Crossing's internal controls (and lack thereof) and/or by failing to acknowledge and report to the audit committee that Global Crossing's and Asia Global Crossing's lack of internal controls made an appropriate and thorough audit impossible.

n. Andersen violated SAS No. 61, Communication with Audit Committees, which states that "[t]he auditor should inform the audit committee about adjustments arising from the audit that could, in his judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process," by failing to make appropriate adjustments, that may have had a material effect on present or future financial statements.

806. Andersen was intimately involved with structuring the IRU swap deals as a means of creating false revenue figures for its telecom clients:

a. First, Andersen knew of reciprocal nature of the IRU sales between Global Crossing, Asia Global Crossing, and other members of the telecommunications industry;

b. Second, Andersen did not require Global Crossing to disclose the reciprocal nature of these transactions in its public filings or in its disclosures to the shareholders;

c. Third, Andersen specifically advised its clients on how they attempt to structure reciprocal IRU sales so as to continue to book fake revenue and to conceal these transactions from the investing public.

d. Fourth, Andersen exerted pressure not only on Global Crossing, but on other telecommunications firms to (i) account for IRU sales as sales-type leases under FASB Statement No. 13 prior to the effective date of FAS 43, and (ii) to account for the exchange of IRUs among telecommunications companies using the fair value of the IRU, in violation of APB
No. 29. Indeed, when internal auditors at Qwest Communications questioned the propriety of certain IRU swaps, Andersen's Professional Standards Committee specifically overruled those objections and caused Qwest to account for the swaps using the fair value of the IRUs exchanged, regardless of the economic substance of the transaction.

D. **SSB And Citigroup Defendants' Scienter**

807. As alleged, SSB was an active participant in Global Crossing's and Asia Global Crossing's fraud, and knowingly issued bogus analyst reports in an effort to artificially inflate the price of Global Crossing and Asia Global Crossing stock and to generate investment banking business for the firm. SSB, through Grubman, routinely touted Global Crossing and Asia Global Crossing as growth companies and maintained a "buy" rating on the companies long after SSB and Grubman knew the truth — that their financials were a hoax. SSB represented to investors that its analysts, including Grubman, were "independent" and free from improper influences relating to the companies on which they reported, but this was plainly untrue. Grubman's personal friendship with Winnick and SSB's extensive investment banking relationship with Global Crossing not only compromised the "independence" of SSB's analyst reports, but tainted every public statement SSB made with respect to Global Crossing and Asia Global Crossing during the Class Period and the AGX Class Period. In addition, SSB failed to perform its statutory obligations to conduct proper due diligence as underwriter of Global Crossing and Asia Global Crossing securities. Instead, SSB's sole concern was the fees it could earn.

808. SSB's and Global Crossing's relationship dates back to May 1998 when SSB, along with Merrill Lynch, arranged the sale of more than $700 million of the Company's debt. Thereafter, SSB participated in at least the following offerings of both stock and debt through the
end of the AGX Class Period (including the IPO of both Global Crossing and Asia Global Crossing):

- May, 1998  
  Offering of Global Crossing 9 5/8% Senior Notes (non-public sale valued at $800,000,000)
- August, 1998  
  Global Crossing IPO (total value of $458,850,000)
- December, 1998  
  Offering of Global Crossing Holdings 10.5% Senior Exchangeable Preferred Stock (non-public sale valued at $500,000,000)
- November, 1998  
  Offering of Global Crossing Holdings 6-3/8% Preferred Stock (non-public sale valued at $1,000,000,000)
- November, 1999  
  Offering of Global Crossing Holdings 9½ % and 9-1/8% Senior Notes (non-public sale valued at $2,000,000,000 combined)
- November, 1999  
  Offering of Global Crossing 7% Preferred Stock (non-public sale valued at $650,000,000)
- March, 2000  
  Offering of Global Crossing 6-3/8 % Preferred and Common (preferred shares previously privately placed on 11/5/99 now registered with SEC)
- April, 2000  
  Secondary Offering of Global Crossing Common Stock (valued at $1,419,000,000)
- April, 2000  
  Offering of Global Crossing 6-3/4% Cumulative Convertible Preferred Stock (public sale valued at $1,000,000,000)
- October, 2000  
  Asia Global Crossing IPO (valued at $476,000,000)
- January, 2001  
  Offering of Global Crossing 8.7% Senior Notes (non-public sale valued at $1,000,000,000)

SSB also served as an adviser to Global Crossing in connection with the following transactions, earning substantial fees as a result:

- May, 1999  
  Aborted attempt by Global Crossing to acquire US West
- September, 1999  
  Global Crossing's acquisition of Frontier, valued at over $10,000,000,000
- November, 1999  
  Formation of $1.2 billion joint venture between Global Crossing and Hutchinson Whampoa
810. Thus, over a two year time period, SSB purportedly performed "due diligence" on Global Crossing's operations no less than fifteen times. SSB also purportedly conducted "due diligence" review of Asia Global Crossing at least two times. As a result, SSB earned $121 million in investment banking fees from Global Crossing alone. In addition, Citigroup provided commercial banking services to Global Crossing. These lending agreements provided the lenders essentially unlimited access to Global Crossing's books and records.

811. Based upon its close relationship with Global Crossing and Asia Global Crossing, its participation in the above-referenced transactions, and its access to material non-public information, SSB knew or recklessly disregarded that Global Crossing and Asia Global Crossing misleadingly overstated their reported revenue and falsely stated their ability to fund their business plans and their long-term prospects. Nonetheless, SSB participated in multiple offerings of Global Crossing Securities and Asia Global Crossing securities, and issued false and misleading analyst research reports.

1. The Substance Of Grubman's Research Reports Was Dictated By SSB's Pursuit Of Investment Banking Fees

812. Throughout the Class Period, SSB, Jack Grubman and Christine Gochuico knowingly and continually issued glowing analyst reports which recommended the purchase of Global Crossing and Asia Global Crossing common stock and which set price targets for that common stock, without any reasonable factual basis. In truth, the SSB defendants were only making these positive recommendations in order for SSB and Grubman to obtain investment banking business for SSB. As the result of Grubman's glowing reports, SSB was able to earn
well over $121 million in investment banking fees (including over $5.2 million in fees it received from co-managing Global Crossing's Initial Public Offering) as well as millions in stock sale profits. Similarly, SSB Holdings earned billions of dollars in investment banking fees drummed up through Grubman's research reports. For example, SBH reported $3.9 billion and $3.6 billion of investment banking revenues for the years ended 2001 and 2000, respectively. These revenues represented nearly 25% of total revenues net of interest expense for SSB Holdings. Grubman's "efforts" yielded at least 10% of total investment banking revenues for SSB Holdings.

813. While SSB, Grubman and Gochuico were supposed to be furnishing "independent" research reports untainted by material conflicts and other extraneous factors, their opinions were just the opposite. Grubman's and Gochuico's overwhelmingly positive slant on telecom companies was directly dictated by SSB's pursuit of more and more investment banking fees. Grubman's success within the ranks of SSB's analysts was unquestionably linked to his particular receptiveness to the desires of SSB's investment bankers and their top clients. Although his research was presented to the public as independent, the facts and documents revealed in connection with various governmental investigations into SSB's practices demonstrate that Grubman was in no way "independent" of the companies he covered. Indeed, in or about May 2001 Grubman flatly admitted that he was too chummy with the companies on which he supposedly was providing "independent" analysis: "If anything the record shows we [analysts] support our banking clients too well and for too long."

814. Although SSB referred to Grubman as a telecom "analyst," his day-to-day pursuits involved much more salesmanship than analysis. Indeed, Grubman turned a blind-eye to the accuracy of research and focused instead upon the preservation of investment banking relationships. Grubman was merely a tout for SSB's corporate finance department. Gochuico
knew this, and signed on to Grubman's money making scheme. Grubman brokered the MCI-WorldCom merger. In 1999 he sought to broker a merger between Nextel Communications and MCI WorldCom, according to an article published in The New York Times on March 23, 1999. Grubman also advised Global Crossing in connection with its attempted take over of US West in May of 1999, and later advised Global Crossing in connection with its acquisition of Frontier in September of that year. Further, Grubman's relationship with Global Crossing helped SSB land contracts to advise Global Crossing in connection with the formation of a $1.2 billion joint venture with Hutchinson Whampoa, and an aborted effort to register shares relating to Global Crossing's subsidiary Global Center.

815. Research Management requested Grubman's performance assessment for 2001, including a "detailed list of [his] involvement in Investment Banking transactions over the past year." Grubman and his team responded by describing certain highlights of the investment banking transactions:

We were a lead manager in a $450 million overnight convertible offering of XOXO and a $750 million high yield offering for MCLD in January. We were a joint-lead manager for FON's secondary offering of $3 billion and we were a book-running manager of WCOM's 12 billion debt deal in April/May. In addition, we were a joint lead in a $300 million equity and $450 million convertible offering for Citizens Communications, an S&P 500 Company, on which we initiated coverage on June 20 following the offerings. We received the mandate for joint books on AT&T's current $5 billion debt offering.

816. Further elaborating the investment banking activities of Grubman was his four-page, single-spaced investment banking schedule which listed 22 merger and acquisition transactions, 15 equity transactions, 6 private equity transactions, 21 investment grade debt transactions, 12 bank loans, 4 derivative transactions, 15 high yield transactions and 2 other type transactions.
The total investment banking revenues claimed by Grubman were $166,486,000. For other years, SSB's "Scorecards" for Grubman, used in compensation determinations, show investment banking revenues in Grubman's telecommunications sector as follows:

1998 $255,735,000
1999 $359,189,000
2000 $331,142,000

2. SSB's Compensation System Specifically Incentivized Grubman to Falsify His Research Reports—SSB's Determination of Analyst Compensation Was Directly Linked to Their Contribution to Investment Banking Revenues

In an August 7, 2002, letter to the House Committee on Financial Services, Citigroup admitted that, unbeknownst to most of the investing public, Grubman's compensation was linked to the investment banking revenues he generated. Indeed, beginning in 1997, SSB (then Smith Barney) paid "helper's fees" to analysts as a percentage of the investment banking fees generated by the transactions on which the analysts worked. In more recent years, SSB simply told its analysts to "list in detail your involvement in Investment Banking Transactions over the past year" (or similar language) on their performance evaluation forms. Each analyst's compensation was then determined based on this response. In 2001, Grubman listed ninety-seven investment banking transactions in which he was involved and total investment banking revenues of $166 million.

Citigroup's General Counsel, Jane C. Sherburne, confirmed to Congress that part of Grubman's bonus compensation was determined by investment banking revenues and the "level of interest that Firm clients have in the securities recommended" by Grubman. Additionally, final approval of Grubman's compensation was given by the Compensation
Committee of Citigroup's Board of Directors. Citigroup determined Grubman's compensation based in part on what other Wall Street firms would be willing to pay him. Citigroup noted that Goldman Sachs had tried to hire away Grubman in 1998. According to a Wall Street Journal article dated October 11, 2002, Goldman made its offer to Grubman based on its estimate that Grubman would bring in $100 to $150 million in investment banking fees annually.

820. Sherburne's August 7th letter disclosed further details. Grubman regularly met with the boards of directors of the companies he covered, often at the invitation of SSB's investment bankers. For example, Grubman regularly met with the Global Crossing board. Additionally, Grubman "recalled" meeting with at least seven other companies on at least eleven occasions. The letter noted that several other SSB analysts attended board meetings of companies they covered as well.

821. In addition to regular interaction with the executives of the companies he covered, Grubman participated in SSB's process of allocating shares of "hot" IPOs to those executives. For example, in an August 26, 2002, letter, Sherburne disclosed for the first time the executives of SSB investment-banking clients that received and "flipped" these IPO shares. Attached to the letter were three memos on which Grubman was copied, in which various of these executives with "Private Wealth Management" accounts indicated interest in IPO shares.

822. In January 2000, SSB held a "Best Practices Seminar," which was hosted by Kevin McCaffrey, head of U.S. Research Management, and Jeffrey Waters, SSB's Associate Director of U.S. Equity Research. At the seminar, Waters specifically advised the analysts who attended that they could "all benefit" if SSB obtained a larger share of the investment banking "money on the table." Indeed, in 1997 alone SSB paid eleven million dollars in helper's fees in
analysts' "incentive compensation" checks, and told each analyst "the amount contributed [to the check] from the helper's fee allocation."

823. John Hoffmann ("Hoffmann"), head of SSB's Global Equity Research Management, set up the system and supported it. Following the merger of Smith Barney, Inc. and Salomon Brothers, he urged its continuance in a February 19, 1999, memorandum:

"We would argue strongly that maintaining a helper's fee system, if only on a shadow basis, is in the best interest of the firm as a whole and for IBD [investment banking department] and the research division specifically." He explained that 1) It provides us with a rational basis for calculating analysts' compensation . . . . 2) It makes the analysts more responsive to the investment bank . . . . 4) The 'real time' grading system [i.e., the helper's fees] with respect to analyst performance on specific deals allowed research management to critique and correct problems before they got out of hand.

824. Instead of following Hoffmann's recommendation to the letter, SSB opted to modify the helper's fees device in several ways. First, scorecards for analyst performance included as a specific metric the amount of investment banking fees SSB earned in each analyst's sector of coverage and, for recent years, also included the SSB investment bankers' evaluation of the analysts. The Performance Assessment and Business Plan Memoranda distributed annually by Research Management to research analysts required the analysts to "list in detail your involvement in Investment Banking Transactions over the past year" or similar language. Each analyst's response to this inquiry, and the amount of investment banking fees reflected on the Scorecard were significant factors in determining the analyst's compensation. Thus, the direct financial incentive for analysts to generate and participate in investment banking business remained.

825. Despite these apparent conflicts of interest, SSB repeatedly denied that its research was in any way compromised. In an August 18, 1996 article in the New York Times,
Hoffman said, "There is no evidence of a conflict that I have ever seen . . . Especially at large retail firms such as ours [Smith Barney], the quality-control pressure of ratings is higher because you certainly don’t want to damage the firm’s reputation."

826. In a December 12, 1997 article in the *Pittsburgh Post-Gazette*, Hoffman publicly acknowledged the competing pressures of analysts and investment banking, but dismissed it by stating that "it doesn’t mean you’re going to bend your recommendations." In a July 8, 2000 article in *Financial Post Investing*, an SSB spokesman assured that "We as a firm to objective research."

827. In a New York Times article dated November 18, 2001, Maryellen Hillery, a spokesman for SSB stated, "We stand behind the quality and integrity of our research department and management and believe the overwhelming recognition from objective third-party survey speaks for itself. The firm strictly adheres to or surpasses industry and regulatory requirements designed to foster and preserve the integrity of research. Suggestions to the contrary made by anonymous sources are baseless and without integrity."

828. Grubman took a frivolous view of his conflicts of interests. In an article in Business Week he scoffed at the idea that his help peddling investment-banking services to corporations put him in conflict with his firm’s investor customers. "What used to be a conflict is now a synergy’, Mr. Grubman was quoted as saying." *(How Did So Many Get It So Wrong?*, The New York Times, Dec. 31, 2000). Grubman often publicly proclaimed his independence. For example, in a December 6, 1999 *Wall Street Journal* article he stated, "No one tells me what to do,” and that "Anyone who knows me knows that I call them as I see them.”

829. At the height of the bull market, in 1999 and 2000, Grubman and Gochuico had "Buy" recommendations on 30 companies, substantially more than most analysts. Their "Buy"
ratings and optimistic research on companies helped propel the prices of telecom stocks to stratospheric heights. Consistent with his view that "what used to be a conflict is now a synergy," Grubman and Gochvicok knowingly or recklessly issued materially false and misleading ratings of stocks in favor of investment banking clients, including Global Crossing. Because Grubman limited his ratings to only 3 of SSB's five-category rating system, his ratings were misleading. For the period January 1998 through June 2002, Grubman at various times covered from 20 to 36 stocks. The stock prices of many of those companies dropped dramatically, and 16 went bankrupt. Yet Grubman rarely issued any Sell or Underperform ratings.

830. Although presented to the public as an objective and independent research analysts, Grubman and Gochuico were neither "independent" nor "research" analysts. In reality, Grubman was an investment banker, who helped SSB win extremely lucrative investment banking fees from issuing telecommunications securities. From 1997 to 2001, SSB raked in almost $1 billion in investment banking fees from telecom companies - - more than any other Wall Street firm.

831. These abusive practices reached all the way to the top of the Citigroup executive suite. As has been widely reported, Grubman's rating of AT&T was manipulated at the request of Sanford Weill ("Weill"), Citigroup's Chairman and CEO, who paid Grubman a special bonus in return for the manipulated rating. (In fact, Weill made a $1 million donation so Grubman could get his child into an exclusive nursery school in Manhattan.). At Weill's request, Grubman raised SSB's ratings on AT&T in November 1999 from "Hold" to "Buy" so Citigroup could obtain investment banking business from AT&T. Subsequent to Grubman's upgrade of AT&T's stock, SSB was chosen as one of the underwriters of the lucrative $10.6 billion initial public offering of AT&T's wireless unit's tracking stock for which SSB received nearly $45 million in
fees. Soon after Grubman's upgrade, AT&T stock went in a steep slide, losing 57% of its value from its peak. Grubman stated in private communications that after he upgraded AT&T's stock and his children were admitted to the nursery school, he returned to his negative outlook in AT&T and that AT&T's chairman never knew that he "played him like a fiddle."

832. Grubman was paid lavishly to fuel SSB's investment banking juggernaut with rosy reports on telecommunications concerns. Although Grubman reportedly earned $20 million in 1999, and from 1999 through 2001 is estimated to have pocketed at least $30 million in salary and bonuses, he had the distinction in 2000 and 2001 of being the worst of SSB's more than 100 analysts, as rated by SSB's retail sales force.

E. **Canadian Imperial Bank of Commerce**

833. CIBC was an insider of Global Crossing from the Company's inception in 1997 until at least 2000. When Global Crossing was formed, CIBC was given the right to designate five individuals to serve on the Board of Directors in exchange for a substantial investment in the Company. By virtue of its designees' participation on the Board, CIBC had access to and was privy to material financial information relating to Global Crossing that was not available to the investing public. Defendants Bloom, Kehler, Phoenix, Levine, and Raben – the individual CIBC employees appointed to Global Crossing's board – were also managing directors of CIBC during their tenure on Global Crossing's board.

834. CIBC served as an underwriter for Global Crossing and Asia Global Crossing securities or provided investment banking services on the following transactions:

- Underwriter for Global Crossing's initial public offering in November 1999 (with J.P. Morgan);
- Underwriter for December 1999 private offering of 7% preferred stock;
- Underwriter for April 2000 secondary offering of Global Crossing common stock;
• Underwriter for the October 2000 Asia Global Crossing IPO;

835. In 1997, CIBC invested $41 million in Global Crossing, and in return received 25% of the Company’s outstanding stock – 48.6 million shares – and the right to appoint five directors to serve on Global Crossing’s board. CIBC arranged for a $482 million loan for Global Crossing in late 1997, and an additional loan of $850 million shortly thereafter. Prior to August 1998, when Global Crossing became a publicly-traded company, CIBC and PCG, collectively owned over 51% of Global Crossing’s common stock.

836. CIBC solidified its control of Global Crossing through a Stockholders Agreement, which gave CIBC the right to participate in any transaction initiated by PCG or other large stockholders that would transfer more than 5% of Global Crossing’s outstanding securities or result in a change of control of the Company.

837. In May 1998, CIBC Oppenheimer served as an initial purchaser of $800 million of Senior Notes issued by one of Global Crossing’s wholly-owned subsidiaries. CIBC received a $5.8 million commitment and structuring fee and a portion of the $24.75 million underwriting fee paid to the initial purchasers.

838. As of May 18, 1998, an affiliate of CIBC Oppenheimer, CIBC Wood Gundy Capital (SFC) Inc. (“CIBC Wood Gundy”), held a 35.72% equity interest in Global Crossing. As of June 30, 1998, CIBC had received $19 million in interest and fees under Global Crossing’s credit facilities.

839. CIBC was to receive a percentage of fees generated under a lucrative "Advisory Services Agreement" that Global Crossing entered into with PCG Telecom, an affiliate of PCG, and shared in a $135 million “termination fee” when that agreement was canceled in June of 1998.
In 1998, CIBC's investment banking arm, CIBC Oppenheimer, served as a lead underwriter for Global Crossing's Initial Public Offering (the "IPO"). After the IPO was completed, the CIBC Defendants' 25% ownership interest in Global Crossing, which it received for its initial investment of $41 million, was worth $926 million. Together with PCG, the CIBC Defendants controlled almost 50% of the Company's outstanding stock.

By March 1999, after a 2-for-1 stock split, the CIBC Defendants held over 97 million shares of Global Crossing stock, which were then collectively valued at approximately $4.5 billion. As the Company's largest shareholder, CIBC had the power to and did in fact materially impact Global Crossing's transactions.

In or about April 2000, the CIBC Defendants sold 6.7 million shares in Global Crossing's Secondary Offering for proceeds exceeding $221 million.

The CIBC Defendants and their affiliates acted as an arranger for $3.6 billion in demand notes and credit facilities for Global Crossing and its subsidiary, Global Marine Systems, in July 1999. CIBC World Markets was an initial purchaser of the unsecured Senior Notes issued by Global Crossing in a $2 billion offering in November 1999, and also was an initial purchaser of the 7% Cumulative Convertible Preferred Stock issued in a $650 million offering in December 1999. Global Crossing paid the CIBC Defendants $5.6 million in fees in connection with these transactions.

CIBC also made substantial profits in connection with its sales of Global Crossing stock during the class period:

<table>
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<tr>
<th>NAME</th>
<th>DATE</th>
<th>PRICE</th>
<th>SHARES SOLD</th>
<th>PROCEEDS</th>
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<td>Canadian Imperial</td>
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<td>6,360,675</td>
<td>$399,132,356</td>
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<td>06/21/99</td>
<td>$62.75</td>
<td>1,567,277</td>
<td>$ 98,346,632</td>
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</table>
This does not even include the over 30 million shares CIBC sold after its designees resigned from the Board in 2000, assuming CIBC followed through with its stated intent to divest its investments in Global Crossing.

By virtue of its relationship with Global Crossing, CIBC knew that Global Crossing and Asia Global Crossing were artificially inflating their reported revenue through improper IRU swap transactions. CIBC had access to Global Crossing's internal financial material and thus was well aware of the misleading nature of the companies' public statements. CIBC knew that the registration statements set forth above contained materially false and misleading factual and financial statements regarding the nature of the companies' earnings and the total value of their assets. Indeed, CIBC bailed out from Global Crossing as Hindery and others raised private doubts about the Company's viability and its cash flow problems became an undisclosed crisis.

F. Other Underwriter Defendants

As set forth above, J.P. Morgan, Merrill Lynch, Goldman Sachs, Morgan Stanley, Bear Stearns, CSFB, and DLJ served as underwriters for and investment advisers to Global Crossing throughout the Class Period, and issued registration statements in connection with offerings of various Global Crossing securities.

In conducting their due diligence in connection with preparing the registration statements identified above, the underwriter defendants were negligent in that they failed to fully investigate the financial practices and accounting policies of Global Crossing, failed to question
Global Crossing's reported revenue in a market where the growth of supply was rapidly outpacing that of demand, and ignored competitive pressures and industry practices that rendered Global Crossing's financial statements questionable to those to material financial information of the Company.

848. For example, in April 2001, David Bargen, a telecommunications analyst at J.P. Morgan circulated privately a report called "The Matrix" that detailed the interlocking relationships between and among telecom firms and questioned the viability of the companies where each company in the industry depended financially on the continued viability of the others. None of this internal analysis was revealed to the public although J.P. Morgan served as underwriter on the November 1999 private offering of 9 ½ and 9 1/8 % senior notes, the December 1999 private offering of 7% preferred stock, the April 2000 secondary offering of 43 million shares of common stock, and advised Global Crossing in 1999 in connection with the acquisition of IXNet and IPC Communications.

849. Had the underwriter defendants conducted any sort of a reasonable investigation into the financial health of Global Crossing, they would have discovered, *inter alia*, that:

a. Global Crossing's reported revenue growth depended on economically worthless IRU swap deals with other telecom companies;

b. Global Crossing lacked cash despite its public reports regarding its supposed "cash revenue;"

c. Global Crossing materially overstated the value of its assets by booking IRU swaps using the "fair value" of the capacity exchanged, and by failing to write down the value of the capacity it held as capital assets to reflect the rapid decrease in the market price;
d. Global Crossing regularly entered into IRU swap transactions with no legitimate business purpose, and acquired what it recorded as hundreds of millions of dollars worth of network capacity that it did not need, could not use, and could not integrate into its network without incurring prohibitive expense;

e. Global Crossing's "independent auditor" Andersen had become so invested in the Company through the fees generated through business consulting that Andersen's "independence" was not only compromised, it was nonexistent; and

f. Global Crossing's fortune depended on the health and vitality of its swap partners within the telecom industry, who were teetering on the verge of bankruptcy.

g. Global Crossing's earnings were overstated because the Company failed to properly account for its cost of sales;

h. Global Crossing's business plan to be a wholesaler and retailer of capacity was unsustainable and "doomed" as described by Leo Hindery in his June 2000 memo.

850. In addition, as set forth above, Goldman Sachs, SSB, Merrill Lynch, J.P. Morgan, CIBC, CSFB, Deutsche Bank, Lehman Brothers, ABN AMRO, Bear Stearns, A.G. Edwards, First Union, RBC Dominion Securities, Wasserstein Perella, Advest, Gerard Klauer Mattison, Guzman & Co., Kaufman Bros., McDonald Investments, Monness, Crespi, Hardt & Co., Ramirez & Co., Raymond James, Scott & Stringfellow, and Stephens served as underwriters for and investment advisers to Asia Global Crossing throughout the AGX Class Period, and issued registration statements in connection with offerings of various Asia Global Crossing securities. Had the Asia Global Crossing underwriter defendants conducted any sort of reasonable investigation into the financial health of Asia Global Crossing, they would have discovered, inter alia, that:
a. Asia Global Crossing materially overstated the value of its assets which it knew were impaired because of price declines that were anticipated due to increased competition, technology-advances and strategic alliances;

b. Asia Global Crossing was engaging in reciprocal transactions that had little or no economic value, but Asia Global Crossing recognized revenue from such transactions and thereby materially overstated its revenue;

c. Asia Global Crossing used and relied upon pro forma financial information that falsely and misleadingly depicted Asia Global Crossing's revenue and growth;

d. Asia Global Crossing falsely represented that its business plan was fully funded, based in part upon the availability of a $400 million standby credit facility with Global Crossing, when the overlapping officers and directors of Asia Global Crossing and Global Crossing knew that Global Crossing was not financially capable of meeting this obligation;

e. there was a glut of network capacity that was causing significant declines in wholesale bandwidth pricing;

f. Andersen, Asia Global Crossing's "independent auditor," had become so invested in the company through fees generated by its consulting business that Andersen's independence was non-existent;

g. Asia Global Crossing's revenues were overstated because the company was failing to properly account for its cost of sales; and

h. at least as early as the June 5, 2000 Hindery memo, it was known that Asia Global Crossing's business model was no longer viable and was doomed to failure.

851. Goldman Sachs and Merrill Lynch participated in the following Global Crossing transactions:
November 1999  Goldman Sachs and Merrill Lynch were initial purchasers in a private placement of 6 3/8% preferred stock;

December 1999  Goldman Sachs and Merrill Lynch were initial purchasers in a private placement of 7% preferred stock;

April 2000  Goldman Sachs served as Joint Book-Manager and Underwriter for Global Crossing's Secondary Offering and purchased 12.9 million shares, for which Global Crossing paid Goldman Sachs $.99 a share and Merrill Lynch served as the Joint Lead Manager; and

April 2000  Goldman Sachs served as Joint Book-Manager and underwriter in Asia Global Crossing's IPO; Merrill Lynch served as an underwriter. In addition, each of Goldman Sachs and Merrill Lynch was an initial purchaser of the AGX Senior Notes.

852.  Goldman Sachs was one of the four original stakeholders of Asia Global Crossing. In total, Global Crossing paid Goldman Sachs $45 million in investment banking fees since 1996.

853.  Additionally, Merrill Lynch conducted a multi-step due diligence review of Global Crossing when it issued a fairness opinion to the Global Crossing Board of Directors on March 6, 1999 in connection with the Frontier Merger in September 1999. As described in Global Crossing's July 12, 1999 Registration Statement, from November 1998 through January 1999, Merrill Lynch participated in multiple meetings with Global Crossing management and consultants to discuss Global Crossing's valuation in anticipation of the Frontier merger.

854.  Goldman Sachs was also involved in spinning IPO shares to Global Crossing executives. John Legere, its CEO, received shares in nine IPOs from the bank; Leo Hindery, its former CEO, received 5,000 shares in Goldman Sachs' IPO; and Stephen Green, a former Global Crossing and Asia Global Crossing director, received shares in more than 75 IPOs.
Numerous Asia Global Crossing underwriter defendants were intimately involved with Global Crossing as lenders, business advisors, and underwriters of multiple securities offerings. As such, these underwriters knew or should have known, among other things, about the false and misleading nature of Asia Global Crossing's financial reports and the dire condition of its failing business model.

Based upon their close relationships with Global Crossing and Asia Global Crossing, their participation in the above-referenced transactions and their access to material non-public information, Merrill Lynch and Goldman Sachs knew or should have known that Asia Global Crossing misleadingly overstated its reported revenue and falsely stated its ability to fund its business plan. Nonetheless, Merrill Lynch and Goldman Sachs underwrote Asia Global Crossing securities.

VIII. **SSB'S INVESTMENT BANKING DIRECTLY CAUSED OVERLY OPTIMISTIC RESEARCH REPORTS THAT WERE KNOWINGLY FALSE AND MISLEADING**

A. **General Background**

1. **SSB's Purported "Independent Research" Reports Were Neither Independent Nor Based on Research**

From 1998 through 2001, SSB published a five-category stock-rating system:

1) Buy  
2) Outperform  
3) Neutral  
4) Underperform  
5) Sell

SSB's analysts also rated the stock's risk, as follows:

L-Low Risk  
M-Moderate Risk  
H-High Risk  
S-Speculative  
V-Venture
Supposedly, taking into consideration both the Buy/Sell recommendation and the degree of risk, SSB's analysts "ranked" stocks. According to SSB analyst reports:

RANK is a guide to the expected total return over the next 12-18 months. The total return required for a given rank depends on the degree of risk (see below) in a stock. The higher the risk, the higher the required return. For example, a 1 (BUY) rating indicates a total return ranging from 15% or greater for a low-risk stock to 30% or greater for speculative stocks. Estimated returns for other risk categories are scaled accordingly. RISK takes into account predictability of earnings and dividends, financial leverage, and stock price volatility. L (Low Risk): predictable earnings and dividends, suitable for conservative investor. M (Medium Risk): moderately predictable earnings and dividends, suitable for average equity investor. H (High Risk): earnings and dividends are less predictable, suitable for aggressive investor. S (Speculative): very low predictability of fundamentals and a high degree of volatility, suitable only for investors/traders with diversified portfolios that can withstand material losses. V (Venture): indicates a stock with venture capital characteristic that is suitable for sophisticated investors with a high tolerance for risk and broadly diversified investment portfolios.

In actuality, the rating system was a three-category system with no Sell or Underperform categories. From 1998 through 2000, SSB research analysts issued virtually no Sell or Underperform ratings for the more than 1000 stocks they rated. Hoffmann acknowledged that institutional investors and sophisticated retail investors knew SSB's "Neutral" rating meant "Sell" and not Neutral, conceding that the SSB rating system was seriously misleading as to the average retail investor.

These allegedly "independent" analyst research reports and ratings were used covertly to lure investment banking business. Although investment banks, including SSB, have long assured investors that their investment banking and research departments were separated by what is called a "Chinese Wall" to prevent conflicts of interest, recent disclosures by governmental regulatory authorities and elsewhere overwhelmingly demonstrate that the concept
of a “Chinese Wall” at a Wall Street investment banking firm and, in particular, at SSB, was illusory.

862. Consistent with SSB’s goal of de facto integration of the research department and the investment banking department, SSB involved research analysts in the underwriting process, and, further, in the very process of developing the lists of potential investment banking clients and in the “beauty contest” for prospective investment banking services. Because the top Wall Street investment banks traditionally charged similar underwriting fees, the prospect of favorable research coverage by a well-recognized and widely-followed analyst became a key factor in a company’s selection of an underwriter. Since the mid-1990’s and through the Class Period, it eventually became clear that, at least with respect to the telecommunications industry sector, SSB could deliver the research coverage of a telecom executive’s dream: glowing analyst reports written by Jack Grubman and Christine Gochuico.

863. SSB’s investment bankers wanted the highest research rating for their banking clients or potential clients in order to enhance their ability to garner additional banking fees in the future. SSB’s structure and compensation procedures encouraged and practically required investment banking to exercise its influence over analysts and their research ratings.

864. In January 1998, for a presentation to senior management at The Travelers Company, the then parent of SSB, Hoffmann wrote: “There is a continuing shift in the realization that an analyst is the key element in banking success.” Underscoring the same theme two years later, on December 8, 2000, Hoffmann wrote Michael A. Carpenter (“Carpenter”), former CEO of SSB, that one of Hoffmann’s goals since becoming global director of research was “to better integrate our research product with the business development plans of our constituencies, particularly investment banking . . . .”
865. In reviewing Hoff's or Carpenter's or SSB's performance for 2000, Hoffmann stated:

We have become much more closely linked to investment banking this year as a result of participating in their much-improved franchise review process this year. There has been a year end [sic] cross review of senior analysts and bankers particularly in the U.S. and Europe and with the development of the Platinum Program in the investment bank, the analyst's understanding of the relative importance of clients for IB and GRB [global relationship bank] is much improved.

866. This operational integration of research analysts with investment banking involved each step of the typical underwriting transaction. It began with the analysts working with the investment bankers to develop a priority list of potential investment banking clients. Each year from 1999 through 2001, SSB's U.S. Research Management requested year-end performance assessment from research analysts. It was "suggested" that the analysts "obtain collaborative feedback from their investment banking counterpart regarding establishing and modifying a list of coverage priorities."

867. Having jointly developed potential investment banking clients, the analyst would participate as a key player in the investment banker's sales pitch for the investment banking business. Once SSB obtained the investment banking business (the "mandate"), analysts would participate in road shows and conversations with institutional investors to sell the underwritten stock. In short, once the investment bankers obtained the mandate as a lead underwriter, the research analyst had to take "ownership" of the transaction, become a proponent of the company and "sell" the deal to institutional buyers of the stock. It was this package of services that was "sold" to defendants when they selected SSB as an underwriter.
Analysts learned how to manipulate their financial models to support underwriting by SSB's investment banking division at SSB's "Best Practices Seminar" in January of 2000.

It was important for the success of a transaction that the subject company meet the earnings projected in the analyst's model for the first two quarters. To ensure this, the analysts were instructed at the Best Practices Seminar to manipulate those figures downward — to be "conservative." Specifically, the analysts were told: "Overall we've got to remember that those first two quarters have got to be hit and have nothing to do with how we're gonna really probably do valuation of the company." SSB analysts were required to advise SSB investment bankers in advance of dropping research coverage of an investment banking client.

At the Best Practices Seminar, Waters summed up for the analysts the investment banking-analyst relationship as follows:

When you look at the market share gap between us and the three competitors who are trying to close. When I just eyeballed it, it looked like to me there is something like roughly a billion dollars of, maybe not Equity Capital Markets but Investment Banking revenues, on the table for this firm. And that's a lot of money. And its clear...that Research is driving a lot of this increasingly. And therefore, as a [research] department our goal has to be, to be a really effective partner in terms of helping drive initiation, execution and everything else. Because there is a lot of money on the table for this company. And we'll all benefit from it.

Hoffmann did raise the issue of research integrity directly with SSB's then CEO Carpenter. In a memorandum to Carpenter entitled "2000 Performance Review," Hoffmann admitted that there was "legitimate concern about the objectivity of our analysts which we must allay in 2001."

Hoffmann also acknowledged the misleading nature of the research ratings at a senior management meeting held at Citigroup's Armonk Conference Center. Hoffmann made a
presentation regarding the SSB "Stock Recommendations as of 1/29/01," which showed that out of a total of 1,179 stock ratings, there were zero Sell ratings and one Underperform rating. In handwritten notes attached to this presentation, Hoffmann described these ratings in the U.S. as the "worst" and "ridiculous on face." He observed that there was a "rising issue of research integrity" and a "basic inherent conflict between IB [investment banking], equities and retail." As if to emphasize the conflict between purported independent, objective research ratings and investment banking, part of Hoffmann's presentation included a lengthy list of "Platinum Accounts" which comprised the largest investment banking and Citigroup banking clients.

873. In or about February 2001, Jay Mandelbaum ("Mandelbaum"), the global head of SSB's retail stock-selling division, told Hoffmann that SSB's "research was basically worthless" and threatened to terminate his division's contribution to the research budget. However, during the Class Period, SSB did not change its rating systems, and the de facto three-category rating system remained throughout 2001. Out of over 1000 U.S. equity ratings, SSB's published research reports had no Sell ratings and only 15 Underperform ratings (1.4%).

874. Grubman was the worst offender when it came to breaching the Chinese wall. As detailed below, e-mail exchanges between Grubman and others document the deliberately misleading nature of his ratings.

875. Grubman's failure to timely downgrade stocks of investment banking clients is now well documented. Sherlyn McMahon ("McMahon"), a senior research analyst under Grubman, sent an e-mail to Grubman relating a conversation with an institutional investor:

She [the investor] just thinks that we make ourselves look stupid by recommending names right up to the point of bankruptcy like WCII [Winstar], XOXO [XO Communications], MFNX [Metromedia Fiber Networks], etc. She understands the banking relationship aspect.
Later that afternoon, Grubman, in an e-mail to McCaffrey, made clear why stocks were not downgraded by him:

[M]ost of our banking clients are going to zero and you know I wanted to downgrade them months ago but got huge pushback from banking. I wonder of what use bankers are if all they can depend on to get business is analysts who recommend their banking clients.

The damage inflicted by Grubman's and Gochuico's misleading ratings was far reaching. For example, the following demonstrates how Grubman rated the stocks mentioned in the e-mail exchange between McMahon and Grubman:

**Winstar (WCII)**
Date Price Rating
June 16, 2000 $40 Buy
January 4, 2001 $16 Buy
April 2, 2001 $1 Buy
April 18, 2001 Bankruptcy

**XO Communications (XOXO) [formerly Nextlink]**
Date Price Rating
July 28, 2000 $33 Buy
January 4, 2001 $21 Buy
April 2, 2001 $5 Buy
June 1, 2001 $3 Buy
November 2, 2001 $1 Neutral
November 30, 2001 Acquired to avoid bankruptcy

**Metromedia Fiber Network, Inc. (MFNX)**
Date Price Rating
June 30, 2000 $40 Buy
January 4, 2001 $16 Buy
June 1, 2001 $4 Buy
July 25, 2001 $0.79 Neutral
March 19, 2002 $0.08 Discontinued coverage
May 20, 2002 Filed for bankruptcy

Focal Communications (FCOM) was an investment banking client that SSB had taken public as lead underwriter. As of February 21, 2001, SSB had done at least three more transactions with Focal generating further investment banking fees of $9,551,560. On February
21, 2001, Grubman issued a research note on Focal reiterating his Buy rating at the then current price of $15.50. When he learned that Focal complained about some aspects of the note, he e-mailed two SSB investment bankers that evening:

If I so much as hear one more f---ing peep out of them [Focal] we will put the proper rating (ie 4 not even 3) on this stock which every single smart buysider [institutional investor] feels is going to zero. We lost credibility on MCLD and XO because we support pigs like Focal.

879. In an e-mail earlier that day, McMahon, had received an inquiry from an institutional investor, asking: "Focal and McLeod are pigs aren't they?" McMahon replied: "FCOM definitely MCLD hold not sell." On April 18, 2001, Grubman again expressed his view to an investment banker that Focal "must not remain" a Buy; but it did. Grubman maintained his Buy rating on Focal until August 13, 2001, even while the price proceeded to crash from $15.50 to $1.24. During that same period, prior to the downgrade, SSB earned approximately $11,809,560 in additional investment banking fees from Focal.

880. Level 3 Communications (LVLT), Williams Communications (WCG), XO Communications (XOXO), Adelphia Business Solutions (ABIZ) and RCN Corporation (RCNC) were all investment banking clients of SSB, and by April 18, 2001, had generated, respectively, investment banking revenues of approximately $136,009,995; $8,109,387; $63,486,618; $13,432,059; and $18,811,006.

881. On April 18, 2001, Winstar filed for bankruptcy. Frank Yeary ("Yeary"), an investment banker at SSB e-mailed, among others, four SSB investment bankers and Grubman, recommending that they revisit the financial position of certain telecommunications companies, including LVLT, WCG, XOXO and determine "if we have a cross firm consensus on prospects and potential risks." Grubman immediately e-mailed Yeary back:
Agreed.... Also to be blunt we in research have to downgrade stocks lest our retail force ... end up having buy rated stocks that go under. So part of this call will be our view that LVLT WCG XOXO FCOM ABIZ RCNC must not remain buys. (Emphasis added).

882. The further e-mail exchanges indicate that the call between the investment bankers, Grubman and perhaps others, occurred early the next morning. Yet Grubman failed to downgrade LVLT, RCNC until from two to six months later.

883. A technical analyst at SSB had twice downgraded Winstar's rating, causing Grubman to have the analyst punished. Grubman e-mailed the heads of Global Equity Research and U.S. Equity Research at SSB as follows:

These are sentiments shared by many investors who we are waiting on to buy Level 3 also. Here is yet another request that we should punish the technical analyst so that it does not impact us on Level 3. On the roadshow, I want to be able to say we are taking action on the technical analyst, otherwise investors will be afraid that the same thing will happen to Level 3.

884. Significantly, of the 16 telecom companies recommended in the September 20, 2000 report, discussed more fully infra, all 16 were rated a "1" (Buy), and SSB had acted as a manager or co-manager of a public offering in the last three years of 12 of the companies.

885. An August 2001 posting on the Internet "Street Smart School" site, referred to an article in Individual Investor magazine entitled "Hall of Shame" about analysts that had misled investors. Number four on the list was Jack Grubman:

who The Wall Street Digest, also commenting on the Hall of Shame list says, "openly wears two hats - as an investment banker at Salomon Smith Barney as well as a stock analyst for the brokers on the sales side. His speciality was hyping the telecom sector. His entire telecom group - WorldCom, Global Crossing, PSINet, Rogers Wireless, ICG Communications - eventually blew up; but he didn't downgrade anything until it had fallen 70% or so." (Emphasis added).
886. Similarly, in a November 18, 2001 article in The New York Times, it was noted that Grubman's cheerleading "epitomizes" the conflict of interest questions dogging Wall Street when he rallied clients of SSB to buy shares in telecommunications companies and to hold on to the shares as they lost almost all their value as he was aggressively helping his firm win lucrative stock and bond deals from these same companies. Securities attorney Jacob Zamansky was quoted in the article as saying: "A strong case can be made that he used his picks to generate investment banking business for his firm and abused investor trust in his picks. He personifies the blurring of lines between investment banking and objective analysis."

887. The November 18th article noted that on April 4, 2001, a year after most telecom stocks had begun steep descents, Mr. Grubman wrote a report titled "Don't Panic - Emerging Telecom Model is Still Valid" and recommended seven stocks (including Global Crossing). Since then the stocks had fallen an average of 58 percent.

888. In a February 25, 2002 Business Week article, SSB and Grubman's analyst/investment banking relationships with telecom firms was highlighted:

At the height of the bull market, Salomon Smith Barney telecom analyst Jack Grubman had buy recommendations on practically all the companies he covered. During that time, Salomon was loading up on investment banking fees from telecom companies, racking up almost $1 billion since 1997 -more than any other Wall Street firm. Now, nine of the companies Grubman cheered during the telecom craze are trading for less than $1 a share. At least four are in bankruptcy.

B. Grubman's Supervisors and Superiors Knew and Approved of Grubman's Overly Optimistic, False and Misleading Research Reports

889. Both Carpenter and SSB's CEO Sanford I. Weill approved Grubman's and Gochuico's research and understood its true purpose. At least two sources have advised that Grubman reported directly to Weill. Both Grubman and Weill had close personal relationships
with many of the top executive officers of the above-mentioned companies, including WorldCom's Ebbers and Global's Winnick.

890. On April 4, 2001, a year after most telecom stocks had begun steep descents, Grubman wrote a report entitled "Don't Panic - Emerging Telecom Model Is Still Valid" and recommended seven stocks: Global Crossing, Allegiance Telecom, Broadwing, Level 3 Communications, McLeodUSA, Metromedia Fiber Network and XO Communications. In the following seven months, the recommended stocks fell 58 percent, on average. At least four companies recommended by Grubman in April 2001 have filed for chapter 11 bankruptcy protection. More than half of the companies that Grubman had tracked are the equivalent of penny stocks, trading at less than $5 a share.

891. Grubman was bullish on the competitive "local carrier" sector and pushed SSB banking-client companies including XO Communications, McLeod USA and Winstar Communications. Winstar and McLeod have sought bankruptcy protection while XO announced plans to restructure its balance sheet through debt-for-equity swaps. (Randall Smith, Deborah Solomon and Charles Gasparino, Salomon May Downgrade Jack Grubman, As the Telecom Analyst's Dual Roles Grate, The Wall Street Journal, Feb. 28, 2002, at Cl). Although Winstar listed its assets as $5 billion when the fixed wireless company sought protection from creditors, its assets later sold for less than $40 million. Grubman only began to advise caution on the 11 local exchange carriers he covered after the stocks in the group had already lost 77 percent of their value. All of the 11 carriers had securities underwritten by SSB.

892. The "cash and carry" nature of Grubman's research can also be seen by comparing the increasing wattage of Grubman's glowing "research" reports to the buildup of the debt levels of many of the infant telecom companies that he covered. Normally heavy debt piled on
unproven companies evokes concern, but Grubman "continually swatted away speculation that
debt might become a problem for his companies" and continued to hype the fledgling companies' stocks.

893. Grubman's willingness to tie his recommendations to the furtherance of SSB's investment-banking activities is further exemplified in Grubman's about-face on AT&T - Grubman's view of AT&T and other stocks improved the moment that SSB became an investment-banking suitor of the company. Grubman was bearish on AT&T from 1995 until November 29, 1999, when SSB vied for a piece of AT&T's $10.6 billion wireless offering. Soon thereafter, Grubman upgraded his view on the company to a "Buy" and SSB won a lucrative spot as a joint lead manager of the $10.6 billion IPO of AT&T Wireless Group, earning an estimated $30 million or more in fees.

894. The transparency of Grubman's "paid for" recommendations can be seen in his personal ambivalence and lack of accountability for his recommendations. Following his upgrade of AT&T, Grubman was reported to say, "Wall Street's suspicion is that AT&T has been playing with the numbers to get the stock price up. In our report, we've laid out numbers that we didn't make up, so we obviously spent a lot of time talking to the company about them. If the numbers are real, the stock is huge. If they're fake, the stock will crash and burn." (Janet Guyon, AT&T's Big Bet Keeps Getting Dicier, Fortune, Jan. 2000 (Emphasis added)).

895. There is substantial evidence that Grubman's and SSB's Buy recommendation on AT&T shares after a four-year bearish view had a material, market-moving impact upon the price of AT&T shares. On November 29, 1999, the very day the report hit the streets, AT&T's CEO Jack Armstrong (who now sits on SSB's parent company's board of directors) told Fortune that Grubman's recommendation "helped [our stock] quite a bit today." (Janet Guyon, AT&T's
Big Bet Keeps Getting Dicier, Fortune, Jan. 2000). Indeed, Fortune reported, “the buzz generated by the tracker stock and the Grubman report has boosted AT&T shares to the mid-50s after a disastrous five months in which they fell from the low 60s to the low 40s.” (Id.) Fortune also noted the favorable consequence of the price run-up following Grubman’s recommendation. “[A]s it happens, the recent run turns out to be just enough to save AT&T more than $3 billion on its MediaOne deal, which it expects to close in the first quarter of 2000.” (Id.) After the run up in price following Grubman’s recommendation, AT&T’s stock price entered a free-fall. Grubman belatedly cut his rating almost a year later, after AT&T shares had fallen more than 70%.

According to Fortune, Grubman said that he upgraded the stock because “if the cable strategy works, he will have written a ‘seminal piece’ on the company; if it doesn’t, he’ll downgrade the stock again, which he first rated a ‘hold’ in April 1995.” (Janet Guyon, AT&T’s Big Bet Keeps Getting Dicier, Fortune, Jan. 2000).

IX. GLOBAL CROSSING INVESTMENT BANKING DEALS AND SSB/GRUBMAN RESEARCH REPORTS

A. Grubman’s Undisclosed Conflicts

SSB’s investment banking ties with Global Crossing date from May 1998, when SSB, along with Merrill Lynch, arranged the sale of more than $700 million of the Company’s debt. Thereafter, SSB helped Global Crossing twice issue stock and assisted Global Crossing in selling debt three more times, while also underwriting the stock offering of its Asia Global Crossing subsidiary. In all, SSB worked on the following Global Crossing deals and received the following in fees:

<table>
<thead>
<tr>
<th>Date</th>
<th>Deal Description</th>
<th>Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>May, 1998</td>
<td>Offering of Global Crossing 9 5/8% Senior Notes (non-public sale valued at $800,000,000)</td>
<td>approximately $7 million</td>
</tr>
</tbody>
</table>
August, 1998  Global Crossing IPO (total value of $458,850,000)
SSB Fees: approximately $5.2 million

December, 1998  Offering of Global Crossing Holdings 10.5% Senior Exchangeable
Preferred Stock (non-public sale valued at $500,000,000)

November, 1999  Offering of Global Crossing 6-3/8% Preferred Stock (non-public
sale valued at $1,000,000,000)

November, 1999  Offering of Global Crossing Holdings 9½ % and 9-1/8% Senior
Notes (non-public sale valued at $2,000,000,000 combined)

December, 1999  Offering of Global Crossing 7% Preferred Stock (non-public sale
valued at $650,000,000)

March, 2000  Offering of Global Crossing 6-3/8 % Preferred and Common
(preferred shares previously privately placed on 11/5/99 now
registered with SEC)

April, 2000  Secondary Offering of Global Crossing Common Stock (valued at
$1,419,000,000)
SSB Fees: approximately $12,771,000

April, 2000  Offering of Global Crossing 6-3/4% Cumulative Convertible
Preferred Stock (public sale valued at $1,000,000,000)
SSB Fees: approximately $13.8 million

October, 2000  Asia Global Crossing IPO (valued at $476,000,000)
SSB fees: approximately $5,099,575

SSB also served as an adviser to Global Crossing in connection with the
following transactions, earning substantial fees as a result:

May, 1999  Aborted attempt by Global Crossing to acquire US West;

September, 1999  Global Crossing's acquisition of Frontier, valued at over
$10,000,000,000. SSB fees: approximately $20 million;

November, 1999  Formation of $1.2 billion joint venture between Global Crossing
and Hutchinson Whampoa; and

July, 2000  Aborted effort to register shares relating to Global Center.
In total, in just five years, SSB received fees estimated at well over $121 million from Global Crossing for investment banking services relating to underwriting and advisory services, and realized millions more in sales of Global Crossing stock.

Grubman even assembled and promoted Global Crossing investment-banking deals that were trashed by "the Street." Grubman's singular enthusiasm for the deals can be traced to the money he received for chaperoning the deals and thereafter ensuring their market buoyancy. One example is the proposed and later abandoned merger between US West and Global Crossing that Grubman put together. The deal received a "cool reception" on "the Street." In the two days after it was announced, US West's stock price dropped 5.8%, and Global Crossing's sank 11.4%. According to an industry observer, "The morning notes issued by Wall Street's top investment banks were brutal. William Deatherage of Bear Stearns wrote, 'The strategic rationale for the merger... is unclear.' Legg Mason Wood Walker downgraded US [West] from a buy to a 'market perform', which is often analyst-speak for 'get out.'

Noted pundit Frank Governall of CSFB said, "[The] proposed merger assembles a broad array of assets but doesn't create a compelling reason to buy now." (Henry Goldblatt, Mega-Deal, Mega-Doubts; Finally, a telecom merger comes along that Wall Street doesn't love, Fortune, June 1999).

According to Fortune writer Henry Goldblatt, "The two most positive reports came from Dan Reingold of Merrill Lynch, who advised on the deal, and Grubman. Since then the stocks have dipped even further. 'Analysts and big investors like to see relatively simple pure plays,' says Jim Andrew, a vice president at Renaissance Worldwide in Boston. 'Murky stories aren't being rewarded. They're being punished.'... 'Industry analysts say they understand the deal fine—they just don't like it.'" Id.
As noted above, in its August 7, 2002 letter to the House Committee on Financial Services, Citigroup conceded that since 1997, Grubman regularly attended meetings of the board of directors of Global Crossing as well as other SSB investment banking clients. Furthermore, throughout SSB's investment banking relationship with Global Crossing, Grubman was instrumental in the making of other key management and business decisions at Global Crossing. For example, as reported by the Wall Street Journal, Grubman personally recommended the hiring of one of Global Crossing's chief executives, Robert Annunziata. Grubman also helped negotiate Global Crossing's merger agreements with US West Inc. and Frontier Corp. and advised Winnick on Winnick's own stock sales. According to Olofson, Grubman visited Global Crossing many times and participated in meetings where roadshows were discussed and financial models were put together. Winnick even asked Grubman for input on the company's capital-expenditure plans. Olofson added that if the Company needed something favorable said to the public, Winnick called upon Grubman and "it went out."

Although Grubman has been criticized in the past for playing a similar role at other telecommunications companies such as WorldCom and Qwest, his involvement at Global Crossing appears to have been even more extensive. Winnick, who was new to the telecommunications industry, sought Grubman's advice and the two spoke almost daily according to The Wall Street Journal. Indeed, Global Crossing's strategy of growth by acquiring other companies with overvalued and inflated Global Crossing stock was the strategy developed by Grubman and Winnick.

By involving himself in Global Crossing's day-to-day operations, Grubman far exceeded the analysts' traditional function of offering impartial advice to shareholders and investors. According to a letter sent by Citigroup, SSB's parent, to Congress, Grubman sat in on
board meetings of at least six major telecom companies in addition to Global Crossing, including WorldCom, Cincinnati Bell, Broadwing, RCN, Qwest and McLeod. In an article published in the New York Daily News on August 10, 2002, Pat McGurn, a corporate governance expert at Institutional Shareholder Services observed that it was inconceivable how an analyst could sit in on - much less advise - companies on their decisions and then provide an independent opinion.

906. At the same time as Global Crossing sought to purchase US West, US West did a tender offer for 9.5% of Global Crossing shares. Grubman advised Winnick to sell as much as half of the personal shares that he was entitled to sell into the tender offer. Winnick pocketed $350 million from the sale.

907. Initially, SSB wanted Grubman to refrain from writing about Global Crossing for at least six months after working on the Frontier deal. But Winnick, worried about losing his most bullish analyst, objected, and SSB allowed Grubman to resume writing reports two months after the Frontier deal was announced in March of 1999, which was even before it closed in September, 1999.

908. Grubman "was in a very conflicted position" with respect to Global, said John C. Coffee Jr., a professor of securities law at Columbia Law School in an article in The Wall Street Journal. By the very nature of his deal-making involvement, Coffee said that Grubman possessed material nonpublic information.

909. SSB and Grubman also generated enormous banking fees by enticing senior executives to direct business to SSB in exchange for special opportunities to purchase nearly risk-free shares of stock in companies that were about to engage in initial public offerings ("IPOs"), which opportunities were not made available to the investing public and were actively concealed from the shareholders of the executives' companies. This practice, dubbed "spinning,"
generated tens of millions of dollars in banking fees for SSB and enriched these privileged executives with millions in profits as the price of the stock they purchased in the IPO skyrocketed, often aided by glowing endorsements given by Grubman himself. The executives reaped enormous personal profits from selling these "hot" IPO shares in the active market, and SSB, in turn, received valuable investment banking business from each executive's company. In choosing SSB as their companies' investment banker, executives could be confident that their companies' stocks would secure high ratings from SSB's chief telecommunications analyst, Grubman, regardless of the true value of those stocks. Grubman fulfilled those expectations, further enabling the executives to reap huge profits on the sale of shares in their own companies. At least 37,000 shares of "hot IPO" securities were issued to senior executives at Global Crossing according to government findings.

910. SSB also provided loans to Global Crossing executive officers that were secured by Global Crossing stock. Thus, SSB was motivated to keep the price of such stock artificially inflated so as not to compromise value of its security interest. For example, SSB maintained a margin account for Defendant Cook who had, at one point, had an outstanding balance of $14 million, secured by approximately 3.26 million shares of Global Crossing common stock. Despite SSB's obvious conflict of interest in ensuring that its outstanding loans were properly secured, SSB never once disclosed these conflicts and continued to feign independence from Global Crossing, its officers and directors.

911. In addition to furnishing executives of SSB investment banking clients "hot" shares from IPO's, SSB and Grubman also provided the same steady stream of overly optimistic false and misleading research reports that had been provided to Global Crossing, in exchange for investment banking fees. Grubman's scorecard, regarding investment banking clients other than
Global Crossing, with respect to recommending "pigs like Focal" to the investing public because of investment banking pressure is startling. For example, as late as three weeks before Winstar Communications filed for bankruptcy protection, Grubman held a "Buy" recommendation on the stock. Similarly, Grubman held a "Buy" recommendation on XO Communications until November 2, 2001, less than a month before the company filed for bankruptcy, when he downgraded it to "Neutral." In fact, Grubman had a "Buy" on Winstar from June 2000, when it traded at $40, to April 2001, when it traded at $1. Both Winstar and XO Communications were major investment banking clients of SSB.

912. Among SSB's techniques for inflating the projected value of its favored companies was the practice of formulating aggressive valuation models, while presenting them as conservative. In an email dated August 21, 2000 from Jan P. Marks, SSB's Vice President of Global Communications, to John Legere and Stefen Riesenfeld, Bruce Comer, Jack Scanlon of Asia Global Crossing, shortly before Asia Global Crossing's public offering, Marks recommends to AGC's executives that they "position the AGC model as conservative even though the resultant multiples look aggressive" and describes how Grubman has done the same with his reporting on Tycom. He writes:

Jack's initiating coverage report on Tycom (attached below) came out this morning. One interesting modeling assumption is the inclusion of systems with RFS dates of 2004-2007, though Jack does use a discount rate of 16% (higher than the true WACC) to compensate for this. Also, the Tycom model uses a terminal EBITDA multiple range of 7x – 9x, significantly lower than the 11x we are using for AGC and the 13x Jack has used for GBLX. Obviously, by including every conceivable system in their business plan, Tycom gives the appearance of being conservative with respect to multiples relative to the comps despite a very aggressive mode. We will need to position the AGC model itself as conservative even though the resultant multiples look a bit aggressive.

(emphasis added)
913. In addition, Grubman issued dozens of analyst reports on another SSB investment banking client, WorldCom, urging investors to, in Grubman's words, "load up the truck" with WorldCom stock. However, as was ultimately revealed, Grubman's analyst reports and the public offerings underwritten by SSB -- which generated tens of millions of dollars in underwriting fees for that firm -- were part of a shell game that WorldCom and SSB played on investors. As with purchasers of Global Crossing securities, purchasers of WorldCom's stocks and bonds were never told that the purportedly "independent" reports from Grubman had in fact been purchased as an integral part of the investment banking services that SSB provided to WorldCom.

914. From the late 1990s through 2001, SSB and Grubman routinely allocated to WorldCom executives, including Ebbers, extremely valuable, coveted shares in companies that SSB was about to take public. Ebbers sold many of these shares soon after the IPO, making millions of dollars. As noted above, as a crucial part of this illicit arrangement, Grubman agreed to write extremely positive -- and materially false -- research reports about WorldCom, continually pumping the stock regardless of merit. Thanks largely to WorldCom, Grubman made approximately $20 million per year in his final years at SSB, and Grubman knew that would continue only so long as WorldCom's stock remained at levels high enough to continue to pursue its acquisitions and conduct public offerings.

915. Despite these clear conflicts of interest which did, in fact, compromise the research and recommendations of SSB analysts, in each of SSB's analyst reports which Plaintiff alleges were false and misleading, SSB failed to disclose these conflicts. Each analyst report referenced herein contained only the following brief and insufficient boilerplate disclosure of SSB's conflicts:
Salomon Smith Barney ("SSB") including its parent, subsidiaries and/or affiliates (the "Firm"), usually makes a market in the U.S. traded over the market securities recommended in this report and may sell to or buy from customers, as principal, securities recommended in this report. The Firm or employees preparing this report may have a position in securities or options of any company recommended in this report. An employee of the Firm may be a director of a company recommended in this report. An employee of the Firm may be a director of a company recommended in this report. The Firm may perform or solicit investment banking or other services from any company recommended in this report.

916. These disclosures were false and misleading because they failed to disclose that:

a. Grubman, despite being presented as an independent analyst, was actively involved in garnering investment banking business for SSB's from Global Crossing;

b. Grubman's compensation was directly related to the amount of investment banking business that he developed;

c. The "Chinese Wall" that was supposed to separate SSB's research analysts from SSB's investment bankers and thereby ensure objective coverage of securities by analysts, was non-existent or extremely compromised;

d. SSB's own retail brokers, as well as the research analysts themselves, did not believe in the accuracy of the SSB research reports;

e. Grubman advised Global Crossing's Board of Directors and management on business decisions and was directly involved in aspects of Global Crossing's management and operations;

f. SSB offered lucrative "hot IPOs" to Global Crossing executives and directors in exchange for Global Crossing investment banking business;

g. SSB provided margin loans to senior Global Crossing executives that were secured by Global Crossing common stock, thereby providing an incentive for SSB to artificially inflate the price of that stock in order to maintain the value of its security interest.
B. Grubman’s Research Reports On Global Crossing Also Were False And Misleading, And Intentionally Or Recklessly Failed To Disclose The Company’s Accounting Improprieties Or The Failure Of Its Business Plan

917. Grubman operated less like an analyst and more like a publicist for Global Crossing. From September 8, 1998, when Grubman initiated his coverage on Global Crossing, until November 1, 2001 when he reduced his rating to “Neutral”, Grubman maintained a “Buy” rating on Global Crossing stock.

918. Grubman’s “Buy” rating on Global Crossing stock, however, was not based on Grubman’s true opinion on the soundness of Global Crossing stock as an investment choice, but was based instead on Grubman and SSB’s desire to maintain Global Crossing as a lucrative investment banking client. Thus, as a quid pro quo for Global Crossing’s investment banking business, Grubman issued false and misleading analyst reports touting Global Crossing and urging investors to purchase Global Crossing securities. Each of these false and misleading analyst reports were co-authored by Christine Gochuico (“Gochuico”) and the statements attributed to Grubman below are also properly attributable to Gochuico.

919. Grubman and Gochuico, however, knew that Global Crossing was not the fast growing, financially sound, company that they aggressively portrayed in their analyst reports. As a result of SSB’s underwriting role in offering Global Crossing securities and notes, Grubman’s intimate insider relationship with Global Crossing’s management, Grubman had an unparalleled insider view of Global Crossing’s accounting practices and problems.

920. Grubman adopted and promoted such misleading Global Crossing metrics such as “Cash Revenue” and “Adjusted EBITDA” even through Grubman knew that these indicators had no actual relationship to the liquidity of Global Crossing. In fact, the terms “Cash Revenue” and “Adjusted EBITDA” were intentionally designed to mislead investors about the actual cash
available to the Company. Because Global Crossing’s capacity swaps were included in these metrics as cash generating transactions, when, in fact, they did not generate cash, these indicators obscured the Company’s true performance. Yet, Grubman latched on to and promoted Global Crossing’s use of “Adjusted EBITDA” and “Cash Revenue”, and encouraged investors to rely on these false and misleading indicators as more reliable indicators of Global Crossing’s performance than GAAP accounting metrics.

921. Moreover, Grubman was uniquely aware of the declining demand for bandwidth, a problem endemic to all the telecom companies he covered, the resulting decline in value of the network assets held by Global Crossing, and the corresponding inflation of capacity prices when Global Crossing swapped capacity. Despite this knowledge, as shown below, Grubman repeatedly made statements in his analyst reports touting an increase in the demand for bandwidth, purporting to be factually supportable findings, but which had no factual basis. As such, these statements were intentionally false or were made in reckless disregard of the truth.

922. The fact that Grubman knew about Global Crossing’s capacity swaps is illustrated by an analyst report he drafted concerning Qwest Communications International, a frequent swap partner of Global Crossing, which has also been the focus of government inquiries concerning its accounting for swaps. On August 3, 2001, Qwest came under scrutiny because of revenues it was reporting that were based on capacity swaps. Grubman came to the defense of Qwest and his analyst report indicates his in-depth knowledge of the extent of capacity swaps among the telecommunications companies he covered. He wrote in that report:

The totality of the telco industry, on a wholesale and commercial basis, is largely driven by bartering in the form of “I buy from you; you buy from me” and that accounts for a far larger portion of commercially driven telecom revenues that we believe most investors want to know. It just so happens that the particular counterparty arrangements on the pure wholesale side are disclosable. However, if every counterparty type of
quid pro quo between corporate customers and telecom companies were disclosed, it would dwarf these wholesale type of counter party activities.

923. Global Crossing, unlike Qwest, derived a far greater proportion of its revenues from sales of IRUs and used, and promoted, indicators such as “cash revenue” and “adjusted EBITDA” to purportedly convey to investors the amount of cash that was flowing into the company from the sales of IRUs.

924. Grubman also promoted these indicators and, as shown below, consistently informed investors that these indicators were the most accurate measure of Global Crossing’s performance. Despite SSB and Grubman’s knowledge of material, non-public, adverse information about Global Crossing’s accounting practices, and its dire financial situation, as shown below, in each of the analyst reports, from June 2000 to November 2001, Grubman made false and misleading statements about Global Crossing’s actual and projected performance and recommended the purchase of Global Crossing securities.

1. **July 26, 2000 and August 1, 2000 Analyst Reports**

925. By mid-year 2000, serious questions began surfacing about the continued vitality of the telecommunications industry. On June 22, 2000, *The Dow Jones News Service* reported that: “[The [telecom] industry’s massive debt and the woes of competitors . . . has pulled down the prospects of every player in the business, and it may be pulling down the pricing power in the industry as well.”

926. Against the backdrop of these negative developments affecting the entire telecom sector and Global Crossing, Grubman’s and Gochuico’s July 26, 2000 report on Global Crossing continued to maintain a “Buy” rating. The report further stated that Grubman expected Global Crossing to exceed SSB’s prior Second Quarter 2000 revenue estimate of $1.3 billion and
adjusted EBITDA of $383 million when Global Crossing reported earnings on August 1, 2000. Grubman also aggressively set Global Crossing’s target stock price at $70 per share.

927. On July 26, 2000, Global Crossing opened at $29 per share after a steady two-week decline from $34.50. Grubman’s report stemmed the downward momentum on July 26, with Global Crossing shares losing only $0.50 in value that day. However, by the morning of August 1, 2000, Global Crossing had slid to $24.75 per share. Grubman had to act.

928. On August 1, 2000, Grubman and Gochuico published an analyst report titled “GBLX:2Q’00 Results Better In All Aspects of the Business.” In the report, Grubman and Gochuico rated Global Crossing a “1S, Buy” and set a target price for the stock at $70.00 per share. At the time, the stock was trading at $25.31. Grubman and Gochuico reported that Global Crossing’s results for the Second Quarter of 2001 “surpassed our estimates by all measures, most notably, cash revenue from telecom services and adjusted EBITDA from telecom services, or for that matter, on an overall basis.” They directed investors to focus on Global Crossing’s “cash revenue” and “adjusted EBITDA” indicators, “since as investors know, those are the figures that support cash collected.” According to their report:

Reported revenue can be very lumpy depending on the mix of circuits sold in a given quarter that conform or don’t conform to immediate revenue recognition. However, given that in all circumstances, cash is collected up front for subsea circuit sales, we believe the correct analysis for GBLX and its peer group is cash revenue and adjusted EBITDA. This methodology is consistent with recognizing revenue in line with cash coming into the coffers, which last we looked, is how the SEC likes companies to report, except in this particular industry.

929. Grubman noted that Global Crossing reported cash revenues of $1.415 billion and adjusted EBITDA of $435 million and proclaimed that “GBLX once again beat numbers on all accounts.” He wrote, “If one adjusts for discontinued operations, namely Frontier ILEC being sold for $3.65B, GBLX has cash revenues from recurring businesses of $1.226B and adjusted
EBITDA of $336M.” He added, “Peeling the onion back further, GBLX Telecom Services revenues were slightly over $1.1B this quarter with Installation and Maintenance coming in at $119M . . . . GBLX Telecom Services revenues grew, on a cash revenue basis, 7% sequentially and 38% on a YOY basis.”

Grubman drummed up Global Crossing’s business and projected huge growth in the demand for Global Crossing’s capacity. He wrote:

Before we get into further details for quarter, we feel GBLX is the epitome of what is driving value in telecom services. In telecom services, one has to have a network to drive product, which drives revenues and cash flow. In the subsea world, where demand far outstrips supply by increasing degrees, such that total demand for subsea capacity could be 30-40 times actual capacity deployed over the next 5-6 years, it is clear to us that GBLX’s 100,000 route mile global network is going to be a factory off which to drive a full range of products from carrier capacity sales through commercially driven ATM, frame relay and IP services. In that regard, when looking at GBLX’s worldwide network, roughly 50% of its route miles and 60% of its fiber miles are in service today, with 100% of this network likely to be in service by the end of 1Q ’01 or early 2Q ’01.

Grubman indicated that Global Crossing’s future was so bright that he would have to raise his estimates for the Company’s near-term and long-term performance:

Given that GBLX fundamentals are so strong, we will probably need to revise our cash revenue and adjusted EBITDA estimates for 2000 and 2001. In 2001, our adjusted EBITDA excluding the ILEC is $1.9B and $2.3B including the ILEC and we suspect that our estimates (excluding the ILEC) will likely be revised so that they are closer to our previous estimate including the ILEC . . . .our current estimate of $5.9B in total cash revenues, including the ILEC business, or $5.2B of cash revenues, excluding the ILEC, is clearly going to be revised. Similarly, adjusted EBITDA, including the ILEC, of $1.64B, or $1.2B excluding the ILEC, will also dramatically impair given the run-rate levels at GBLX today, not to mention the visibility for new business. . . .The bottom line is that GBLX had a spectacular quarter in our view; it clearly is leveraging its global network, the network is being built out very rapidly and GBLX is clearly moving up the value chain in tens of offering finished products on top of the network. We believe GBLX represents one of the best overall global network assets in the world of telecom which is the key ingredient
to drive products and revenues in this industry. This is especially true in areas of acute scarcity of supply relative to demand, most notably subset.

Grubman also emphasized that Global Crossing was undervalued and represented a bargain price. He wrote:

Frankly, given that we’re revising our 2000 EBITDA numbers, we will also likely adjust our 2001 EBITDA, so GBLX is probably trading more like 11-12 times next-year’s EBITDA. We believe this discount is ludicrous for a company like GBLX with legitimate EBITDA growth in the 35-40% range, which has a global set of network assets that is quickly productizing to move up the value chain, and which, with its subsea network assets, in particular, represents having the most pervasive set of assets in the biggest bottleneck area in the entire bandwidth value-chain of telecom, namely subsea network capacity.

According to the August 1 report, Grubman “strongly reiterated” his “Buy” recommendation and his $70 target for the stock price concluding, “We believe that GBLX represents one of the best overall global network assets in the world of telecom which is the key ingredient to drive products and revenues in this industry. This is especially true in the areas of acute scarcity of supply relative to demand, most notably subsea.”

Grubman’s August 1, 2000 analyst report materially impacted the price of Global Crossing’s securities. On Tuesday, August 1, 2000, Global Crossing’s high was $26.37 per share. On each succeeding day, Global Crossing relentlessly moved upward with daily highs of $29.44, $30.25 and $31.19 per share. By the following Monday, August 7, partly in response to Grubman’s research report, the price of Global Crossing shares rose to $31.88 per share on volume of 10.5 million shares.

Grubman’s statements were false and misleading because:

a. In stating that “GBLX has cash revenues from recurring businesses of $1.226B and adjusted EBITDA of $336M.”, Grubman intentionally or recklessly disregarded that these “pro forma” disclosures gave a false impression of the Global Crossing’s cash flow
because, as Grubman knew, Global Crossing was engaged in the practice of swapping capacity with other carriers. The revenue that Global Crossing supposedly generated through these IRU swaps was termed “cash revenue” which was defined as “revenue plus the change in deferred revenue”. However, in an IRU swap, Global Crossing would simply exchange capacity for capacity. Although Global Crossing and its IRU swap partners, would, in some instances, trade equal, or nearly equal, amounts of cash in a given transaction, the use of the term “cash revenue” improperly gave investors the false impression that Global Crossing’s capacity sales were generating cash;

b. In stating that “cash revenue and adjusted EBITDA” is “consistent with recognizing revenue in line with cash coming into the coffers” and that was “how the SEC likes companies to report, except in this particular industry,” Grubman either intentionally, or recklessly, misled investors by falsely claiming that “cash revenues” equated with cash flow and the SEC was somehow applying different rules to the telecommunications industry when that was simply not the case;

c. In stating that “GBLX Telecom Services revenues grew, on a cash revenue basis, 7% sequentially and 38% on a YOY basis,” Grubman intentionally or recklessly failed to disclose to investors that Global Crossing’s growth in “cash revenues” depended increasingly on reciprocal capacity swaps;

d. Grubman’s assertion that “in the subsea world, where demand far outstrips supply by increasing degrees, such that total demand for subsea capacity could be 30-40 times actual capacity deployed over the next 5-6 years” lacked any factual basis and was either intentionally or recklessly in disregard of the fact that bandwidth prices were falling and the supply of bandwidth was expected to exceed demand.
e. Grubman's targeted stock price of $70.00 per share for Global Crossing stock had no factual basis and was either intentionally or recklessly made in disregard of the facts indicating that bandwidth supply would outpace demand and cause declines in the prices of bandwidth.

2. September 5, 2000 Analyst Report

On September 5, 2000, Grubman published his analyst report titled "GBLX: Recent Events Highlight Value of GBLX". In the report, Grubman rated Global Crossing a "1S (Buy, Speculative)" and affirmed his target price for the stock as $70.00. The stock was trading at $35.13.

Grubman relayed Global Crossing's latest guidance to the market for 2000 of $5.2 billion in cash revenue and $1.34 billion in adjusted EBITDA from continuing operations. He indicated that the guidance was "roughly $200 million above consensus estimates and in line with our estimate of $5.16 billion excluding ILEC while adjusted EBITDA is roughly $100 million higher than our previous estimate or $1.24 billion also excluding ILEC operations." He noted that, "in an industry where numbers have been guided downward, this increase in guidance by GBLX is clearly very positive."

Grubman reiterated his recommendation to buy Global Crossing stock stating: "We continue to be very bullish on subsea providers including GBLX . . . fundamentals remain strong at GBLX, allowing them to raise cash revenue and adjusted EBITDA estimates for 2000 . . . We reiterate our Buy and $70 target."

Grubman's September 5, 2000 analyst report materially impacted the price of Global Crossing's securities. That day, 30.9 million shares of Global Crossing were traded with Global Crossing share price holding at approximately $35.00 per share.
Grubman’s statements were false and misleading because:

a. In restating that Global Crossing’s guidance for 2000 of “$5.2 billion in cash revenue and $1.34 billion in adjusted EBITDA from continuing operations,” Grubman intentionally or recklessly disregarded that these “pro forma” disclosures gave a false impression of the Global Crossing’s cash flow because, as Grubman knew, Global Crossing was engaged in the practice of swapping capacity with other carriers. The revenue that Global Crossing supposedly generated through these IRU swaps was termed “cash revenue” which was defined as “revenue plus the change in deferred revenue”. However, in an IRU swap, Global Crossing would simply exchange capacity for capacity. Although Global Crossing and its IRU swap partners, would, in some instances, trade equal, or nearly equal, amounts of cash in a given transaction, the use of the term “cash revenue” improperly gave investors the false impression that Global Crossing’s capacity sales were generating cash;

b. Grubman’s targeted stock price of $70.00 per share for Global Crossing stock had no factual basis and was either intentionally or recklessly in disregard of the facts indicating that bandwidth supply would outpace demand and cause declines in the prices of bandwidth.

3. September 20 and 26, 2000 Analyst Reports

941. On September 20, 2000, Grubman published an analyst report on the telecommunications industry which he titled, “Sentiment Belies LT Industry Growth; Strongly Reiterate Bullish Stance” and which continued his glowing analysis of Global Crossing.

942. Despite concerns about the future of telecom stocks, Grubman maintained a “1S Buy” rating for Global Crossing, insisting that it represented an outstanding investment, and
blamed the decline in the price of telecom stocks, in part, on other analysts' misguided comments:

We want to take this opportunity to strongly reiterate our bullish view of the telecom services industry. We remind people that our long-term investment thesis on this industry remains unchanged despite the fact that the stock performance of the telecom services sector has fallen off a cliff. . . . The reason we believe that the sector is under pressure and continues to be under pressure is that we believe that other analysts are raising issues that are not new—other than the fact that the stocks are down a lot. We thought we would take this opportunity to address some of what we believe is overhanging the sector. We particularly wanted to provide our commentary on these issues . . . . We believe Wall Street is allowing the depression in the stock prices to dictate research. Issues that are being raised are not new and could have been raised when these stocks were 70% higher. We fundamentally believe in the growth of this industry, in the potential for value creation in this industry. But it ain't easy. Anyone who thought that this group would just go straight up was sadly mistaken. At a time like this, when the valuations are absurdly low, and there is huge capitulation on Wall Street, we thought it was a good idea to remind people where we stand. We are very aggressive on these names. Clearly, on any subset of the names we alluded to, we would be buying aggressively.

943. On the heels of his rousing report on the health of the telecom sector, on September 26, 2000, Grubman published his analyst report titled “GBLX Ahead of Schedule in Europe.” In his report, he retained his “Buy” rating on Global Crossing and set a target price for Global Crossing’s stock at $70.00. The stock was trading at $30.00 per share.

944. Grubman indicated that Win Huisman, CEO of Global Crossing Europe spoke that day at the Salomon Smith Barney European Telecom, Media and Internet conference and, according to Grubman, “spelled out a very aggressive business plan and, more importantly, detailed the fact that GBLX is clearly ahead of schedule in terms of an entire pan-European network being ready for service.”
Grubman asserted that "we continue to believe that GBLX is severely undervalued relative to its global position and growth profile and we strongly reiterate our buy rating."

Grubman's statements were false and misleading because:

a. In asserting that Global Crossing was "severely undervalued relative to its global position and growth profile" Grubman intentionally or recklessly disregarded that Global Crossing's growth depended increasingly on reciprocal capacity swaps and that as part of these capacity swaps, Global Crossing booked assets received in the swaps at values in excess of their market price thus artificially raising the value of Global Crossing's assets;

b. Grubman's targeted stock price of $70.00 per share for Global Crossing stock had no factual basis and was either intentionally or recklessly in disregard of the facts indicating that bandwidth supply would outpace demand and cause declines in the prices of bandwidth.


On September 28, 2000, Grubman published his report titled "GBLX: EXDS to Acquire Gl Cntr for $6.5B; Cos. Sign 10yr Network Deal." In his report, Grubman reiterated his "Buy" rating on Global Crossing and maintained his target price of $70.00. The stock was trading at $29.88.

The September 28, 2000 report addressed Global Crossing's sale of its Global Center web-hosting business to Exodus Communications. In the transaction, Global Crossing sold Global Center for Exodus for $6.5 billion in Exodus stock, thereby acquiring a 16-18% interest in Exodus. According to Grubman:

This is a home run deal for GBLX and EXDS. For EXDS it puts their entire operations on-net, which has been an issue for EXDS, and they will get preferred pricing on all network services and assets offered by Global
Crossing including circuits, IRUs and dark fiber. GBLX, in turn gets great value for its Global Center unit, will have an anchor tenant for 10 years on their network that will help enhance and develop their network IP services, and will still have hosting on their product portfolio given that GBLX also entered into a joint marketing agreement to offer and co-brand EXDS’ web-hosting services to GBLX’s network services customers.

949. Despite Global Crossing selling off a valuable asset, Grubman extolled the virtues of the deal. He writes:

As far as the financial impact, Global Center was expected to contribute $160 million in revenue in 2000, $400 million in 2001, $700 million in 2002 and more than $1 billion in 2003. Thus, GBLX revenue will be reduced by the removal of Global Center revenue off-set by EXDS/Global Center network services revenue which is expected to be in the $5-$10 billion range over the 10-year period.

950. Grubman emphasized that the sale of Global Center would boost Global Crossing’s EBITDA and improve its “cash” position. He writes:

From an EBITDA perspective the Global Center EBITDA will now be eliminated from GBLX’s consolidated results and replaced with positive EBITDA from the network services contract. Global Center was expected to lose roughly $90 million per year for 2000 and 2001 $50 million in 2002 and was expected to be positive in 2003. GBLX will receive an EBITDA pick-up given that EBITDA margins on network services is expected to be in the 30-40% range for 2001 or more than $200 million ($140 million from network services that previously would have come from Global Center, i.e. intracompany, will now come from a third party, Exodus, plus the elimination of $90 million of EBITDA losses from Global Center.). Thus revenue in 2001 will be lower by $100 million (positive impact of $250-$300 million from network services less elimination of Global Center revenues of $400 million), EBITDA will be higher by roughly $200 million and capex will be lower by $600 million; resulting in roughly $800 million in cash for GBLX.

951. Grubman underscored his recommendation to purchase Global Crossing indicating that Global Crossing would benefit from shortages in the supply of undersea capacity:

We believe that Global Crossing is a low risk way to participate in the growth sweet spot of the telcom industry—international voice, data, and IP services—which are being driven by global deregulation adding a multitude of new telecom operators who need undersea fiber capacity.
However supply is constrained with many undersea fiber systems out of
capacity. In addition, the demand for internet services, which we believe
is accelerating, is going to put strains on global transport capacity in
addition to strains on domestic transport capacity. We continue to believe
that subsea is one of the bottlenecks in the industry.

952. Grubman’s statements were false and misleading because:

a. Grubman intentionally or recklessly failed to disclose that Exodux
Communications was a cash-starved company and Global Crossing faced an enormous risk in
accepting Exodus shares and the promise of future revenues as the only consideration for the sale
of Global Center;

b. Grubman had no factual basis for his assertion that “Global Crossing is a
low risk way to participate in the growth sweet spot of the telcom industry.” In fact, Grubman
intentionally or recklessly disregarded that Global Crossing was engaged in the practice of
swapping capacity with other carriers that had the effect of artificially boosting the Company’s
pro forma indicators and that Global Crossing’s growth in “cash revenues” depended
increasingly on reciprocal capacity swaps;

c. Grubman’s assertion that “supply is constrained with many undersea fiber
systems out of capacity” and that “the demand for internet services, which we believe is
accelerating, is going to put strains on global transport capacity in addition to strains on domestic
transport capacity” lacked any factual basis and was either intentionally or recklessly in
disregard of the fact that bandwidth prices were falling and the supply of bandwidth was
expected to exceed demand; and

d. Grubman’s targeted stock price of $70.00 per share for Global Crossing
stock had no factual basis and was either intentionally or recklessly in disregard of the facts
indicating that bandwidth supply would outpace demand and cause declines in the prices of bandwidth.

5. **October 11, 2000 Analyst Report**

953. On October 11, 2000, Grubman published an analyst report titled "GBLX: Hindery Resignation Not a Big Surprise." In his report, Grubman reiterated his "Buy" rating on Global Crossing stock and maintained his target price of $70.00. Global Crossing was trading at $23.88 per share.

954. Grubman’s report specifically sought to reassure investors following the sudden departure of Leo Hindery from Global Crossing. Global Crossing’s stock had faltered on the news that Hindery was resigning from Global Crossing as his departure represented the departure of the third Global Crossing CEO in as many years.

955. Grubman reported, “Leo Hindery’s departure from GBLX is not a big surprise to us given that he was brought on board to maximize the value of Global Center . . . Despite Leo Hindery’s resignation, we believe that the management team—now to be led by Thomas Casey and includes David Walsh and Gary Cohen—is more talented than investor’s realize.”

956. Grubman notes, “the bottom line, in the world of telecoms—where value is going to be driven by scale and scope of network assets and depth and breadth of product offerings and ability to address as many customers as possible within a given part of the value chain, is that we believe GBLX has a set of assets and capabilities second to none . . . We think GBLX is incredibly undervalued here. We would be aggressive buyers of the stock. We reiterate our buy.”

957. Grubman’s statements were false and misleading because:

a. In stating that Global Crossing was “incredibly undervalued”, Grubman intentionally or recklessly disregarded that Global Crossing’s were inflated in value because of
actual decreases in the price of network capacity because of increasing demand and inflated prices that Global Crossing was paying for network capacity as a result of reciprocal capacity swaps; and

b. Grubman’s targeted stock price of $70.00 per share for Global Crossing stock had no factual basis and was either intentionally or recklessly in disregard of the facts indicating that bandwidth supply would outpace demand and cause declines in the prices of bandwidth.


On November 9, 2000, Grubman issued his analyst report titled “Stock Decline Completely Unfounded—Strongly Reiterate Buy”. Grubman reiterated his “Buy” recommendation on Global Crossing stock and maintained his target price of $70.00. The stock was trading at $20.06.

In his report, Grubman sought to discount investor fears about a glut in the supply of capacity. Grubman writes:

GX stock has been weak lately due, to some extent, sympathy with the rest of the industry. However, we believe there also comes into play misguided perceptions about things that could impact GX. First, we reiterate our 3Q00 estimates of $1.36 billion cash revs excluding the ILEC and adjusted EBITDA of $336.9 million. We think that GX will absolutely meet or exceed our estimates for the third quarter, fourth quarter and 2001. Second, we know that there have been comments in the marketplace regarding competing cable systems... The bottom line is that GX continues to exceed its business plan. It is very quickly evolving from a construction company to an operating entity, to a product driven commercial enterprise. Its valuation is dirt cheap. Its numbers are absolutely rock-solid. There are no issues with accounting and so-called new news about subsea cable is hardly relevant when already announced cables are behind schedule... It has a great balance sheet and management team. We would be aggressive buyers of the stock.
960. Grubman’s statements were false and misleading because:

a. In stating that “we reiterate our 3Q00 estimates of $1.36 billion cash revs excluding the ILEC and adjusted EBITDA of $336.9 million,” and “we think that GX will absolutely meet or exceed our estimates for the third quarter, fourth quarter and 2001” Grubman intentionally or recklessly disregarded that his model depending on Global Crossing engaging in the practice of swapping capacity with other carriers that generated no actual cash flow for the company;

b. Grubman lacked any factual basis for this assertion that Global Crossing’s “valuation is dirt cheap. Its numbers are absolutely rock-solid. There are no issues with accounting . . .” His statements were either intentionally misleading or recklessly in disregard of the fact that Global Crossing’s “pro forma” accounting of “cash revenues” and “adjusted EBITDA” materially misrepresented the actual cash held by the Company and that Global Crossing’s valuation of its assets were materially overstated because of known price declines and purchase of assets in excess of their market value; and

c. Grubman’s targeted stock price of $70.00 per share for Global Crossing stock had no factual basis and was either intentionally or recklessly in disregard of the facts indicating that bandwidth supply would outpace demand and cause declines in the prices of bandwidth.


961. On November 13, 2000, Grubman continued his aggressive touting of Global Crossing stock with a report titled “Q3 Results Better Than Expected; Believe Stock Way Oversold; Reit. Buy.” In the report, Grubman maintained his “Buy” rating for Global Crossing stock and reiterated that, “we would be aggressive buyers of GBLX and strongly reiterate Buy and $70 target.”
962. Grubman relayed Global Crossing’s reported results for the Third Quarter 2000. He indicated, however, that “we will quote numbers on a cash revenue and adjusted EBITDA basis, since as investors know, those are the figures that support cash collected.” Regurgitating language from his August 1, 2000 report, he wrote:

Reported revenue can be very lumpy depending on the mix of circuits sold in a given quarter that conform or don’t conform to immediate revenue recognition. However, given that in all circumstances, cash is collected up front for subsea circuit sales, we believe the correct analysis for GX and its peer group is cash revenue and adjusted EBITDA. This methodology is consistent with recognizing revenue in line with cash coming into the coffers, which, last we looked, is how the SEC likes companies to report, expect in this particular industry.

963. Grubman reported that Global Crossing’s “cash revenues” were $1.554 billion and its “total adjusted EBITDA” was $450 million. These figures, according to Grubman, were “well above” estimates and “[b]etter than expected”. Grubman, once again, represented that Global Crossing’s so-called “pro forma” disclosures replicated perfectly acceptable “cash-based” accounting used in other industries. In fact, they represented that the true “fair value” of Global Crossing was 8.2 times the Company’s so-called “Adjusted EBITDA.”

964. In his analysis, cribbed from his August 1, 2000 report, Grubman wrote:

Peeling the onion back further, Global’s Telecom Services cash revenues were $1,249 million this quarter, basically in line with our estimates, with Installation and Maintenance coming in at $118 million versus our estimate of $85 million. Global Crossing’s Telecom Services Revenues grew, on a cash revenue basis, 13% sequentially . . . and 47% year-over-year basis excluding Global Center and pro-forma as if the IPC/IXNet deal had closed on 1/1/99 . . . . Before we get into further details for the quarter, we feel Global Crossing is the epitome of what is driving value in telecom services. . . . In the subsea world, where demand far outstrips supply by increasing degrees, such that total demand for subsea capacity could be 30-40 times actual capacity deployed over the next 5-6 years, it is clear to us that Global Crossing’s 101,000 route mile global network is going to be a factory off which to drive a full range of products from carrier capacity sales through commercially driven ATM, frame relay and IP services. In that regard, when looking at Global Crossing’s worldwide
network, roughly 60% of its route miles in service today, with 100% of this network likely to be in service by the end of 1Q '01 or early 2Q '01.

965. Grubman excoriated investors for undervaluing Global Crossing. He wrote:

GX, at current prices, using fully diluted shares of 984 million is trading at 8.2 times our $2.1 billion 2001 adjusted EBITDA, excluding ILEC EBITDA. We believe this discount is ludicrous for a company like Global Crossing with legitimate EBITDA growth in the 35-40% range from '01-'06 . . . which has a global set of network assets that is quickly productizing to move up the value-chain, and which, with its subsea network assets, in particular, represents having the most pervasive set of assets in the biggest bottleneck area in the entire bandwidth value-chain of telecom, namely subsea network capacity. . . . We realize that the entire sector is under pressure, but the reality is that those companies that are building the right network assets with the right products to get to the right revenue mix and which happen to have value-chain should drive disproportionate amount of value in this industry. We think Global Crossing is the epitome of that, and is selling at what we believe is an incredibly low level of valuation, especially since they continue to outperform expectations.

966. Grubman reported on Global Crossing's revenues from sales to carriers. He wrote, “Looking at it from another direction, carrier revenue had cash revenues of $755.9 million, up 7% sequentially. Carrier revenues represent about 61% of telecom revenues, down from about 64% in Q2 and Q1; however, on a pro-forma basis, carrier cash revenues reflected about 63% of Q3' 00 total telecom revenues, up slightly from about a pro forma 62% in Q2.”

967. Grubman indicated that “Global Crossing represents one of the best overall global network assets in the world of telecom . . . We believe this is especially true in areas of acute scarcity of supply relative to demand, most notably subsea.”

968. Grubman’s statements were false and misleading because:

a. In stating that Global Crossing’s “cash revenues” were $1.554 billion and its “total adjusted EBITDA” was $450 million and these figures were “well above” estimates and “[b]etter than expected”, Grubman intentionally or recklessly disregarded that these “pro forma”
disclosures gave a false impression of the Global Crossing’s cash flow because, as Grubman knew, Global Crossing was engaged in the practice of swapping capacity with other carriers. The revenue that Global Crossing supposedly generated through these IRU swaps was termed “cash revenue” which was defined as “revenue plus the change in deferred revenue”. However, in an IRU swap, Global Crossing would simply exchange capacity for capacity. Although Global Crossing and its IRU swap partners, would, in some instances, trade equal, or nearly equal, amounts of cash in a given transaction, the use of the term “cash revenue” improperly gave investors the false impression that Global Crossing’s capacity sales were generating cash;

b. In stating that “cash revenue and adjusted EBITDA” is “consistent with recognizing revenue in line with cash coming into the coffers” and that was “how the SEC likes companies to report, except in this particular industry,” Grubman either intentionally, or recklessly, misled investors by falsely claiming that “cash revenues” equated with cash flow and the SEC was somehow applying different rules to the telecommunications industry when that was simply not the case;

c. In stating that “carrier revenue had cash revenues of $755.9 million, up 7% sequentially” Grubman intentionally or recklessly failed to disclose to investors that Global Crossing’s growth in “cash revenues” depended increasingly on reciprocal capacity swaps;

d. Grubman’s assertion that Global Crossing’s current valuation in the stock was market was “ludicrous for a company like Global Crossing with legitimate EBITDA growth in the 35-40% range from ’01-’06” lacked any factual basis and was either made intentionally or recklessly in disregard of the fact that bandwidth prices were falling, the supply of bandwidth was expected to exceed demand, and Global Crossing’s purported EBITDA growth was
unsustainable because it was comprised of capacity swaps that lacked any legitimate business purpose;

e. Grubman’s targeted stock price of $70.00 per share for Global Crossing stock had no factual basis and was either intentionally or recklessly in disregard of the facts indicating that bandwidth supply would outpace demand and cause declines in the prices of bandwidth.


969. On February 15, 2001, Grubman published his report titled “GX: Strong Q4; Mix Skewed Towards Capacity as Global Ntwk is Fully Operational” The report continued Grubman’s “Buy” rating on Global Crossing stock and his target price of $70.00. The stock was trading at $18.06.

970. Grubman reported that Global Crossing had a reported $1.54 billion of cash revenues, up 15% sequentially and slightly ahead of our number. In addition, adjusted EBITDA was $418 million, about 10% better than third quarter’s adjusted EBITDA, and again, above our estimate.”

971. Grubman’s report conveyed Global Crossing’ Fourth Quarter 2000 results. Grubman sought to downplay the large percentage of Global Crossing’s revenue derived from carrier sales in the Fourth Quarter. He wrote:

The composition of the results at first blush, we think, might raise some eyebrows given how strong capacity sales were in the quarter. Of course, capacity sales are recurring revenue, unlike dark fiber, so we are not sure why anyone would care, especially given the margins and returns. Capacity sales accounted for 38% of total revenues in the quarter, up from 57% in the third quarter . . . Capacity sales in the quarter were $585 million, up 44% sequentially and roughly doubled from a year ago. The important thing about capacity sales is that they are far more geographically diverse that ever before. In the fourth quarter, we estimate that the capacity sales spread over every system in the service. In third of capacity sales came from Latin America and Asia, 15% from the Atlantic,
30% in North America and roughly 10% in Europe. In addition, we suspect that 15-20% of capacity sales were flexible global network purchases that allowed buyers of capacity to purchase services on a flexible basis anywhere on Global Crossing’s network.

972. Grubman explained the significance of the increase in carrier sales as further evidence of the soundness of Global Crossing’s business. He wrote:

So, on the capacity sale front, we think that while capacity sales coming in at 38% of total revenues was higher than we thought, nonetheless, it is more of a testimony to the fact that Global Crossing has its entire worldwide network up and running, with every segment operational, that it is a damnation of the rest of Global Crossing’s business.

973. Grubman’s statements were false and misleading because:

a. In stating that Global Crossing had “$1.54 billion of cash revenues, up 15% sequentially” and “adjusted EBITDA was $418 million, about 10% better than third quarter’s adjusted EBITDA,” Grubman intentionally or recklessly disregarded that these “pro forma” disclosures gave a false impression of the Global Crossing’s cash flow because, as Grubman knew, Global Crossing was engaged in the practice of swapping capacity with other carriers. The revenue that Global Crossing supposedly generated through these IRU swaps was termed “cash revenue” which was defined as “revenue plus the change in deferred revenue”. However, in an IRU swap, Global Crossing would simply exchange capacity for capacity. Although Global Crossing and its IRU swap partners, would, in some instances, trade equal, or nearly equal, amounts of cash in a given transaction, the use of the term “cash revenue” improperly gave investors the false impression that Global Crossing’s capacity sales were generating cash;

b. In stating that Global Crossing’s increase in carrier revenues was “testimony to the fact that Global Crossing has its entire worldwide network up and running, with every segment operational” and in discounting the increase in carrier sales because
"capacity sales are recurring revenue, unlike dark fiber, so we are not sure why anyone would care, especially given the margins and returns," either intentionally, or recklessly, failed to disclose to investors that Global Crossing's increased carrier revenues were attributable to capacity swaps. These capacity swaps were not recurring revenues, did not improve cash flow to the company, and did not produce high margins or returns for the company because there were merely exchanges of capacity;

c. In stating that "we suspect that 15-20% of capacity sales were flexible global network purchases that allowed buyers of capacity to purchase services on a flexible basis anywhere on Global Crossing's network" Grubman either intentionally or recklessly failed to disclose to investors that these "global network purchases" were transactions that facilitated capacity swaps, and further underscored the lack of a sound business purpose for Global Crossing to engage in these capacity swaps;

d. Grubman's targeted stock price of $70.00 per share for Global Crossing stock had no factual basis and was either intentionally or recklessly in disregard of the facts indicating that bandwidth supply would outpace demand and cause declines in the prices of bandwidth.

9. April 10, 2001 Report

974. On April 10, 2001, SSB, Grubman and Gochuico issued an analyst report titled "Concerns Re: CZN Ability to Fund ILEC Acq. From GX unfounded." The report affirmed Grubman's "Buy" rating on Global Crossing and maintained the $70.00 target price on the stock. The stock was trading at $10.15.

975. Grubman's report sought to quell investor concerns about Citizens Communications ability to purchase Global Crossing's ILEC business. The sale had been announced in July 2000 and Citizen had agreed to purchase Global Crossing's ILEC business for
$3.65 billion in cash. Grubman assured investors, purportedly based on his research, that Citizen could still afford the acquisition.

976. He affirmed his bullish stance on Global Crossing: "We continue to be bullish on GX and we believe that during the court of 2001 GX will show increasing visibility on getting service contracts from brand name commercial customers. We reiterate again that GX is one of our favorite names . . . . We would be buyers of GX and reiterate our 1S rating."

977. That day Global Crossing opened at $9.40 per share. Over the next month, Global Crossing's share price would reverse course and steadily rise to $15.60 per share at the close on May 16. In the 26 trading days prior to May 16, Global Crossing would close higher on 17 of those days.

978. Grubman statements were false and misleading because Grubman's targeted stock price of $70.00 per share for Global Crossing stock had no factual basis and was either intentionally or recklessly in disregard of the facts indicating that bandwidth supply would outpace demand and cause declines in the prices of bandwidth.

10. May 10, 2001 Analyst Report

979. Grubman's drumbeat of positive reports about Global Crossing continued in his May 10, 2001 analyst report titled, "Q1' 01 Results Solid; but Lowering Target To $30 from $70." In this report, Grubman continued his "Buy" recommendation on Global Crossing stock but reduced his target from $70.00 to $30.00 per share.

980. Grubman reported that Global Crossing's first quarter 2001 results were "solid." He wrote:

Global Crossing reported $1,613.2 million of cash revenues from continuing operations (pro forma to exclude Global Center and ILEC assets), up almost 5% sequentially and slightly ahead of our $1,594.2 million estimate. In addition, recurring adjusted EBITDA was $441.2 million (about a 27% margin), about 5% better than Q4'00 adjusted
EBITDA and $418.5 million (a 27% margin), but slightly below our $445.6 million (28%) margin estimate.

981. Grubman noted that Global Crossing’s capacity sales were down 3.2% sequentially but more than 1.5 times Q1’00 levels. Carrier revenues accounted for 59% of total revenues, versus 62% in Q4’00 and 57% in Q3’00. He wrote, “while other subsea operators are experiencing some demand for short-term leases, which are typically priced below IRU sales, Global Crossing continues to see strong demand from the IRU market. Hence, Global Crossing’s depth and breadth of network have led to continued strong capacity sales with a higher quality of mix of routes and services.

982. Grubman reduced the target price on Global Crossing’s stock from $70 to $30 “in light of the current marketplace and increasing conservatism in our out year assumptions for all of our companies.” However he enthusiastically maintained his “Buy” recommendation claiming that “Global Crossing’s fundamental outlook remains strong and it remains fully funded through the end of this year.”

983. Grubman’s statements were false and misleading because:

a. In reporting Global Crossing’s results as “solid” and emphasizing that Global Crossing reported “$1,613.2 million of cash revenues’ and “recurring adjusted EBITDA was $441.2 million,” Grubman intentionally or recklessly disregarded that these “pro forma” disclosures gave a false impression of the Global Crossing’s cash flow because, as Grubman knew, Global Crossing was engaged in the practice of swapping capacity with other carriers. The revenue that Global Crossing supposedly generated through these IRU swaps was termed “cash revenue” which was defined as “revenue plus the change in deferred revenue”. However, in an IRU swap, Global Crossing would simply exchange capacity for capacity. Although Global Crossing and its IRU swap partners, would, in some instances, trade equal, or nearly equal,
amounts of cash in a given transaction, the use of the term “cash revenue” improperly gave investors the false impression that Global Crossing’s capacity sales were generating cash;

b. In stating that “Global Crossing continues to see strong demand from the IRU market. Hence, Global Crossing’s depth and breadth of network have led to continued strong capacity sales with a higher quality of mix of routes and services,” Grubman either intentionally, or recklessly, failed to disclose to investors that Global Crossing’s increased carrier revenues were attributable to capacity swaps. These capacity swaps were not recurring revenues, did not improve cash flow to the company, and did not produce high margins or returns for the company because there were merely exchanges of capacity;

c. In reducing his targeted stock price of $70.00 per share for Global Crossing stock to $30.00 per share, and reiterating his buy, Grubman had no factual basis to support this target price and either intentionally or recklessly disregarded facts indicating that bandwidth supply would outpace demand and cause declines in the prices of bandwidth.


984. On June 18, 2001, Grubman published a report titled “GX: Details on Lease vs IRU and Capacity. The report reiterated Grubman’s “Buy” rating on Global Crossing stock and affirmed the target price for the stock at $30.00. Grubman’s report was authored in response to concerns expressed by industry observers, including newspapers such as the Wall Street Journal, that there was a glut in the supply of bandwidth capacity and that growth in the demand for bandwidth had fallen precipitously.”

985. Grubman’s analyst report was specifically directed at tempering these concerns and to allay investor fears that Global Crossing would reduce its guidance, which, according to Grubman a “competitor” to SSB was reporting. According to Grubman:
We recently met with GX management, as did many others. The fact is that GX management did not comment whatsoever on its financials. Furthermore, we think that a lot of hysteria has been caused regarding industry pricing, capacity, demand growth, and most importantly the notion of IRU to lease transition that is unwarranted... There is actually less capacity now in the market that what people thought six months ago. Demand for most data services is still growing at a healthy rate.

986. Grubman underscored his “buy” position on Global Crossing stating, “We believe that there are historic opportunities to buy world-class assets such as GX that are evolving into world-class operating businesses at an unbelievably compelling value—GX is currently trading below its book value of $11.68 and at a TEV/2001E Adjusted EBITDA multiple of 7.7x, or less than 30% our estimated 2001-2006 EBITDA CAGR of 26.5%. We would be very aggressive buyers of GX stock.”

987. Grubman concluded, “The bottom line is this: the macro environment of the industry is actually getting better, not worse. Less capacity is coming on. Pricing is, at the margin, getting better, and demand is continuing to grow at a healthy rate.”

988. While Grubman endorsed Global Crossing longer than any other analyst, recommending the stock as one of his three “top picks” in June 2001, other analysts deserted the Company based upon the shake-out in telecommunications stocks. Between mid-2001 and the fall of 2001, Credit Lynonnais, CSFB, Friedman Billings, J.P. Morgan, Merrill and Prudential all turned negative on the Company for industry-wide reasons that had nothing to do with the as yet undisclosed fraud. At the time, Global Crossing’s share price was more than 80% off its high of $64. Since then, the stock had fallen an additional 99%. Still, Grubman’s top three picks were Global Crossing, Qwest and WorldCom – a veritable who’s who of telecom fraud all sharing a common distinction – SSB was their investment banker.
Grubman’s statements were false and misleading because:

a. In stating that “GX is currently trading below its book value of $11.68 and at a TEV/2001E Adjusted EBITDA multiple of 7.7x” Grubman either intentionally or recklessly disregarded that “adjusted EBITDA” gave a false impression of the Global Crossing’s cash flow because, as Grubman knew, Global Crossing was engaged in the practice of swapping capacity with other carriers. The revenue that Global Crossing supposedly generated through these IRU swaps was termed “cash revenue” which was defined as “revenue plus the change in deferred revenue”. However, in an IRU swap, Global Crossing would simply exchange capacity for capacity. Although Global Crossing and its IRU swap partners, would, in some instances, trade equal, or nearly equal, amounts of cash in a given transaction, the use of the term “cash revenue” improperly gave investors the false impression that Global Crossing’s capacity sales were generating cash;

b. Grubman had no factual basis to support his claims that “There is actually less capacity now in the market that what people thought six months ago” and that “Pricing is, at the margin, getting better, and demand is continuing to grow at a healthy rate” and either intentionally or recklessly disregarded facts indicating that bandwidth supply would outpace demand and cause declines in the prices of bandwidth.

c. Grubman had no factual basis to support his targeted price of $30.00 per share for Global Crossing stock or his claim that Global Crossing’s stock price marked “historic opportunities to buy world-class assets . . . an unbelievably compelling value” and he either intentionally or recklessly failed to disclose to investors that falling prices in the bandwidth market, decreasing demand for capacity, and increasing reliance on capacity swaps to meet “cash revenue” target could impact the price of Global Crossing stock.

990. On August 2, 2001, Grubman published his analyst report titled “GX: Lower Guid. & IRU Higher % Revs., but Funded and Winner in Ind. Recov.” In his report, Grubman continued to maintain SSB’s “Buy” recommendation and his target price for Global Crossing’s stock of $30.00. That day, Global Crossing opened at $6.75 per share and closed at $7.00 per share on volume of 17.8 million shares.

991. Grubman’s report followed Global Crossing’s announcement of its second quarter 2001 results which also reduced the Company’s earning forecasts.

992. Grubman relayed Global Crossing’s pro-forma results reporting, “Global Crossing reported 1,620.4 million of cash revenues from continuing operations (pro forma to exclude Global Center and the ILEC assets), up 0.4% sequentially and below our $1.684.2 million estimate. In addition, recurring adjusted EBITDA was $472.3 million (about 29% margin), about 8% better than Q1’01 adjusted EBITDA of $441.2 million (a 27% margin), but below our $475.7 million (28%) margin) estimate”

993. According to Grubman, investor reaction to Global Crossing’s reduced guidance was irrational. He wrote, “The reaction of the stock versus the bonds is very interesting. Today, the stock is off almost 20%, but the bonds are firm, trading the 70s (double to triple the level of most new telecom players). As we see it, the bonds are right! Yes, Global Crossing lowered guidance, and yes, IRUS are now a greater portion of near term revenues . . . but Global Crossing is funded and will be a surviving winner, we believe, as the telecom landscape recovers due to industry factors . . . and macroeconomic trends improving.”

994. Grubman felt it necessary to reassure investors that despite Global Crossing’s reliance on large IRU sales to generate its revenues in the quarter, these revenues were recurring. He writes:
As for IRUS not being recurring like service revenue, we disagree. Product companies start each year with zero revenue but grow as a function of new product cycles and overall rising demand. Similarly, IRU sales recur at higher levels since demand grows and buyers of IRUS want increasingly bigger swaths of capacity each year despite having existing capacity. In fact, Global Crossing’s level of predictability is materially better in IRUs with 20% of its backlog being global network sales which are growing 40% on an annual basis. As we have said previously, the 40-60 big buyers of capacity on a global basis have growing capacity requirements and want IRUs to stabilize network platforms and be able to deploy service layers on a guaranteed long-term basis. To be blunt, one could argue that the IRU business with 40-60 huge buyers of increasing levels of capacity each year is actually more recurring, less volatile business than certainly voice which has high levels of churn.

995. Grubman reported that Global Crossing signed $500 million of new contracts in Q2’01, up from $300 million in Q1. He concludes, “therefore we would argue that Global Crossing is in good shape. Their position in the IRU segment is clearly stronger than ever and notwithstanding an overall softer environment, Global Crossing is clearly gaining traction in the commercial space. Most importantly, we believe they are fully funded with no need for additional capital.”

996. Grubman’s statements were false and misleading because:

a. In stating that “Global Crossing reported 1,620.4 million of cash revenues . . . [and] recurring adjusted EBITDA was $472.3 million,” Grubman intentionally or recklessly disregarded that these “pro forma” disclosures gave a false impression of the Global Crossing’s cash flow because, as Grubman knew, Global Crossing was engaged in the practice of swapping capacity with other carriers. The revenue that Global Crossing supposedly generated through these IRU swaps was termed “cash revenue” which was defined as “revenue plus the change in deferred revenue”. However, in an IRU swap, Global Crossing would simply exchange capacity for capacity. Although Global Crossing and its IRU swap partners, would, in some instances, trade equal, or nearly equal, amounts of cash in a given transaction, the use of the term “cash
revenue” improperly gave investors the false impression that Global Crossing’s capacity sales were generating cash;

b. In rationalizing the growth of IRU sales as a proportion of Global Crossing’s revenues, and insisting that such revenues were recurring, Grubman intentionally or recklessly failed to disclose to investors that Global Crossing’s growth in IRU sales as a proportion of its revenues was directly the result of capacity swaps, which provided no net cash flow to the Company, were not-recurring, and inflated the value of Global Crossing’s assets because the capacity received in the swap was recorded at a much higher value than could be otherwise obtained;

c. Grubman’s assertion that Global Crossing was “fully funded with no need for additional capital.” lacked any factual basis and was either intentionally or recklessly in disregard of the fact that Global Crossing was facing a tremendous cash shortage and teetering on the edge of bankruptcy; and

d. Grubman’s targeted stock price of $30.00 per share for Global Crossing stock had no factual basis and was either intentionally or recklessly in disregard of the facts indicating that bandwidth supply would outpace demand and cause declines in the prices of bandwidth.

997. Global Crossing’s bonds fell in value with its 9 5/8 % notes due in 2008 falling about 19% to 62 cents on the dollar. Shortly thereafter, Global Crossing shares fell 49%, or $1.02, to $1.07 on volume of more than 75 million, compared with average daily volume of 12 million.
13. October 1, 2001 Analyst Report

998. Grubman's praise of Global Crossing continued into the fall of 2001. Although SSB and Grubman had issued a strong "Buy" recommendation and termed Global Crossing one of three "top picks" in late September 2001, almost immediately thereafter market observers outside of SSB characterized the company as "look[ing] shaky" and questioned Global Crossing's ability to continue as a going concern. (Analysts See Going-Concern Issues for Global Crossing, Dow Jones News Service, Oct. 4, 2001) ("[Global Crossing] said $1.7 billion of the company's $2.4 billion in cash came from a recently drawn bank revolver facility. Analysts said they are concerned about the amount of cash the company has been spending, the effect of the slowing economy, and the possibility that [Global Crossing] could find itself in default on loan covenants attached to older debts."). However, even then, SSB and Grubman maintained a "Buy" rating on the stock.

999. On October 1, 2001, Grubman published his analyst report titled "GX: Update on Liquidity Outlook; GX gets thru 02 under any reas. scenario." Grubman reiterated his "Buy" rating on Global Crossing stock but reduced his target price from $30.00 to $5.00.

1000. In his report, Grubman reassured investors of the soundness of investing in Global Crossing despite the bankruptcy of Exodus Communications. Exodus was the Company to which Global Crossing had sold its Global Center business for 6.5 billion in Exodus stock just a year earlier. Grubman had called the deal a "home-run" for Global Crossing. Grubman indicated that "we do not believe that EXDS will have a significant impact on GX's results or cash flow and funding situation."

1001. Grubman also dispelled fears that Global Crossing was also a bankruptcy candidate. He wrote:
The bottom line is we believe that GX is not a potential bankruptcy candidate in the near term, with about $2.1 billion of cash and equivalents on its balance sheet at the end of Q2'01 and $1.7 billion available under their credit facility... If GX has a flat EBITDA in 2002 it will end 2002 with excess liquidity of almost $400 million and even under a scenario of a 50% drop in EBITDA (incorporating a 75% decline in IRUs) GX is breakeven or slightly positive in terms of yearend 2002 liquidity. Thus to argue GX is in immediate danger of insolvency is incorrect given that under rather draconian forecasts, GX can clearly make it through 2002.

1002. Citing the “weaken ing economy” Grubman reduced his price target from $30 to $5. He wrote:

Acknowledging that the stock is below $2 and there needs to be clarity on the business outlook as well as the balance sheet, we are reducing our price target to $5 from a very stale $30. This price target represents two and a half times current levels and implies firm value to adjusted EBITDA of 7.2x, essentially in-line with incumbent telecom carriers. While GX has an array of global network assets, unmatched by most incumbent telcos and, we believe, superior growth potential, nonetheless, it is highly leveraged with legitimate questions over its fully funded status if there were to be material slippage in business metrics and/or unforeseen surprises with respect to other sources of liquidity.

1003. It is clear from internal emails circulated by executives of Asia Global Crossing that even Grubman’s downgrade to $5 was aggressive and unsupportable. In an October 1, 2001 email from Bruce Comer to Legere, Riesenfeld, and Scanlon, Comer states, “grubman just dropped GX to $5. apparently [sic] broke internal ssmb rules to keep it that high.”

1004. Grubman’s statements were false and misleading because:

a. Grubman had no factual basis for his assurance to investors that “Global Crossing was not a potential bankruptcy candidate in the near term, with about $2.1 billion of cash and equivalents on its balance sheet at the end of Q2’01 and $1.7 billion available under their credit facility.” Grubman intentionally or recklessly disregarded that that the so called “cash” on Global Crossing’s balance sheet was, in large part, bogus “cash revenues” from
capacity swap transactions which, throughout 2000 and 2001 improperly gave investors the false
impression that Global Crossing’s capacity sales were generating cash;

b. In stating that “we are reducing our price target to $5 from a very stale
$30” Grubman impliedly admitted that the $30 target stock price that he had maintained since
May 10, 2001, was completely lacking in factual basis. Moreover, Grubman’s $5.00 stock price
also lacked any factual basis because Global Crossing was on the verge of bankruptcy, had
depleted its cash reserves and its assets were devalued because of declines in the demand for and
pricing of capacity.


1005. On November 14, 2001, on the heels of Global Crossing’s Q3’01 earnings
announcement, Grubman finally reduced his rating on Global Crossing from a “Buy” to
“Neutral”. He further reduced his target share price for Global Crossing stock from $5 to $1.
Thus, Grubman’s had reduced his target price for Global Crossing’s stock, within a six-period
period, from $70 per share to $1 per share, encouraging investors to purchase Global Crossing
shares during that entire period.

1006. Grubman completely reversed his claim that “GX can clearly make it through
2002” written in the October 1, 2001 report and instead concluded:

We are reducing our Q4 and 2002 estimates in light of the results of Q3
and the guidance provided. Our new Q4’01 cash revenue estimate from
recurring operations is $808 million, down from our previous estimate of
$976 million and our adjusted EBITDA estimate is a loss of $177 million
versus positive $22 million previously. In 2002, we are reducing our cash
revenue estimate from $4 billion to $3.5 billion and our adjusted EBITDA
estimate from positive $177 million to a loss of $251 million. Thus,
relative to guidance we much more conservative and will update our
estimates when rate visibility is provided on the IRU business and the cost
control efforts. Based on our new, more conservative estimates, GX will
need to raise additional cash during 2H’02 . . . Consequently, GX’s
survival has been called into question as well as whether or not the
company’s equity will retain any value.
In effect, despite touting Global Crossing’s stock throughout 2001, emphasizing that the Company’s strength lay in its fully-funded status, and robust growth, Grubman had completely reversed his position in the span of six weeks. The investors whom he had advised throughout 2001 to buy Global Crossing, aggressively, were now being told that it was questionable whether the equity they had purchased “would retain any value.”

C. SSB’s Reports on Asia Global Crossing Were False and Misleading and Intentionally or Recklessly Failed to Disclose the Company’s Accounting Improperites.

As specifically alleged above, Grubman’s and Gochuico’s research reports materially impacted and acted to artificially inflate the price of Global Crossing securities. However, SSB’s ability to materially impact the price of a company’s shares was not limited to Global Crossing.

SSB extended its efforts to boost the stock price of the Global Crossing empire by issuing materially false and misleading analyst reports regarding Asia Global Crossing as well. Rohit Sobti (“Sobti”), SSB’s analyst in Hong Kong, led SSB’s reporting on Asia Global Crossing and together with Grubman touted Asia Global Crossing’s concocted non-GAAP figures. Each of Sobti’s reports indicated that “Salomon Smith Barney is a registered broker-dealer. It is a member of Citigroup, Inc. and is affiliated with Citibank N.A., and its subsidiaries and branches worldwide.”

Based on Asia Global Crossing’s inflated cash revenue figures, SSB maintained a buy rating on Asia Global Crossing until October of 2001, regularly pushing Asia Global Crossing stock with a “target price” of $20.00 per share, and issuing glowing reports about Asia Global Crossing’s supposed financial success, all the while knowing that Asia Global Crossing’s finances, like that of its majority shareholder Global Crossing, were a complete sham.
Like Global Crossing, Asia Global Crossing emphasized certain non-GAAP metrics, specifically “Proportionate Cash Revenue” and “Proportionate Adjusted EBTIDA”, as more accurate indicators of the Asia Global Crossing’s performance and cash flow than GAAP data even though these metrics did not actually reflect the company’s cash flow or true earnings. SSB’s analysts, Sobti and Grubman, in reporting and emphasizing the reliability of this data over GAAP metrics, either intentionally misled investors about the accuracy of this data, or were reckless in touting data that they should have known was false and misleading.

In addition to emphasizing Asia Global Crossing’s false and misleading financial indicators over GAAP metrics, SSB’s analysts made unfounded claims about Asia Global Crossing’s performance, purporting to be facts, but which had no actual basis in fact. In doing so, these analysts either intentionally or recklessly misrepresented Asia Global Crossing’s true financial condition.

**January 2001 Analyst Reports**

On January 12, and January 18, 2001, Sobti issued two glowing research reports for Asia Global Crossing titled “Company Visit – We’re on Schedule” and “Tycom’s IQ Reinforces Our AGCX Rating”, respectively. In each report, Sobti rating Asia Global Crossing a “Buy, Medium Risk” and set a target price on the stock at $20.00 per share. Asia Global Crossing’s stock was trading between $7 and $9 per share.

In the January 12th report, Sobti reported that Asia Global Crossing was the “top telecom pick for the region” with “an unparalleled network, first-mover advantage and explosive market potential.” Sobti indicated that Asia Global Crossing had already sold four STM-1s on Asia Global Crossing’s East Asia Crossing (EAC) to Cable & Wireless. In fact, this reported “sale” to Cable & Wireless was a swap transaction in which Asia Global agreed to purchase 4 STM-1s from Cable & Wireless on the Southern Crossing network.
While Sobti expressed concern about demand for capacity in the area and pricing of capacity, an issue which he said was raised with Alex Ng, he discounted these concerns by reporting that AGC was experiencing slower-than-expected price declines and "price were 10-15% better than expected."

In the January 18th report, Sobti stated that "We remain extremely positive about the bandwidth space in Asia Pacific, and we believe AGC is extremely well placed to exploit this demand and supply gap. With the first mover advantage that the company has in the region, we believe AGC's economic model is excellent. On a growth adjusted basis, the stock is still trading at 0.54 times its 2000E-2005E EBITDA CAGR. We therefore reiterate our Buy (1M) rating on AGC with a price target of $20.00".

Sobti's positive spin on the stock was linked to an announcement by Tycom, another bandwidth supplier, that it had sold $82.5 million worth of capacity on its Transatlantic system. According to Sobti, "this suggests to us that demand for higher capacity sales is increasing." He explained, "This bodes well for AGC's position in the region. As the largest capacity system in the region currently, we believe AGC is best placed to make high capacity sales right now. . . . The latest STM-4 sale to C&W supports this, and the pricing seems in line with our expectations of US$2.04 per STM-1 on EAC."

Sobti's statements were false and misleading because:

a. In reporting that "Asia Global Crossing had already sold four STM-1s on Asia Global Crossing's East Asia Crossing (EAC) to Cable & Wireless," Sobti failed to disclose, either intentionally or recklessly, that Asia Global Crossing had actually engaged in a capacity swap with Cable & Wireless, in which no net revenue was realized by Asia Global Crossing;
b. In reporting that “we believe AGC is best placed to make high capacity sales right now . . . . The latest STM-4 sale to C&W supports this, and the pricing seems in line with our expectations of US$2.04 per STM-1 on EAC” Sobti failed to disclose, either intentionally or recklessly, that the price for capacity was negotiated in the context of a swap transaction and did not accurately reflect the fair market value of the capacity and that Asia Global Crossing’s “high capacity sales” evidenced by the C&W transaction were not sales, but swap transactions;

c. Sobti had no reasonable factual basis to set a targeted stock price for Asia Global Crossing’s stock at $20.00 and, in setting that price, Sobti intentionally or recklessly disregarded facts indicating that bandwidth supply would outpace demand and cause declines in the prices of bandwidth.

2. February 9, 2001 Analyst Report

1019. On February 9, 2001, Sobti released an analyst report titled “4Q Results Preview”. The report was jointly authored by Grubman. The report maintained Sobti’s “Buy, Medium Risk” rating on Asia Global Crossing’s stock and his $20.00 target price. The stock was trading at $9.50.

1020. Sobti and Grubman’s report highlighted Asia Global Crossings “Proportionate Cash Revenue” and “Proportionate Adjusted EBITDA”. Sobti and Grubman reported that AGC’s total Proportionate Cash Revenue for YTD Q2 was $150.9 million, for 3Q00, was $57.7 million, and for YTD Q3, was $208.6 million. They also reported that its Proportionate Adjusted EBITDA was $77.6 million for YTD Q2, $9.0 million for 3Q 00, and $86.6 million for YTD Q3.

1021. Sobti and Grubman reported:

We expect sales on PC-1 to be on track to meet our expectations of US$26.2 million for the quarter. For the full-year 2000, we estimate AGC to have sold 114 STM-1s on PC-1, and we expect pricing to have declined 30.4% over the year.
For GAL, we expect revenues of USUS$7.9m. AGC standalone revenues in 4Q are expected to be US$26m a result of presales on EAC declared at the time of the 3Q announcement. This amount corresponds to a 30% “deposit” paid by customers in advance of activation of the system.

1022. In describing their projections for Asia Global Crossing, Sobti and Grubman cited only “Proportionate Adjusted EBITDA” and “Proportionate Cash Revenue”:

1023. Sobti and Grubman also reported that as among the list of Asia Global Crossing’s achievements over the previous two months as included “landmark sales such as the STM-4 to Cable & Wireless on EAC” which “by any standards are not trivial achievements.” Sobti and Grubman concluded that, “We remain bullish on the prospects of the space in which AGC operates and its position within that space.”

1024. Sobti and Grubman’s statements were false and misleading because:

a. Sobti and Grubman intentionally or recklessly disregarded that Asia Global Crossing’s “pro forma” disclosures gave a false impression of the its cash flow because, Asia Global Crossing was engaged in the practice of swapping capacity with other carriers. The revenue that Asia Global Crossing supposedly generated through these IRU swaps was termed “Proportionate Cash Revenue” which was defined as “revenue plus the change in deferred revenue”. However, in an IRU swap, Asia Global Crossing would simply exchange capacity for capacity. Although Asia Global Crossing and its IRU swap partners, would, in some instances, trade equal, or nearly equal, amounts of cash in a given transaction, the use of the term “Proportionate cash revenue” improperly gave investors the false impression that Global Crossing’s capacity sales were generating cash;

b. In stating that “we expect sales on PC-1 to be on track to meet our expectations of US$26.2m for the quarter”, Grubman and Sobti either intentionally or recklessly
failed to disclose the fact that Asia Global Crossing needed to sell 90% of its capacity on PC-1 just to pay for its costs of construction; and

c. Sobti and Grubman had no reasonable factual basis to set a targeted stock price for Asia Global Crossing’s stock at $20.00 and, in setting that price, they intentionally or recklessly disregarded facts indicating that bandwidth supply would outpace demand and cause declines in the prices of bandwidth.

3. **February 13, 2001 Analyst Report**

On February 13, 2001, Grubman co-authored a second report with Sobti titled “4Q00 results just out. In their report, they maintained the “Buy, Medium Risk” rating on Asia Global Crossing stock and their $20.00 target price.

According to Grubman and Sobti, Asia Global Crossing’s reported numbers “significantly beat our expectations for the company.” Their reports on Asia Global Crossing’s non-GAAP financials were ecstatic: “Proportionate cash revenue at US$112.3m was an increase of 95% and proportionate adjusted EBITDA at US$49.2m implies an increase of 447% over 3Q00. 2001 guidance (and our estimates) suggests almost doubling of Proportionate Cash Revenues and a 76% increase in proportionate adjusted EBITDA over 2000.” They revised their non-GAAP figures for 4Q00 from $89.4 million and $284.5 million for proportionate adjusted EBITDA and proportionate Cash Revenue, respectively to $135.9 million and $321.8 million, respectively.

Grubman and Sobti’s statements were false and misleading because:

a. In reporting that “Proportionate cash revenue at US$112.3m was an increase of 95% and proportionate adjusted EBITDA at US$49.2m implies an increase of 447% over 3Q00”, Grubman and Sobti intentionally or recklessly disregarded that these “pro forma” disclosures gave a false impression of Asia Global Crossing’s cash flow because, as they knew,
Asia Global Crossing was engaged in the practice of swapping capacity with other carriers. The revenue that Asia Global Crossing supposedly generated through these IRU swaps was termed "Proportionate Cash revenue" which was defined as "revenue plus the change in deferred revenue". However, in an IRU swap, Asia Global Crossing would simply exchange capacity for capacity. Although Asia Global Crossing and its IRU swap partners, would, in some instances, trade equal, or nearly equal, amounts of cash in a given transaction, the use of the term "Proportionate Cash Revenue" improperly gave investors the false impression that Asia Global Crossing's capacity sales were generating cash; and

b. Sobti and Grubman had no reasonable factual basis to set a targeted stock price for Asia Global Crossing's stock at $20.00 and, in setting that price, they intentionally or recklessly disregarded facts indicating that bandwidth supply would outpace demand and cause declines in the prices of bandwidth.

4. April 10, 2001 Analyst Report

1028. On April 10, 2001, Sobti continued SSB's glowing reports on Asia Global Crossing and the emphasis on Asia Global Crossing's non-GAAP finances with this report titled "Now We're Talking Wavelengths." In his report, Sobti maintained his "Buy, Medium Risk" rating on the stock and his target price of $20.00 per share. The stock was trading at $3.50.

1029. In the report, Sobti relayed Asia Global Crossing's announcement that it had reached an agreement with Deutsche Telekom to supply two 2.5 Gbps wavelengths, with an option for Deutsche Telekom to buy another two 2.5 Gbps. Reflecting on the transaction, Sobti writes:

The sale of these wavelengths has several implications for the region and for AGC.

First, that world-class carriers are buying such large volumes of bandwidth implies that the demand side of the story stacks up fine. We don't think
that this is one-off sale that may not be seen again. Recall that earlier this year, AGC also made a STM-4 sale to C&W that we are not seeing a trend emerging of large volume sales in the region. The Atlantic has been experiencing such a trend for a while now and we remain confident that Asia is on the same track.

1030. The report reiterated Asia Global Crossing’s FY 2000 results showing proportionate adjusted EBITDA of $139.9 million and proportionate Cash Revenue of $321.8 million and concluded, “AGCX is trading at its lowest since the IPO. And at a time when the company is delivering on the promises it made at its IPO and then some. This is a disconnect we can't reason with.”

1031. The effects of SSB’s optimistic analyst reports on the market were obvious. For example, on April 9, 2001 Asia Global Crossing’s stock closed at $3.50 a share, largely in response to the overly optimistic SSB analyst report. By the close of trading on April 11, 2001, the price had climbed to $4.50 a share.

1032. Sobti statements were false and misleading because:

a. In highlighting that “world-class carriers are buying such large volumes of bandwidth implies that the demand side of the story stacks up fine” Sobti intentionally, or recklessly, failed to disclose that Asia Global Crossing’s large volume sales were capacity swaps with other carriers and that these sales would not be recurring;

b. In reporting that Asia Global Crossing’s FY 2000 results showed “proportionate adjusted EBITDA of $139.9 million and proportionate Cash Revenue of $321.8 million”, Sobti failed to disclose that these indicators gave a false impression of Asia Global Crossing’s cash flow because Asia Global Crossing was engaged in the practice of swapping capacity with other carriers. The revenue that Asia Global Crossing supposedly generated through these IRU swaps was termed “Proportionate Cash revenue” which was defined as
“revenue plus the change in deferred revenue”. However, in an IRU swap, Asia Global Crossing would simply exchange capacity for capacity. Although Asia Global Crossing and its IRU swap partners, would, in some instances, trade equal, or nearly equal, amounts of cash in a given transaction, the use of the term “Proportionate Cash Revenue” improperly gave investors the false impression that Asia Global Crossing’s capacity sales were generating cash; and

c. Sobti had no reasonable factual basis to set a targeted stock price for Asia Global Crossing’s stock at $20.00 per share and, in setting that price, he intentionally or recklessly disregarded facts indicating that bandwidth supply would outpace demand and cause declines in the prices of bandwidth.

5. April 18, 2001 Analyst Report

1033. On April 18, 2001, Sobti issued a report titled “Transpacific Supply Rationalizes” in which he maintained his “Buy, Medium Risk” rating on Asia Global Crossing and his target price of $20.00. Asia Global Crossing’s stock was trading at $4.49 per share.

1034. In this report, Sobti reiterated Asia Global Crossing’s Year 2000 proportionate Cash Revenue and Proportionate Adjusted EBTIDA as $321.8 million and $135.9 million, respectively. He described an announcement by FLAG Telecom and Tycom to jointly build capacity in Asia, rather than build separate systems, and emphasized that this was a positive development for Asia Global Crossing:

AGCX is moving full steam ahead. We believe the recent sale of US$70m worth of capacity to StarHub in Singapore and the sale of wavelength to Deutsche Telekom are indications of this view. Now there seems to be a clear realignment on the supply side of the business with the Tycom and Flag deal. We reiterate that not only do the subsea economics appear to favor AGCX, the company is executing well beyond what we had expected.

1035. On April 19, 2001, Asia Global Crossing’s stock had ascended to $6.07 a share.
Sobti’s statements were false and misleading because:

a. In touting Asia Global Crossing’s sales of capacity and highlighting its FY 2000 “Proportionate Cash Revenues” and “Proportionate Adjusted EBITDA”, Sobti either intentionally or recklessly failed to disclose that a significant proportion of Asia Global Crossing’s sales were in the form of capacity swaps, and that these transactions artificially boosted its so-called “Proportionate Cash Revenues” and “Proportionate Adjusted EBITDA” creating the false impression that the company was experiencing an increase in cash flow; and

b. In touting sales of capacity by Asia Global Crossing as evidence that the company was “moving full steam ahead” Sobti either intentionally or recklessly failed to disclose that Asia Global Crossing’s sales of capacity were in the form of capacity swaps, which were non-recurring sales, and which did not increase the company’s cash flow; and

c. Sobti had no reasonable factual basis to set a targeted stock price for Asia Global Crossing’s stock at $20.00 per share and, in setting that price, he intentionally or recklessly disregarded facts indicating that bandwidth supply would outpace demand and cause declines in the prices of bandwidth.


On May 3, 2001, Sobti issued his report titled “1Q01 Results Review” which reported on Asia Global Crossing’s first quarter results. The report reiterated his “Buy, Medium Risk” rating on Asia Global Crossing stock and his target price of $20.00 per share. Asia Global Crossing’s stock was trading at $7.05 per share.

Sobti relayed Asia Global Crossing’s results highlighting that “[r]eported numbers substantially beat not only our expectations but the company’s own guidance.” Sobti wrote:

Proportionate Cash Revenue (PCR) at US$205.5m is an increase of 113.6% and Proportionate Adjusted EBITDA (PA EBITDA) at US$147.6m implies an increase of 138.4% over 1Q00. In contrast, we
were expecting PCR of US$103m and US$37.8m PA EBITDA for the quarter.

1039. Explaining Asia Global Crossing’s above guidance results, Sobti wrote:

The difference in the numbers reported by the company and what we were expecting comes largely from significant advances on the customer acquisition front. The company has sold large capacities to two anchor tenants (unnamed so far) on EAC. These do not include Deutsche Telekom’s wavelength sale as that sale was made in 4Q00 although the approval for announcing the transaction from DT was received only recently. In addition, capacity commitments made by some customers to Global Crossing were passed on to AGCX and such sales accounted for US$148m of the quarter’s proportionate cash revenues.

1040. Sobti also cited the Company’s GAAP revenues which “were in line at US$9.5m in Q1 01.” He explained, “The key reason for this is that the company is allowed to recognize such revenues only at the time the customer requests activation of the capacity itself. Typically, customers end up buying capacity in advance of their actual utilization and thus the recognized revenues tend to lag the cash receipts by AGCX for such sales.”

1041. Sobti also reported that “capex for the quarter totaled $247.3m, which included US$163.7m for EAC. This is in line with our estimates for the company.”

1042. Sobti concluded:

AGCX’s execution scorecard is impressive and the company has been replicating this quarter on quarter. In 1Q01, the company signed its joint ventures in Korea and Singapore (which includes a US$70m capacity commitment from StarHub and Singapore Technologies). In addition, the company has altered the nature of the game by making the first wavelength sale in the region, upping the ante for performance metrics. On top of this, the company remains fully funded and continues to post strong results each quarter. We believe that such combinations are rare in the bandwidth space in general and this certainly seems true for the Asian bandwidth market. We continue to be positive on the prospects for AGX and we reiterate our Buy (1M) rating with a price target of US$20 per share.
Sobti’s statements were false and misleading because:

a. In reporting that Asia Global Crossing’s “Proportionate Cash Revenue (PCR) at US$205.5m is an increase of 113.6% and Proportionate Adjusted EBITDA (PA EBITDA) at US$147.6m implies an increase of 138.4% over 1Q00”, Sobti failed to disclose that these indicators gave a false impression of Asia Global Crossing’s cash flow because Asia Global Crossing was engaged in the practice of swapping capacity with other carriers. The revenue that Asia Global Crossing supposedly generated through these IRU swaps was termed “Proportionate Cash revenue” which was defined as “revenue plus the change in deferred revenue”. However, in an IRU swap, Asia Global Crossing would simply exchange capacity for capacity. Although Asia Global Crossing and its IRU swap partners, would, in some instances, trade equal, or nearly equal, amounts of cash in a given transaction, the use of the term “Proportionate Cash Revenue” improperly gave investors the false impression that Asia Global Crossing’s capacity sales were generating cash;

b. In touting sales of capacity by Asia Global Crossing to two “anchor tenants” and reporting $148 million of capacity sales by Global Crossing as being transferred to Asia Global Crossing, Sobti either intentionally or recklessly failed to disclose that these so-called sales of capacity were in the form of capacity swaps, which were non-recurring sales, and which did not increase the company’s cash flow;

c. In rationalizing why Asia Global Crossing’s GAAP revenues were flat compared to its “Proportionate Cash Revenues” (“PCR”), Sobti falsely stated that “customers end up buying capacity in advance of their actual utilization and thus the recognized revenues tend to lag the cash receipts by AGCX for such sales” when in fact, the reason that GAAP revenues lagged behind PCR was because PCR included as cash revenue sales of capacity
attributable to capacity swaps, and that the so called “cash receipts” for these sales did not increase the company’s cash flow;

   d. In reporting that Asia Global Crossing’s capital expenditures for the quarter totaled $247.3 million, Sobti either intentionally or recklessly failed to disclose that these capital expenditures were related to Asia Global Crossing’s capacity swaps with other carriers; and

   e. Sobti had no reasonable factual basis to set a targeted stock price for Asia Global Crossing’s stock at $20.00 per share and, in setting that price, he intentionally or recklessly disregarded facts indicating that bandwidth supply would outpace demand and cause declines in the prices for bandwidth.

7. **May 31, 2001 Analyst Report**

1044. On May 31, 2001, Sobti published a report titled “Asian Demand Data Point” in which he reiterated his “Buy, Medium Risk” rating on Asia Global Crossing and his $20.00 target price for the stock. The stock was trading at $6.10 per share.


1046. Sobti’s report focused on an analyst briefing by a company called C2C, a competitor of Asia Global Crossing which was also building an undersea broadband network. Sobti wrote:

According to the C2C presentation, grossed-up market demand for STM-1s in Asia by 2005 is 24,784. In our estimates for AGCX, we estimate the Asian market size to be 3,172 STM-1s. C2C thus estimates demand to be 7.81 times higher than our figure (assuming these estimates are for Asia alone (ex Pacific). Even if C2C data includes the Pacific, its estimates are 2.67 times higher than ours . . . If we use C2C's data points, leaving everything else uncharged, our fair value for AGCX would go up from
US$20 to US$29.65. We are not changing our target price, but if C2C is right AGCX is worth 50% more than we have estimated.

1047. Sobti suggested that the C2C estimates formed a basis to view AGCX's worth at substantially more than the value that SSB had accorded to it. He wrote:

The C2C estimates seem high to us and we'd rather stick to our conservative ones. However, if we were to replace our grossed-up demand for AGCX with suggested by C2C, we find that our DCF [Discounted Cash Flow] for AGCX would rise to US$30 to US$54 per share. Since our target price for AGCX is based on a hybrid of DCF and EBITDA multiples (both static and growth adjusted), the resultant target price is US$29.65 compared to the current US$20 per share . . . . The point we're making is that if the market demand is what C2C presentation suggests, AGCX is worth substantially more than our current estimates. We reiterate that this is only sensitivity and not a change in the target price.

1048. Sobti concluded, “The demand for bandwidth exists and even using our conservative estimates for market size, we believe that AGCX is undervalued at the current share price. We reiterate our Buy (1M) rating with a US$20 price target.”

1049. Sobti’s statements were false and misleading because:

a. Sobti had no reasonable factual basis to set a targeted stock price for Asia Global Crossing’s stock at $20.00 per share and, in setting that price, he intentionally or recklessly disregarded facts indicating that bandwidth supply would outpace demand and cause declines in the prices for bandwidth; and

b. In claiming that SSB’s model for valuating Asia Global Crossing was “conservative”, Sobti either intentionally, or recklessly disregarded that SSB’s model was actually aggressive, as evidenced by the email from Jan Marks to John Legere on August, 2000 in which Marks recommended to AGC’s executives that they “position the AGC model as conservative even though the resultant multiples look aggressive” and describes how Grubman has done the same with his reporting on Tycom.

1050. On June 19, 2001, Sobti issued a report titled “Bringing in IXNet’s Asian Ops.” In this report, Sobti reiterated his “Buy, Medium Risk” rating and his US$20.00 target price on Asia Global Crossing stock. The stock was trading at $5.95 per share.

1051. Sobti’s report focused on Asia Global Crossing’s purchase of Global Crossing’s Asian operations of IXNet and IPC for US$26.82 million in Asia Global Crossing Class B shares. According to Sobti, the purchase of these assets was “extremely positive” and despite the decline in the price of Asia Global Crossing’s stock to $5.95, he revised SSB’s pro forma estimates for Asia Global Crossing:

We now estimate service revenues to contribute around 25% of total Proportionate Cash Revenues (PCR) for AGCX by 2005. . . . We are revising FY01E PCR upward to US$647.4m from US$611.9m. As IXNet is in build stage, our FY01E Proportionate Adjusted EBITDA has been reduced to US$218.0m from US$239.7m. Our long-term PCR estimates have gone up in the range of 5-6.5% each year while PA EBITDA estimates increase in the range of 2-2.8%, albeit with a reduced estimate for FY02.

1052. Sobti’s statements were false and misleading because:

a. In citing to Asia Global Crossing’s “Proportionate Cash Revenue” and “Proportionate Adjusted EBITDA”, Sobti failed to disclose that these indicators gave a false impression of Asia Global Crossing’s actual cash flow because Asia Global Crossing was engaged in the practice of swapping capacity with other carriers. The revenue that Asia Global Crossing supposedly generated through these IRU swaps was termed “Proportionate Cash revenue” which was defined as “revenue plus the change in deferred revenue”. However, in an IRU swap, Asia Global Crossing would simply exchange capacity for capacity. Although Asia Global Crossing and its IRU swap partners, would, in some instances, trade equal, or nearly equal, amounts of cash in a given transaction, the use of the term “Proportionate Cash Revenue”
improperly gave investors the false impression that Asia Global Crossing’s capacity sales were generating cash;

b. Sobti had no reasonable factual basis to set a targeted stock price for Asia Global Crossing’s stock at $20.00 per share and, in setting that price, he intentionally or recklessly disregarded facts indicating that bandwidth supply would outpace demand and cause declines in the prices for bandwidth.

9. August 1 and August 2, 2001 Analyst Reports

1053. On August 1, 2001, Sobti issued a report titled “AX 2Q01 Results Preview” and on August 2, 2001, he followed up this report with a second report titled “They’ve Done It Again.” Each report reiterated Sobti’s “Buy, Medium Risk” rating on Asia Global Crossing and affirmed his target price for its stock at US$20.00. The stock was trading at US$5.05 per share on July 30, 2001 and rose to $5.09 per share on August 1, 2001.

1054. Sobti’s August 1 report previewed Asia Global Crossing’s earnings announcement for the second quarter of 2001 and sought to reassure investors of the soundness of Asia Global Crossing’s business compared to its competitors in the market. He wrote:

Unlike others in this space, there have been no warnings from AX and we remain comfortable with our estimates for 2Q01 of US$98.6m Proportionate Cash Revenues (PCR) and US$18.7 Proportionate Adjusted EBITDA (PA EBITDA). Last quarter results were a blowout due to new anchor tenants and transfer of capacity by some of Global Crossing’s customers. But that is the nature of the business—it is lumpy—and we are assuming a steady flow of business for 2Q01 as opposed to large one-off sales. . . . As with 1Q01, Q2 has been marked with substantial execution news flow and we remain convinced that AX is on track to deliver what it promised at its IPO and then some.

1055. Sobti touted Asia Global Crossing’s first quarter Cash Revenue andAdjusted EBITDA of $205.5 million and $147.6 million, respectively, and rallied against a downward trend in the market on telecom stocks:
We are in an anti-telecoms environment. Investors are selling telecoms indiscriminately and fundamentals are often being ignored in this downward spiral. We believe that companies with the funding, the right assets and that can execute will eventually stand out from the rest and AX is one of the few that fits the bill. AX is delivering far more than investors valued the company at the time of the IPO. Despite that, it is trading at a discount to its IPO price. We disagree with the view of the market on the stock. On a growth-adjusted basis, AX is trading at 0.18x EV/FY01 EBITDA compared to the sector mean of 0.28x and we strongly reiterate our Buy (1M) rating on the stock with a US$20 price target.

The next day, August 2, 2001, following Asia Global Crossing’s earning announcement, Sobti reported:

For the third consecutive quarter, AX in 2Q01 reported tremendous numbers... AX reported US$192m Proportionate Cash Revenues (PCR) and US$123m Proportionate Adjusted EBITDA (PA EBITDA). AX guidance was US$80-100m and US$10-20m for the two metrics. Our estimates were US$98.6m PCR and US$18.7m PA EBITDA. The difference is mostly due to significant advances in new customers and much higher growth in the business.

Sobti, however, downplayed Asia Global Crossing's GAAP revenues. According to Sobti:

Although PCR was substantially higher than the company’s own guidance, GAAP revenues were in line at US$17.9m in 2Q01. The key reason for this is the company is allowed to recognize such revenues only at the time the customer requests activation of the capacity itself. Typically, customers end up buying capacity in advance of actual utilization and thus recognized revenues tend to lag cash receipts by AX for such sales.

Sobti summarized Asia Global Crossing’s second quarter performance over its guidance as follows:

<table>
<thead>
<tr>
<th>2001 Mid Point</th>
<th>Guidance</th>
<th>2Q01</th>
<th>Delta</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportionate Cash Revenue</td>
<td>90</td>
<td>192</td>
<td>113.33%</td>
</tr>
<tr>
<td>Proportionate Adjusted EBITDA</td>
<td>15</td>
<td>123</td>
<td>720.00%</td>
</tr>
<tr>
<td>Revenue</td>
<td>15</td>
<td>17.9</td>
<td>19.33%</td>
</tr>
<tr>
<td>---------</td>
<td>----</td>
<td>------</td>
<td>--------</td>
</tr>
<tr>
<td>Earnings (Loss) per Share</td>
<td>-0.15</td>
<td>-0.11</td>
<td>26.67%</td>
</tr>
</tbody>
</table>

1059. Sobti reported that AGX was received a large proportion of its Proportionate Cash Revenue from “recurring services”. He wrote:

Subsea contributed 36% of PCR in the quarter compared to 66% in 1Q01. Contributions from recurring services such as commercial data services, wholesale leases and OA&M contributed 34% . We wish to highlight two observations here. The first relates to pricing. Over the last two quarters, GAL [Global Access Ltd, a terrestrial system servicing Japan] contributions have been pretty flat at about 4% of PCR. No doubt the pie is bigger and volume at GAL is increasing. However, since capacity sales on PC-I are the core driver of GAL revenues, once can infer that IRU prices over the Pacific are softening. At the same time, the reported numbers would not have been as high if prices on EAC were not over-compensating for the weaker pricing over the Pacific. This sounds intuitive, as EAC is really the only intra-Asia system that offers a complete suite of services and connectivity. Thus, one can infer that capacity prices with the EAC territory have been firm at worst. Overall, the rate of decline of average STM-1 prices seems to be slowing for the sector and certainly so for AX.

1060. Sobti concluded that Asia Global Crossing was an exceptional bargain at its current prices. He wrote, “We don’t see any other player in the Asia-Pacific system delivering even half as much. On top of this, the company remains fully funded and continues to post strong results each quarter. We believe that such combinations are rare in the bandwidth space in general and this certainly seems true for the Asian bandwidth market. We remain positive on the prospects of AGCX and we reiterate our Buy (1M) rating with a price target of US$20 per share.”

1061. Sobti’s statements were false and misleading because:

a. In reporting that “AX reported US$192m Proportionate Cash Revenues (PCR) and US$123m Proportionate Adjusted EBITDA (PA EBITDA)”, Sobti failed to disclose
that these indicators gave a false impression of Asia Global Crossing’s actual cash flow because Asia Global Crossing was engaged in the practice of swapping capacity with other carriers. The revenue that Asia Global Crossing supposedly generated through these IRU swaps was termed “Proportionate Cash revenue” which was defined as “revenue plus the change in deferred revenue”. However, in an IRU swap, Asia Global Crossing would simply exchange capacity for capacity. Although Asia Global Crossing and its IRU swap partners, would, in some instances, trade equal, or nearly equal, amounts of cash in a given transaction, the use of the term “Proportionate Cash Revenue” improperly gave investors the false impression that Asia Global Crossing’s capacity sales were generating cash;

b. In attributing the growth in Asia Global Crossing’s PCR and PA EBITDA to “significant advances in new customers and much higher growth in the business”, Sobti either intentionally or recklessly failed to disclose that the growth in these indicators were attributable to capacity swaps with other carriers, which did not represent recurring revenues, or actual cash flow to the company;

c. In explaining why Asia Global Crossing’s GAAP revenues were “in line” with its estimates compared to PCR, which exceeded expectations, Sobti falsely stated that “customers end up buying capacity in advance of their actual utilization and thus the recognized revenues tend to lag the cash receipts by AGCX for such sales.” In fact, the reason that GAAP revenues lagged behind PCR was because PCR included as cash revenue sales of capacity attributable to capacity swaps, but the so called “cash receipts” for these sales did not increase the company’s cash flow;

d. In indicating that Asia Global Crossing’s “reported numbers would not have been as high if prices on EAC were not over-compensating for the weaker pricing over the
Pacific” and that “one can infer that capacity prices with the EAC territory have been firm at worst”, Sobti either intentionally, or recklessly, failed to disclose that in swapping capacity with other carriers, and recognizing revenue from such swaps, Asia Global Crossing was dictating the pricing for capacity at more than the market value of the capacity;

e. Sobti had no reasonable factual basis for his claim that Asia Global Crossing “remains fully funded” because, in fact, the Asia Global Crossing was experiencing a severe cash shortage, its parent company, Global Crossing, was also cash starved, and demand and pricing for capacity was declining; and

f. Sobti had no reasonable factual basis to set a targeted stock price for Asia Global Crossing’s stock at $20.00 per share and, in setting that price, he intentionally or recklessly disregarded facts indicating that bandwidth supply would outpace demand and cause declines in the prices for bandwidth.


1062. On October 3, 2001, Sobti published a report titled “Prodigy Follows Unpopular Parent” in which he affirmed his “Buy, Medium Risk” rating on Asia Global Crossing but lowered his “target price” on Asia Global Crossing to $8.00 per share from $20.00 per share. Asia Global Crossing’s stock price was $2.25 per share.

1063. Sobti’s report focused on the effect of Global Crossing’s stock price on the fortunes of Asia Global Crossing. He noted, “Asia Global Crossing (AX’s) stock movement has a high correlation . . . to that of its parent’s—Global Crossing (GX; US$1.90; IS). The market has been unwilling to give AX credit for its execution and repeated outperformance of street expectations. It seems that the market is pricing in the worst-case liquidity scenario for GX since the Chapter 11 filing of Exodus, and by inference this is construed as bad news for AX.”
Sobti relayed Grubman's reassurances about Global Crossing's solvency and argued that the market's application of GX's liquidity concerns to AX was unjustified. He wrote:

Our US analyst, Jack Grubman, argues that scenarios that range from flat year on year EBITDA to EBTIDA declines of 50-55% in 2002 straddle any likely or even worst-case eventuality. If GX has flat EBITDA in 2002 it will end that year with almost US$400m of excess liquidity. Even under scenario of a 50% drop in EBITDA (incorporating a 75% decline in IRUs), GX will break even or slightly positive in terms of year-end liquidity. Thus, to argue GX is in immediate danger of insolvency is incorrect, given that even under rather Draconian forecasts it make it through 2002. . . . Our view is that even though AX has operational links with its parent (which continue to remain very positive), the market's reaction to GX's liquidity concerns is unjustly being applied to AX. We think investors are worrying about AX's fully funded status in the vent the US$400m credit facility from GX becomes suspect. As previously mentioned, GX does not seem to be in any immediate insolvency danger. But our estimates show AX to be fully funded even in the absence of the US$400m facility.

To buttress his claims that AX's business plan was sound, Sobti pointed to a “breakthrough deal” that AX had executed with China Netcom (CNC) the previous week. According to Sobti, “Last week, AX announced that China Netcom (CNC) has agreed to purchase 4 2.5 Gbps wavelengths from AX. In a separate transaction, AX and CNC have also agreed to allow AX to interconnect 2.5 Gbps of capacity with CNC's domestic network—CNCNet. This will enable AX to connect its customers in the three most critical markets with China: Beijing, Shanghai and Guangzhou. We believe these transactions should have been viewed as immensely positive, but they were not.”

Sobti explained that SSB was changing its target price and estimates for Asia Global Crossing “to reflect the reality of the current anti-telecoms sentiment.” He wrote:

Our target price has always been based on a hybrid of DCF and EBITDA and growth adjusted EBITDA of comparables. Since the comparables have fallen anywhere from 60% to 80% in recent months, our target price
moves down mostly on this factor. We realize there is a circularity argument in this methodology, but it seems to us the best compromise between the current market sentiment and our fair value of the company. Accordingly, we are cutting our target price from US$20 to US$8 per share. . . . This target price revision is also driven by the cut in GX’s target price to US$5 by our US telecoms research team.

1067. Sobti concluded that AX was a sound investment choice and encouraged investors to buy its stock:

We believe the fundamentals of AX are only improving as time goes by. AX continues to be the only entity in the region to offer a complete suite of services on its own facilities and is gaining access to the core markets in the region substantially before its competitors. Such advantages are difficult to replicate in our view and we continue to prefer the business model of AX over that of other players in the space. However, market discounts any upside for the telecoms in general, and AX is driven by the concerns investors have for GX. We have never been in favor of indiscriminate buying or selling and we reiterate that AX is a sound franchise with robust growth prospects. We reiterate our buy.

1068. Sobti’s statements were false and misleading because:

a. Sobti had no reasonable factual basis to assure investors that Global Crossing was not facing a liquidity crisis. In writing that “if GX has flat EBITDA in 2002 it will end that year with almost US$400m of excess liquidity. Even under scenario of a 50% drop in EBITDA (incorporating a 75% decline in IRUs), GX will break even or slightly positive in terms of year-end liquidity”, Sobti intentionally or recklessly disregarded that that the so called “cash” on Global Crossing’s balance sheet was, in large part, bogus “cash revenues” from capacity swap transactions which, throughout 2000 and 2001 improperly gave investors the false impression that Global Crossing’s capacity sales were generating cash; and

b. In announcing Asia Global Crossing’s sale of capacity to CNC and representing that “In a separate transaction, AX and CNC have also agreed to allow AX to interconnect 2.5 Gbps of capacity with CNC’s domestic network”, Sobti intentionally, or
recklessly, failed to disclose that Asia Global Crossing’s transaction with CNC was a swap transaction, which did not improve Asia Global Crossing’s cash position;

11. **October 4, 2001 Analyst Report**

1069. On October 4, 2001, just two days after issuing a report with a “Buy, Medium Risk” rating on Asia Global Crossing stock, Sobti issued a report titled “Mother and Child Reunion” in which he downgraded Asia Global Crossing’s stock to a “Neutral, Speculative Risk” rating. The stock was trading at $1.15 per share.

1070. Sobti’s downgrade was based on the announcement by Global Crossing and Asia Global Crossing that the companies were considering a merger. Based on this possibility, Sobti wrote:

> Even as AX headed lower with its parent, we believe it would have been easy to make a compelling argument that AX is grossly undervalued. But with the announcement that AX could merge back with GX, that argument becomes irrelevant. The only reason investors bought in at the IPO of AX was due to its superior growth prospects and its pure Asian flavor. With AX merged into GX, that pure exposure to this high-growth market will become embedded deep inside GX’s, but we believe that investors seeking Asian exposure would rather do it through a pure play.

1071. He explained this downgrade from Buy to Neutral:

> Considering the fundamentals of the business, one could argue in favor of a substantially higher target price of AX than what it is trading at [sic]. But the uncertainty on the terms of the merger makes that argument less relevant for the time being. With the view that there would be compensation for the elimination of the pure play, yet also accounting for further downside in the immediate term, we believe that AX deserves a Neutral rating. This rating however is accompanied by a Speculative risk rating as opposed to the Medium one we had in the past. Accordingly, we are downgrading AX from a Buy (1M) to a Neutral (3S).

1072. Nevertheless, SSB was not ready to give up on Asia Global Crossing. In a report dated November 8, 2001, reporting on Asia Global Crossing’s third quarter 2001 performance,
SSB touted Asia Global Crossing's "substantially higher" financial performance — in non-GAAP terms — and reaffirmed SSB's professed confidence in the business:

The reported Proportionate Cash Revenue of US$128.9m for 3Q beat our estimate of US$127.8m marginally. . . . Proportionate Adjusted EBITDA, however, was substantially higher than our expectation of US$26.1m at US$41.4m. With this, AX has exceeded our FY01 estimate of US$284.7m by US$27.3m. . . . Despite the current economic environment AX is reporting solid numbers. This supports our view of the fundamentals of the business.


D. SSB Failed To Adequately Perform Its Due Diligence Obligations Because of Its Conflicts Of Interest

1074. Finally, SSB failed to adequately perform its due diligence obligation as underwriter of over $19 billion in Global Crossing and Asia Global Crossing debt and equity despite having received over $120 million in fees. Had SSB properly performed its due diligence on Global Crossing and Asia Global Crossing it would have found, inter alia, that:

a. the companies were improperly engaging in "round-trip" IRU sales that lacked economic value, but they were treating as legitimate sales;

b. the companies’ reported revenue was artificially inflated because they improperly accounted for IRU swap deals;

c. the companies materially overstated the value of their assets because they improperly accounted for IRU swaps using the fair value of the capacity exchanged instead of the historical or book value of the capacity relinquished;

d. the companies were acquiring useless capacity and lacked any legitimate business purposes for entering into IRU swap deals with other telecom companies;
e. the companies were running out of cash, while misrepresenting IRU swap deals as cash transactions, and falsely representing their cash position through misleading "pro forma" financial reports;

f. the companies grossly inflated the value of their networks by publishing false and misleading reports regarding revenue from IRU sales to other telecom companies;

g. the companies understated their cost of sales and thereby overstated their earnings, the value of the capacity available for sale, and the value of their property plant and equipment.

h. the companies’ business plans were unsustainable and “doomed” as described by Leo Hindery in his June 2000 memo.

1075. SSB intentionally or recklessly ignored these facts since disclosing them would have ended any prospect of SSB obtaining any business from Global Crossing or Asia Global Crossing.

1076. Despite their clear conflicts of interest, SSB served as an underwriter of Global Crossing and Asia Global Crossing securities and concurrently acted as a purportedly independent research analyst of the companies. Although SSB’s research reports contained boiler plate disclosure statements that it had managed or co-managed public offerings for the companies' securities or that it made a market in their securities, the investing public did not know and could not have known that SSB had access to material non-public information, that SSB was using its stock analysts as a sales tool to lure investment banking business, and that SSB’s analyst reports contained materially misleading statements or omissions regarding the financial position and prospects of the companies.
Indeed, such conflicts of interest became the target of enforcement actions by the Securities and Exchange Commission, the New York Attorney General, the National Association of Securities Dealers ("NASD") and other securities regulators. On April 28, 2003, the SEC, New York Attorney General, NASD, NYSE and other securities regulators announced a global settlement of enforcement actions against ten of the nation’s top investment banking firms, five of which were underwriters of the Asia Global Crossing IPO (Goldman Sachs, SSB, Merrill Lynch, CSFB, and Lehman). This settlement requires aggregate payments of $487.5 million in penalties, $387.5 million disgorgement, $432.5 million to fund independent research and $80 million to fund investor education. In addition to the monetary settlement, the firms are required to dramatically reform their practices, including separating research and investment banking departments at firms, how research is supervised, and making independent research available to investors. The enforcement actions allege that from mid-1999 (during the Class Period) all of the firms engaged in acts and practices that created or maintained inappropriate influence by investment banking over research analysts, thereby imposing conflicts of interest on research analysts. The allegations also included additional charges:

- CSFB, Merrill Lynch and SSB issued fraudulent research reports;
- CSFB, Goldman Sachs, Merrill Lynch and SSB issued research reports that were not based on principles of fair dealing and good faith and did not provide a sound basis for evaluating facts, contained exaggerated or unwarranted claims about covered companies, and/or contained opinions for which there were no reasonable bases;
- Morgan Stanley made undisclosed payments for research; and
- CSFB and SSB engaged in inappropriate spinning of "hot" IPO allocations.

E. SSB Brokers' Negative View Of Grubman

Perhaps the best commentary on Grubman comes from SSB's own brokers. Grubman's conflicted role as both investment banker and analyst had not gone unnoticed by
SSB's own brokers. As referenced in the complaint filed by Elliott Spitzer, the New York State Attorney General (the "Attorney General's Complaint") numerous former SSB retail brokers who worked with Grubman believed that his stock ratings were false and misleading. The following are representative examples of private comments that SSB's retail brokers made about Grubman during 2000 and 2001:

**Year 2000**

- "Jack Grubman is not an analyst - he is an investment banker. He sold us a bill of goods on WCOM & T, and now we're bleeding red in our clients' accounts. How about sharing some the $25MM salary with our clients who bought into his glorified stories? Whose team is Grubman on?"

- "Grubman is an absolute disgrace to our firm as an 'analyst'. Maybe as a 'banker' he makes the firm a lot of money, but on the retail side the damage he has caused is a disgrace! I hope many clients sue!"

- "I have nearly 24 years with the firm. It is obvious to many of us in the field that the 'Chinese Wall' between service to retail FC's and to Institutional Investment banking activities is not working out for many Retail FC's and their clients in this case. Pacific Gateway Exchange (PGEX) and AT&T(T) are but two examples of this. Suggestion: Allow Grubman to decide whether he wants to be a Research Analyst or an Investment Banker and give us in Retail segment independent analysis, uncluttered by anything other than whether or not a company's stock constitutes a good, great or terrible investment."

- "He put me as an advisor to clients in a very difficult position. My clients now question me if a stock we are recommending is an investment banking client. They asked me if we are recommending the stock because we want their banking business. Our blind support of banking (a la WCOM/T) is hurting our retail clients. With recent SEC company communication restrictions, analysis is more important than ever. We can not afford an overpriced cheerleader like Grubman."

- "Has cost millions of dollars for SSB clients, I am appalled that he is now in a position to profit from our clients' losses, through his WCOM investment (sic) banking function. This sends a strong message that retail clients and retail brokers don't matter."

- "To represent himself as an analyst is an egregious act by the management of this firm. Clearly many of his Buy and table-pounding Buys were directly related to investment banking $ for him and his firm . . . Shame on him, shame on the banking division, shame on the senior management of this firm."
• "Grubman is an investment bank whore! When is the firm going to stop pimping him?"

• "A perfect example of the unethical connection between research and investment banking."

Year 2001

• "[W]e’ve hired this person who has little regard for retail clients so the firm management reap higher banking revenues. Shame on us. It’s time to separate research analysis from investment banking as a policy of the firm. We have given our retail clients poor service by not adequately addressing the conflict of interest inherent in overlapping functions. Mr. Grubman is the most egregious example. He could not comment on Global Crossing as he was in the throes of a deal. When his commentaries came they were not timely and reflected little insight that was otherwise unavailable from public sources. Examples such as this make one less willing to use SSB research if you can’t fix it. I’m not going to inflict it on my clients, and then provide cover for you by trying to maintain confidence."

• "In my 16 years in the retail brokerage business, NEVER have I received such misguided, horrific recommendations from an analyst . . . Some of his calls may, perhaps, put us in positions where we have to defend ourselves legally. Why does management and our research department continually defend his advice. Your justification of the millions he brings to the firm in underwriting fees only reduces our confidence in our own research department but widens the conflict in interest gap between the brokers and the believability of our research opinions. Perhaps, as brokers, we should subscribe to Morningstar or ValueLine where research opinions are not based on influence by underwriting fees or the interest of the firm but on the best interest."

X. GLOBAL CROSSING’S AND ASIA GLOBAL CROSSING’S GUIDANCE TO SECURITIES ANALYSTS AND USE OF THEM TO PROVIDE FALSE INFORMATION TO THE SECURITIES MARKET

1079. As described below, among other wrongful conduct, Defendants communicated materially false and misleading information to securities analysts to promote the Company and to artificially inflate the price of Global Crossing securities during the Class Period.

1080. At all times relevant to this Amended Consolidated Class Action Complaint, Global Crossing and Asia Global Crossing were followed by securities analysts employed by
brokerage houses and/or broker/dealers which issued reports and made recommendations concerning Global Crossing's and Asia Global Crossing's securities to their clients.

1081. In writing these reports, these analysts, except SSB, Grubman and Gochuico, relied in substantial part upon information provided by the Company directly and through its public statements and reports and conference calls, and upon information provided to the analysts privately by the Individual Defendants and the Asia Global Crossing Individual Defendants and assurances by the Individual Defendants, the Asia Global Crossing Individual Defendants, the Company, and Asia Global Crossing that information in the analysts' reports did not materially vary from the companies' internal knowledge of its operations and prospects.

1082. Defendants used their communications with analysts to assure them that their estimates of Global Crossing's and Asia Global Crossing's business were accurate and that the companies were on track to achieve strong earnings and growth.

1083. Prior to and during the Class Period and the AGX Class Period, it was Global Crossing's and Asia Global Crossing's practice to have their top officers and directors, including the Individual Defendants and the Asia Global Crossing Individual Defendants, communicate regularly with various securities analysts and securities firms on a regular basis to discuss, among other things, the companies' operating results and anticipated revenues and to provide detailed "guidance" to these analysts and firms with respect to Global Crossing's and Asia Global Crossing's business and anticipated revenues and earnings. These communications included, but were not limited to, conference calls, meetings, and analyst briefings where the Individual Defendants and the Asia Global Crossing Individual Defendants discussed relevant aspects of the Companies' operations and financial prospects.
The Individual Defendants and the Asia Global Crossing Individual Defendants knew that by participating in these regular and periodic direct communications with analysts, the companies could disseminate information to the investment community and that investors would rely and act upon such information (i.e., make purchases and sales of the companies' securities). The Individual Defendants and the Asia Global Crossing Individual Defendants had these communications with analysts in order to cause or encourage them to issue favorable reports concerning Global Crossing and Asia Global Crossing — which the analysts did — and defendants used these communications to falsely present the operations and allegedly successful prospects of Global Crossing and Asia Global Crossing to the marketplace in order to artificially inflate the market price of both Global Crossing's and Asia Global Crossing's securities. Despite their duty to do so, the Individual Defendants and the Asia Global Crossing Individual Defendants failed to correct these statements of which they were the sources or which they had caused or facilitated during the Class Period and the AGX Class Period.

The investment community and, in turn, investors, relied and acted upon the information communicated in these written reports, many of which recommended that investors purchase Global Crossing and Asia Global Crossing securities and touted the purported appreciation prospects of the shares. Defendants manipulated and inflated the market price of Global Crossing and Asia Global Crossing securities by falsely presenting to analysts, through regular meetings and during both telephonic and written communications, the prospects of the companies and by failing to disclose the true adverse information about the companies that was known only to them.

During the Class Period and the AGX Class Period, the Individual Defendants and the Asia Global Crossing Individual Defendants occupied positions that made them privy to
non-public information concerning Global Crossing and Asia Global Crossing. Because of this access, the Individual Defendants and the Asia Global Crossing Individual Defendants knew that the adverse facts specified herein were being concealed and that the public statements being made by the companies were false.

XI. CLASS ACTION ALLEGATIONS

1087. This is a class action pursuant to Rule 23 of the Federal Rule of Civil Procedure on behalf of all persons and entities that purchased or otherwise acquired securities issued by Global Crossing Ltd., and its subsidiaries (including Global Crossing Holdings, Ltd.), during the Class Period (February 1, 1999 through and including January 28, 2002, and for purposes of the Settling Defendants, from February 1, 1999 through December 8, 2003) and that suffered damages thereby (the "Class"); and including a subclass of all persons and entities that purchased or otherwise acquired securities issued by Asia Global Crossing during the AGX Class Period (October 6, 2000 through and including November 17, 2002) and that suffered damages thereby (the "AGX Sub-Class"). Excluded from the Class and the AGX Sub-Class are defendants, the officers and directors of the Global Crossing and/or Asia Global Crossing, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

1088. The members of the Class and the AGX Sub-Class are so numerous that joinder of all members is impracticable. Throughout the Class Period and the AGX Class Period, Global Crossing and Asia Global Crossing common shares were actively traded on the NYSE and NASDAQ National Market. While the exact number of Class members and Sub-Class members are unknown to Plaintiffs at this time and can only be ascertained through appropriate discovery, Plaintiffs believe that there are thousands of members in the proposed Class and in the proposed AGX Sub-Class. In its Quarterly Report on Form 10-Q filed with the SEC on November 14,
2001, Global Crossing reported that it had over 888 million shares outstanding. In its Quarterly Report on Form 10-Q filed with the SEC on November 14, 2001, Asia Global Crossing reported that it had over 69 million shares outstanding. The names and addresses of record owners of Global Crossing stock and Asia Global Crossing stock and other members of the Class and the AGX Sub-Class may be identified from records maintained by Global Crossing, Asia Global Crossing, or their respective transfer agents and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

1089. Plaintiffs' claims are typical of the claims of the class members, will fairly and adequately protect the interests of the class members, and have retained counsel experienced in class action and securities litigation. Plaintiffs have no interests that are adverse or antagonistic to the Class or the AGX Sub-Class.

1090. A class action is superior to other available methods for the fair and efficient adjudication of this controversy. Because the damages suffered by many individual class members may be relatively small, the expense and burden of individual litigation makes it virtually impossible for the class members individually to seek redress for the wrongful conduct alleged.

1091. Common questions of law and fact exist as to all members of the Class and all members of the AGX Sub-Class and predominate over any questions solely affecting individual members of the Class and individual members of the AGX Sub-Class. Among the questions of law and fact common to the Class and the AGX Sub-Class are:

a. whether the federal securities laws were violated by defendants' acts as alleged herein;
b. whether the documents, press releases, and statements disseminated to the investing public and shareholders during the Class Period and the AGX Class Period omitted and/or misrepresented material facts about the business affairs, financial condition and future prospects of Global Crossing and/or Asia Global Crossing;

c. whether defendants acted willfully or recklessly in omitting to state and/or misrepresenting material facts about the financial condition, profitability and future prospects of Global Crossing and/or Asia Global Crossing;

d. whether the market price of the Global Crossing common stock, notes and preferred shares and Asia Global Crossing stock, during the Class Period and the AGX Class Period was artificially inflated due to the nondisclosures and/or misrepresentations complained of herein; and

e. whether the members of the Class and the AGX Sub-Class have sustained damages, and, if so, what is the proper measure thereof.

1092. Plaintiffs know of no difficulty which will be encountered in the management of this litigation which would preclude its maintenance as a class action.

XII. INAPPLICABILITY OF STATUTORY SAFE HARBOR

1093. As alleged herein, the Individual Defendants and the Asia Global Crossing Individual Defendants acted with scienter in that the they knew at the time they issued them that the public documents and statements issued or disseminated in the name of Global Crossing or Asia Global Crossing were materially false and misleading or omitted material facts; knew that such statements or documents would be issued or disseminated to the investing public; knew that persons were likely to reasonably rely on those misrepresentations and omissions; and knowingly and substantially participated or were involved in the issuance or dissemination of such statements or documents as primary violations of the federal securities law. As set forth
elsewhere herein in detail, the Individual Defendants and the Asia Global Crossing Individual Defendants, by virtue of their receipt of information reflecting the true facts regarding Global Crossing and Asia Global Crossing, their control over, and/or receipt of Global Crossing's and Asia Global Crossing's allegedly materially misleading misstatements and/or their association with the companies which made them privy to confidential proprietary information concerning Global Crossing and Asia Global Crossing which were used to inflate financial results and which defendants caused or were informed of, participated in and knew of the fraudulent scheme alleged herein. With respect to non-forward-looking statements and/or omissions, defendants knew and/or recklessly disregarded the falsity and misleading nature of the information which they caused to be disseminated to the investing public.

1094. Defendants' false and misleading statements and omissions do not constitute forward-looking statements protected by any statutory safe harbor. The statements alleged to be false and misleading herein all relate to facts and conditions existing at the time the statements were made. No statutory safe harbor applies to any of Global Crossing's or Asia Global Crossing's material false or misleading statements.

1095. Alternatively, to the extent that any statutory safe harbor is intended to apply to any forward-looking statement pled herein, the Individual Defendants and the Asia Global Crossing Individual Defendants are liable for the false forward-looking statement pled because, at the time each forward-looking statement was made, the speaker knew or had actual knowledge that the forward-looking statement was materially false or misleading, and the forward-looking statement was authorized and/or approved by a director and/or executive officer of Global Crossing or Asia Global Crossing who knew that the forward-looking statement was false or misleading. None of the historic or present tense statements made by the defendants was an
assumption underlying or relating to any plan, projection or statement of future economic performance, as they were not stated to be such an assumption underlying or relating to any projection or statement of future economic performance when made nor were any of the projections or forecasts made by the Individual Defendants and the Asia Global Crossing Individual Defendants expressly related to or stated to be dependent on those historic or present tense statements when made.

XIII. APPLICABILITY OF PRESUMPTION OF RELIANCE: FRAUD ON THE MARKET DOCTRINE

1096. At all relevant times, the market for Global Crossing’s securities was an efficient market for the following reasons, among others:

a. Global Crossing common stock traded in an efficient market initially on NASDAQ and subsequently on the NYSE during the Class Period. The average daily volume of Global Crossing shares was more than 10.4 million, calculated by downloading from the NASDAQ stock market web site (www.nasdaq.com) the daily volume of Global Crossing shares traded during the Class Period. The total number of shares traded during these 770 trading days was 8,053,983,951. This represents a weekly volume of 52,298,597 which constitutes more than 6.62% of the approximately 790 million shares outstanding during the Class Period;

b. As a regulated issuer, Global Crossing filed periodic public reports with the SEC;

c. Global Crossing regularly communicated with public investors via established market communication mechanisms, including through regular disseminations 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;
d. the market reacted to public information disseminated by Global Crossing;
e. Global Crossing was followed by numerous material securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace;
f. the material misrepresentations and omissions alleged herein would tend to induce a reasonable investor to misjudge the value of Global Crossing securities; and
g. without knowledge of the misrepresented or omitted material facts, Plaintiffs and the other members of the Class purchased or otherwise acquired Global Crossing securities between the time Defendants made the material misrepresentations and omissions and the time the truth was revealed, during which time the price of Global Crossing securities was inflated by Defendants' misrepresentations and omissions.

1097. At all relevant times, the market for Asia Global Crossing's securities was an efficient market for the following reasons, among others:

a. Asia Global Crossing common stock traded in an efficient market initially on NASDAQ and subsequently on the NYSE during the AGX Class Period. The average daily volume of Asia Global Crossing shares was approximately 737 thousand, calculated by downloading from the NASDAQ stock market web site (www.nasdaq.com) the daily volume of Global Crossing shares traded during the AGX Class Period. The total number of shares traded during these 529 trading days was 389,869,300. This represents a weekly volume of 3,684,965 which constitutes more than 5.34% of the approximately 69 million shares outstanding during the AGX Class Period;
b. As a regulated issuer, Asia Global Crossing filed periodic public reports with the SEC;

c. Asia Global Crossing regularly communicated with public investors via established market communication mechanisms, including through regular disseminations 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;

d. the market reacted to public information disseminated by Asia Global Crossing;

e. Asia Global Crossing was followed by numerous material securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace;

f. the material misrepresentations and omissions alleged herein would tend to induce a reasonable investor to misjudge the value of Asia Global Crossing securities; and

g. without knowledge of the misrepresented or omitted material facts, Plaintiffs and the other members of the Class purchased or otherwise acquired Asia Global Crossing securities between the time Defendants made the material misrepresentations and omissions and the time the truth was revealed, during which time the price of Asia Global Crossing securities was inflated by Defendants' misrepresentations and omissions.

1098. As a result of the foregoing, the market for Asia Global Crossing's securities promptly digested current information regarding Asia Global Crossing from all publicly available sources and reflected such information in Asia Global Crossing's securities prices.
Under these circumstances, all purchasers and acquirers of Global Crossing's securities during the Class Period suffered similar injury through their purchase or acquisition of Asia Global Crossing's securities at artificially inflated prices and a presumption of reliance applies.

1099. In addition to the foregoing, all class members are entitled to a presumption of reliance for the following further reasons:

a. As is more fully alleged above, defendants omitted, throughout the Class Period and the AGX Class Period, to disclose material information regarding Global Crossing's and Asia Global Crossing's business, financial status, financial results and business prospects;

b. Bond purchasers who purchased bonds that were issued by Global Crossing Holdings Ltd. and guaranteed by Global Crossing during the Class Period were entitled to and did rely on the integrity of the regulatory process. The filings made by defendants with regulatory authorities during the Class Period in connection with the initial issuance of such bonds contained material misstatements and omissions, as is more fully set forth hereinabove; and

c. As to bond purchasers during the Class Period, the "fraud created the market" doctrine applies. The fraud alleged herein was so pervasive that absent the fraud the bonds could not have been marketed. All bond purchasers during the Class Period relied on the integrity of the market. As a result of defendants' fraudulent conduct, the entire picture of the company's economic health and lawful character was skewed.
CLAIMS FOR RELIEF

COUNT I

Violation Of Section 10(b) of The Exchange Act
And Rule 10b-5 Promulgated Thereunder

(Against the Individual Defendants, Andersen (except Andersen Worldwide),
SSB, CIBC, Fagan, Grubman, McCaffrey, Gochuico)
(the “10b-5 Defendants”)

1100. Plaintiffs repeat and reallege each and every allegation contained above as if fully
set forth herein.

1101. This Count is asserted by all Plaintiffs on behalf of themselves and the Class
against all the 10b-5 Defendants and is based upon Section 10(b) of the Exchange Act, 15 U.S.C.
§78j(b), and Rule 10b-5, §240.10b-5, promulgated thereunder.

1102. During the Class Period, the 10b-5 Defendants carried out a plan, scheme and
course of conduct which was intended to and, throughout the Class Period, did: (a) deceive the
investing public, including Plaintiffs and other Class members, as alleged herein; (b) artificially
inflate and maintain the market price of Global Crossing’s securities; and (c) cause Plaintiffs and
other members of the Class to purchase or otherwise acquire Global Crossing’s securities at
artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct,
the 10b-5 Defendants, and each of them, took the actions set forth herein.

1103. The 10b-5 Defendants: (a) employed devices, schemes, and artifices to defraud;
(b) made untrue statements of material fact and/or omitted to state material facts necessary to
make the statements not misleading by use of means or instrumentalities of interstate commerce;
and (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit
upon the purchasers and acquirers of the Company’s securities in an effort to maintain artificially
high market prices for Global Crossing's securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5.

1104. The 10b-5 Defendants engaged in the fraudulent activity described above knowingly and intentionally or in such a reckless manner as to constitute willful deceit and fraud upon Plaintiffs and the Class. The 10b-5 Defendants knowingly caused their reports and statements to contain misstatements and omissions of material fact as alleged herein.

1105. As a result of the 10b-5 Defendants' fraudulent activity, the market price of Global Crossing securities was artificially inflated during the Class Period.

1106. In ignorance of the true financial condition of Global Crossing, Plaintiffs and other members of the Class, relying on the integrity of the market and/or on the statements and reports of Global Crossing containing the misleading information, purchased or otherwise acquired Global Crossing securities at artificially inflated prices during the Class Period.

1107. The market price of Global Crossing securities declined materially upon the public disclosure of the true facts which had been misrepresented or concealed as alleged herein.

1108. Plaintiffs' losses were proximately caused by Defendants' active and primary participation in Global Crossing's scheme to defraud the investing public by exaggerating reported revenue, overstating assets and fabricating cash flow. Plaintiffs purchased Global Crossing securities in reliance on the integrity of the market price of those securities, and Defendants manipulated the price of Global Crossing securities through their misconduct as described above. Further, Defendants' misconduct proximately caused plaintiffs' losses. Plaintiffs' losses were a direct and foreseeable consequence of defendants' failure to disclose and concealment of, inter alia, the true financial condition of Global Crossing, the true nature of Global Crossing's supposed revenue and cash position, and the true nature of the economically
worthless swap transactions that Global Crossing entered into with other telecom companies. Global Crossing ultimately collapsed because it did not have the actual cashflow and revenues necessary to achieve and maintain its business plan.

1109. Throughout the Class Period, Defendants were aware of material non-public information concerning Global Crossing's accounting manipulations including the worthless capacity swaps, false and misleading financial statements and moribund business model. Throughout the Class Period, Defendants willfully and knowing concealed this adverse information regarding Global Crossing's falsified revenue and overvalued assets, and Plaintiffs' losses were the foreseeable consequence of defendants' concealment of this information. The public disclosure of these accounting machinations caused Plaintiffs' losses.

1110. As a direct and proximate cause of the 10b-5 Defendants' wrongful conduct, Plaintiffs and other members of the Class suffered damages in connection with their respective purchases and sales of Global Crossing securities during the Class Period.

COUNT II

Violation of Section 20(a) of the Exchange Act

(Against the Individual Defendants, CIBC, and PCG)

1111. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

1112. The Individual Defendants, CIBC and PCG acted as controlling persons of Global Crossing within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their executive positions, Board membership and/or stock ownership, as alleged above, these Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the
various statements which Plaintiffs contend are false and misleading. The Individual Defendants, CIBC and PCG were provided with or had unlimited access to copies of the Company's internal reports, press releases, public filings and other statements alleged by Plaintiffs to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

1113. In particular, the Individual Defendants, CIBC and PCG had direct involvement in the day-to-day operations of the Company and therefore, are presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

1114. As set forth above, the Individual Defendants and Global Crossing committed a primary violation of Section 10(b) and Rule 10b-5 and Section 14(a) and Rule 14(A) of the Exchange Act by the acts and omissions alleged in this Complaint. By virtue of their positions as controlling persons of Global Crossing, the Individual Defendants, CIBC and PCG are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of the Individual Defendants' wrongful conduct, Plaintiffs and the other members of the Class suffered damages in connection with their purchase or acquisition of Global Crossing securities.

COUNT III

Violation of Section 20(a) of the Exchange Act
(Against Andersen and Andersen Worldwide)

1115. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

1116. Andersen Worldwide and Andersen acted as controlling persons of Andersen LLP, Andersen & Co., Arthur Andersen Asahi & Co., Perrone, and Fagan within the meaning of
Section 20(a) of the Exchange Act as alleged herein. By virtue of their unified international accounting firm structure, executive positions, partnership positions and ownership, as alleged above, Andersen Worldwide and Andersen had the power to influence and control and did influence and control, directly or indirectly, the decision-making of Andersen LLP, Andersen & Co., Arthur Andersen Asahi & Co., Perrone, and Fagan, including the content and dissemination of the various statements which Plaintiffs contend are false and misleading. The Andersen Defendants were provided with or had unlimited access to copies of Global Crossing’s internal reports, press releases, public filings and other statements alleged by Plaintiffs to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

1117. In particular, Andersen and Andersen Worldwide had direct involvement in Andersen’s audits of and consulting for Global Crossing, and therefore, are presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

1118. As set forth above, Andersen LLP, Andersen & Co., Arthur Andersen Asahi & Co., Perrone, and Fagan committed primary violations of Section 10(b) and Rule 10b-5 and Section 14(a) and Rule 14(A) of the Exchange Act by the acts and omissions alleged in this Complaint. By virtue of their positions as controlling persons of Andersen LLP, Andersen & Co., Arthur Andersen Asahi & Co., Perrone, and Fagan, Andersen Worldwide and Andersen are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of Andersen Worldwide’s and Andersen’s wrongful conduct, Plaintiffs and the other members of the Class suffered damages in connection with their purchase or acquisition of Global Crossing securities.
COUNT IV

Violation of Section 20(a) of the Exchange Act

(Against Citigroup, SSB Holdings, and SSB)

1119. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

1120. Citigroup acted as a controlling person of SSB Holdings, SSB, and SSB’s employees. SSB Holdings, in turn, acted as a controlling person of SSB, and SSB’s employees, including Grubman, Gochuico, and McCaffrey. SSB, in turn, acted as a controlling person of Grubman, Gochuico, and McCaffrey. “Controlling person” has the meaning as set forth in Section 20(a) of the Exchange Act, as alleged herein. By virtue of their ownership, executive positions, superior positions, contractual rights, participation in and/or interaction in the operations and/or underwriting of Offerings for Global Crossing, as alleged above, SSB, SSB Holdings, and Citigroup had the power to influence and control and did influence and control, directly or indirectly, the decision-making of SSB and/or Grubman, Gochuico, and McCaffrey, including the content and dissemination of the various statements which Plaintiffs contend are false and misleading. SSB, SSB Holdings and Citigroup were provided with or had unlimited access to copies of SSB’s Company Research reports on Global Crossing, the internal reports, press releases, public filings and other statements alleged by Plaintiffs to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

1121. In particular, Citigroup, SSB Holdings, and SSB had direct involvement in the day-to-day operations of SSB, and its employees and agents, and therefore are presumed to have
had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

1122. As set forth above, SSB, Grubman, Gochuico, and McCaffrey committed primary violations of Section 10(b) and Rule 10b-5 and Section 14(a) and Rule 14(A) of the Exchange Act by the acts and omissions alleged in this Complaint. By virtue of Citigroup’s and SSB Holdings’s positions as controlling persons of SSB, Grubman, Gochuico, and McCaffrey, and by virtue of SSB’s position as a control person of Grubman, Gochuico, and McCaffrey, Citigroup, SSB Holdings, and SSB are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of Citigroup’s, SSB Holdings’s, and SSB’s wrongful conduct, Plaintiffs and the other members of the Class suffered damages in connection with their purchase or acquisition of Global Crossing securities.

**COUNT V**

**Violation of Section 20(A) of the Exchange Act**

**Against Defendants Clayton, Gorton, Cohrs, Scanlon, and Conway**

1123. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

1124. Defendants Clayton, Gorton, Cohrs, Scanlon, and Conway collectively sold 1,050,305 shares of Global Crossing common stock, reaping total proceeds in excess of $26,443,624.

1125. Defendants Clayton, Gorton, Cohrs, Scanlon, and Conway sold their Global Crossing common stock during the Class Period while in possession of material, adverse, non-public information. As set forth in paragraph 766 above, contemporaneously with sales of
Global Crossing stock by these Defendants, Plaintiffs purchased Global Crossing common stock sold by these Defendants.

1126. By reason of Plaintiffs' purchases of Global Crossing common stock contemporaneously with certain of the Defendants' sales of stock, Plaintiffs suffered recoverable damages. Under Section 20(A) of the Exchange Act, Defendants Clayton, Gorton, Cohrs, Scanlon, and Conway are liable to Plaintiffs and all members of the Class for all profits gained and losses avoided by them as a result of these contemporaneous transactions.

COUNT VI

Violation of Section 11 of the Securities Act in Connection with the 9 1/8% and 9 1/2% Exchange Notes Offering

(Against the Andersen Defendants and the Individual Defendants)
(except Andersen Worldwide, Walsh, Scarpati, Finlayson, Levine, Phoenix)
(the "Exchange Notes Offering Defendants")

1127. Plaintiffs incorporate by reference and reallege all paragraphs previously alleged herein, except to the extent such allegations charge the Exchange Notes Offering Defendants with intentional or reckless misconduct as it relates to this claim.

1128. This Count is brought by the Bennett Funds against the Exchange Notes Offering Defendants on behalf of themselves and all persons or entities who purchased or otherwise acquired Global Crossing's 9 1/8% and 9 1/2% Exchange Notes pursuant to the Registration Statement and Prospectus and amendments thereto, filed with the SEC during the Class Period.

1129. The Company offered to the investing public Global Crossing's 9 1/8% and 9 1/2% Exchange Notes pursuant to the Registration Statement and Prospectus and amendments thereto filed with the SEC. Defendant Andersen consented to use of Global Crossing's financial statements that Andersen audited in the Registration Statement and Prospectus.
1130. The Registration Statement and Prospectus and amendments thereto filed with the SEC contained untrue statements of material facts. None of the Exchange Notes Offering Defendants named herein made a reasonable investigation or possessed reasonable grounds for the belief that the statements contained in the Registration Statement and Prospectus were true and without omissions of any material facts and were not misleading.

1131. Each Exchange Notes Offering Defendant named in this claim is jointly and severally liable under Section 11, and the Bennett Funds and the members of the Class who purchased or otherwise acquired the 9 1/8% and 9 1/2% Exchange Notes are entitled to recover damages as based on the following:

a. The Company is an issuer of the securities within the meaning of Section 11 of the Securities Act;

b. Each of the individuals named as an Exchange Notes Offering Defendant was a director or was performing director functions for Global Crossing at the time the Prospectuses were issued;

c. Dawson, Shutler, Winnick, Cook, Casey, Scanlon, Porter, Cohrs, Bloom, Conway, Kehler, Kent, Raben, Steed, Annunziata, McDonald, Hippeau, McCorkindale, Lee, Brown, Clayton, and Weinberger signed the Registration Statement and Prospectus for the 9 1/8% and 9 1/2% Exchange Notes; and

d. Defendant Andersen consented to the use of Global Crossing's financial statements that Andersen audited in the Registration Statements and Prospectuses.

1132. This action has been brought within two years after the discovery of the untrue statements, or after such discovery should have been made by the exercise of reasonable diligence, and within five years after the securities were offered.
1133. The Bennett Funds and the members of the Class who purchased or otherwise
acquired the 9 1/8% and 9 1/2% Exchange Notes during the Class Period did so without
knowledge of the misstatements alleged herein.

1134. The Bennett Funds and the Class members who purchased or otherwise acquired
the 9 1/8% and 9 1/2% Exchange Notes were damaged in an amount to be proved at trial.

COUNT VII

Violation of Section 11 of the Securities Act
in Connection with the 8.7% Exchange Notes Offering

(Against the Andersen Defendants and the Individual Defendants)
(except Lee, Brown, Weinberger, Hindery, Scarpati, Finlayson, Bloom, Kehler, Levine,
Phoenix, Raben, McCorkindale, Shutler and Andersen Worldwide)
(the "8.7% Exchange Notes Offering Defendants")

1135. Plaintiffs incorporate by reference and reallege all paragraphs previously alleged
herein, except to the extent such allegations charge the 8.7% Exchange Notes Offering
Defendants with intentional or reckless misconduct as it relates to this claim.

1136. This Count is brought against the 8.7% Exchange Notes Offering Defendants by
Bella Pill and the members of the Class who purchased or otherwise acquired 8.7% Exchange
Notes pursuant to the Registration Statement and Prospectus and amendments thereto, filed with
the SEC during the Class Period.

1137. The Company offered to the investing public Global Crossing's 8.7% Exchange
Notes pursuant to the Registration Statement and Prospectus and amendments thereto filed with
the SEC. Defendant Andersen consented to use of Global Crossing's financial statements that
Andersen audited in the Registration Statement and Prospectus.

1138. The Registration Statement and Prospectus and amendments thereto filed with the
SEC contained untrue statements of material facts. None of the 8.7% Exchange Notes Offering
Defendants named herein made a reasonable investigation or possessed reasonable grounds for the belief that the statements contained in the Registration Statement and Prospectus were true and without omissions of any material facts and were not misleading.

1139. Each Exchange Notes Offering Defendant named in this claim is jointly and severally liable under Section 11 and Bella Pill and the members of the Class who purchased or otherwise acquired the 8.7% Exchange Notes are entitled to recover damages based on the following:

a. The Company is an issuer of the securities within the meaning of Section 11 of the Securities Act;

b. Each of the individuals named as an 8.7% Exchange Notes Offering Defendant was a director or was performing director functions for Global Crossing at the time the Prospectuses were issued;

c. Defendants Winnick, Cook, Casey, Clayton, Cohen, Cohrs, Conway, Kent, and Hippeau signed the Registration Statement and Prospectus for the 8.7% Exchange Notes; and

d. Defendant Andersen consented to the use of Global Crossing's financial statements that Andersen audited in the Registration Statements and Prospectuses.

1140. This action has been brought within two years after the discovery of the untrue statements, or after such discovery should have been made by the exercise of reasonable diligence, and within five years after the securities were offered.

1141. Bella Pill and the members of the Class who purchased or otherwise acquired the 8.7% Exchange Notes acquired their 8.7% Exchange Notes did so without knowledge of the misstatements alleged herein.
1142. Bella Pill and members of the Class who purchased or otherwise acquired the 8.7% Exchange Notes were damaged in an amount to be proved at trial.

COUNT VIII

Violation of Section 11 of the Securities Act
in Connection with the 6 3/8% Cumulative Convertible Preferred Stock Offering

(Against Defendant Andersen and Against the Individual Defendants)
(except Weinberger, Walsh, Finlayson, Levine, Phoenix,
Shutler and Andersen Worldwide)
(the "6 3/8% Preferred Defendants")

1143. Plaintiffs incorporate by reference and reallege all paragraphs previously alleged herein, except to the extent such allegations charge the 6 3/8% Preferred Defendants with intentional or reckless misconduct as it relates to this claim.

1144. This Count is brought by Staro against the 6 3/8% Preferred Stock Defendants on behalf of all members of the class who purchased or otherwise acquired Global Crossing's 6 3/8% cumulative convertible preferred stock pursuant to the Registration Statement and Prospectus and amendments thereto, filed with the SEC during the Class Period.

1145. The Company offered to the investing public Global Crossing's 6 3/8% cumulative convertible preferred stock pursuant to the Registration Statement and Prospectus and amendments thereto filed with the SEC. Defendant Andersen consented to use of Global Crossing's financial statements that Andersen audited in the Registration Statement and Prospectus.

1146. The Registration Statement and Prospectus and amendments thereto filed with the SEC contained untrue statements of material facts. None of the 6 3/8% Preferred Defendants named herein made a reasonable investigation or possessed reasonable grounds for the belief that
the statements contained in the Registration Statement and Prospectus were true and without
omissions of any material facts and were not misleading.

1147. Each 6 3/8% Preferred Defendant named in this claim is jointly and severally
liable under Section 11, and Staro and the other members of the Class who purchased or
otherwise acquired the 6 3/8% Cumulative Preferred Stock are entitled to recover damages based
on the following:

a. The Company is an issuer of the securities within the meaning of Section
11 of the Securities Act;

b. Each of the individuals named as a 6 3/8% Preferred Defendant was a
director or was performing director functions for Global Crossing at the time the Prospectuses
were issued;

c. Defendants Winnick, Cook, Casey, Scanlon, Annunziata, Lee, Porter,
Brown, Cohrs, Bloom, Conway, Kehler, Kent, Raben, Weinberger, Hippeau, Clayton, Hindery
and McCorkindale signed the Registration Statement and Prospectus for the 6 3/8% Preferred
Stock Offering; and

d. Defendant Andersen consented to the use of Global Crossing’s financial
statements that Andersen audited in the Registration Statements and Prospectuses.

1148. This action has been brought within two years after the discovery of the untrue
statements, or after such discovery should have been made by the exercise of reasonable
diligence, and within five years after the securities were offered. Plaintiff and the members of
the 6 3/8% Preferred Stock Subclass acquired their 6 3/8% cumulative convertible preferred
stock did so without knowledge of the misstatements alleged herein.
1149. Staro and the members of the Class who purchased or otherwise acquired the 6 3/8% Cumulative Preferred Stock were damaged in an amount to be proved at trial.

COUNT IX

Violation of Section 11 of the Securities Act
in Connection with the 7% Cumulative Convertible Preferred Stock Offering

(Against Andersen and Against the Individual Defendants)
(except Weinberger, Walsh, Finlayson, Levine, Phoenix,
Shutler and Andersen Worldwide)
(the “7% Preferred Defendants”)

1150. Plaintiffs incorporate by reference and reallege all paragraphs previously alleged herein, except to the extent such allegations charge the 7% Preferred Defendants with intentional or reckless misconduct as it relates to this claim.

1151. This Count is brought by Staro against the 7% Preferred Defendants on behalf of all members of the Class who purchased or otherwise acquired Global Crossing’s 7% cumulative convertible preferred stock pursuant to the Registration Statement and Prospectus and amendments thereto, filed with the SEC during the Class Period.

1152. The Company offered to the investing public Global Crossing’s 7% cumulative convertible preferred stock pursuant to Registration Statement and Prospectus and amendments thereto filed with the SEC.

1153. The Registration Statement and Prospectus and amendments thereto filed with the SEC contained untrue statements of material facts. None of the 7% Preferred Defendants named herein made a reasonable investigation or possessed reasonable grounds for the belief that the statements contained in the Registration Statement and Prospectus were true and without omissions of any material facts and were not misleading.
1154. Each 7% Preferred Defendant is jointly and severally liable under Section 11, and Staro and the other members of the Class who purchased or otherwise acquired 7% Cumulative Preferred Stock Subclass are entitled to recover damages as follows:

a. The Company is an issuer of the securities within the meaning of Section 11 of the Securities Act.

b. Each of the individuals named as the CIBC Individual Defendants was a director of Global Crossing at the time the Prospectuses were issued, and signed the Registration Statement and amendments thereto.


d. Defendant Andersen consented to the use of Global Crossing’s financial statements that Andersen audited in the Registration Statements and Prospectuses.

1155. This action has been brought within two years after the discovery of the untrue statements or after such discovery should have been made by the exercise of reasonable diligence and within five years after the securities were offered.

1156. Staro and the members of the Class who purchased or otherwise acquired the 7% Cumulative Preferred Stock did so without knowledge of the misstatements alleged herein.

1157. Staro and the members of the Class who purchased or otherwise acquired the 7% Cumulative Preferred Stock were damaged in an amount to be proved at trial.
COUNT X

Violation of Section 11 of the Securities Act
In Connection with the Secondary Offering

(Against Goldman Sachs, Merrill Lynch, SSB, Bear Stearns,
J.P. Morgan Chase Securities, Andersen, CSFB, DLJ,
Morgan Stanley, and the Individual Defendants)
(except Weinberger, Walsh, Finlayson, Levine, Phoenix, and Shutter
and Andersen Worldwide)
(the "Secondary Offering Defendants")

1158. Plaintiffs incorporate by reference and reallege all paragraphs previously alleged herein, except to the extent such allegations charge the Secondary Offering Defendants with intentional or reckless misconduct as related to this claim.

1159. This Count is brought by Plaintiffs against the Secondary Offering Defendants on behalf of those who purchased or otherwise acquired Global Crossing common stock traceable to the Secondary Offering and pursuant to the Registration Statement and Prospectus filed in conjunction with the April 3, 2000 shelf offering and the Prospectus Supplement thereto dated April 11, 2000 and were damaged thereby.

1160. Global Crossing filed a Prospectus Supplement to the Registration Statement and Prospectus filed in conjunction with the April 3, 2000 shelf offering to sell to the investing public 21,673,706 shares of Global Crossing common stock at $33 per share. The Prospectus Supplement also registered 21,326,294 shares of previously restricted Global Crossing common stock to be sold by Selling Shareholders.

1161. The Registration Statement and Prospectus and amendments thereto filed with the SEC contained untrue statements of material facts. None of the Secondary Offering Defendants named herein made a reasonable investigation or possessed reasonable grounds for the belief that
the statements contained in the Registration Statement and Prospectus were true and without
omissions of any material facts and were not misleading.

1162. Each of the Secondary Offering Defendants is jointly and severally liable under
Section 11 and plaintiffs and the Class are entitled to recover damages as follows:

a. The Company and the Selling Shareholders were issuers of the securities
within the meaning of Section 11 of the Securities Act.

b. Each of the Individual Defendants who is named as one of the Secondary
Offering Defendants was a director, or person performing similar functions, for Global Crossing
at the time the Prospectus was issued.

c. Defendants Goldman Sachs, Merrill Lynch & Co., SSB, Bear Stearns, J.P.
were underwriters of the common stock, as alleged herein.

d. Defendants Hindery, Winnick, Cook, Casey, Scanlon, Lee, Clayton,
Porter, Cohrs, Bloom, Conway, Kehler, Kent, Raben, Steed, Annunziata, Hippeau, and
McCorkindale signed the Registration Statement and Prospectus.

e. Defendant Andersen was the auditor who gave certification of the audited
financial statements contained in the Registration Statement and Prospectus.

1163. This action has been brought within two years after the discovery of the untrue
statements or after such discovery should have been made by the exercise of reasonable diligence
and within five years after the securities were offered.

1164. Plaintiffs and the Class purchased their common stock without knowledge of the
misstatements alleged herein.

1165. Plaintiffs and the Class were damaged in an amount to be proved at trial.
COUNT XI

Violation of Section 11 of the Securities Act
in Connection with the 6 3/4% Cumulative Convertible Preferred Stock Offering

(Against Goldman Sachs; Merrill Lynch; SSB; Andersen; and the Individual Defendants)
(except Weinberger, Walsh, Finlayson, Levine, Phoenix, Shutler and Andersen Worldwide)
(the "6 3/4% Preferred Offering Defendants")

1166. Plaintiffs incorporate by reference and reallege all paragraphs previously alleged herein, except to the extent such allegations charge the Defendants with intentional or reckless misconduct for purposes of this claim.

1167. This Count is brought against the 6 3/4% Preferred Offering Defendants by Shuster on behalf of himself and the members of the Class who purchased or otherwise acquired the 6 3/4% Cumulative Preferred Stock pursuant to the Registration Statement and Prospectus and amendments thereto, filed with the SEC during the Class Period.

1168. Global Crossing filed a Prospectus Supplement to the Registration Statement and Prospectus filed in conjunction with the April 3, 2000 shelf offering to sell to the investing public 4,000,000 shares of 6 3/4% cumulative convertible preferred stock with a liquidation preference of $250 per share.

1169. The Registration Statement and Prospectus and amendments thereto filed with the SEC contained untrue statements of material facts. None of the Defendants named herein made a reasonable investigation or possessed reasonable grounds for the belief that the statements contained in the Registration Statement and Prospectus were true and without omissions of any material facts and were not misleading.
1170. Each of the 6 3/4% Preferred Offering Defendants is jointly and severally liable under Section 11, and Shuster and the other members of the Class who purchased or otherwise acquired the 6 3/4% Cumulative Preferred Stock are entitled to recover damages as follows:

a. The Company is an issuer of the securities within the meaning of Section 11 of the Securities Act.

b. Each of the individuals named as a 6 3/4% Preferred Offering Defendant was a director or performing director functions for Global Crossing at the time the Registration Statement and Prospectus was issued.

c. Defendants SSB, Goldman Sachs, Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Merrill Lynch & Co. were underwriters of the 6 3/4% Cumulative Convertible Preferred Stock Offering.


e. Andersen consented to use of the financial statements Andersen audited for Global Crossing in the Registration Statement and Prospectus.

1171. This action has been brought within two years after the discovery of the untrue statements or after such discovery should have been made by the exercise of reasonable diligence and within five years after the securities were offered.

1172. Shuster and the members of the Class who purchased or otherwise acquired the 6 3/4% Cumulative Preferred Stock did so without knowledge of the misstatements alleged herein.
1173. Shuster and the members of the Class who purchased or otherwise acquired the 6 3/4% Cumulative Preferred Stock were damaged in an amount to be proved at trial.

COUNT XII

Violation of Section 11 of The Securities Act in Connection with the IXnet/IPC Acquisition

(Against Andersen, SSB, and the Individual Defendants)
(except Walsh, Finlayson, Levine, Phoenix, Shutler, and Andersen Worldwide)
(the "IXnet/IPC Acquisition Defendants")

1174. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein, except that, for purposes of this Count, Plaintiffs do not allege that the Individual Defendants are liable for intentionally fraudulent or intentional conduct, and disavows and disclaims allegations of fraud in connection with this claim.

1175. This claim is brought against Arthur Andersen, which expertized the Company's 1998 and 1999 financial statements contained in the IXnet/IPC Registration Statement, and Defendants Winnick, Hindery, Cook, Casey, Annunziata, Bloom, Clayton, Conway, Kent, McCorkindale, Scanlon, Lee, Porter, Steed, Brown and Cohrs each of whom signed the IXnet/IPC Registration Statement. This claim also is brought against the other IXnet/IPC Acquisition Defendants, including SSB and DLJ who issued fairness opinions to either or both of IXnet and IPC, and the Individual Defendants who were directors or were performing director functions for Global Crossing at the time Global Crossing filed the IXnet/IPC Registration Statement.

1176. Plaintiffs Ohio PERS, Ohio STRS, Kleinknecht and the other members of the Class consisting of former IXnet/IPC shareholders who received and/or acquired Global
Crossing shares by exchanging their IXnet/IPC shares for Global Crossing shares in Global Crossing’s acquisition of IXnet/IPC.

1177. Global Crossing filed the IXnet/IPC Registration Statement with the SEC to register the Global Crossing shares used to acquire IXnet/IPC. The IXnet/IPC Registration Statement was misleading and omitted to disclose material information as set forth above. The IXnet/IPC Acquisition Defendants had a continuing duty to update, correct, and amend the IXnet/IPC Registration Statement with timely material information, and they negligently or recklessly violated such duty. Defendant Andersen consented to use of Global Crossing’s audited financial statements in the IXnet/IPC Registration Statement, and such financial information was false and misleading. Defendants SSB and DLJ consented to the use of fairness opinions they issued to IXnet and IPC in the IXnet/IPC Registration Statement. None of the Defendants named herein made a reasonable investigation or possessed reasonable grounds for the belief that the statements contained in the IXnet Registration Statement were true and without omissions of any material facts and were not misleading.

1178. Global Crossing filed the IXnet/IPC Registration Statement with the SEC to register the Global Crossing shares used to acquire IXnet/IPC. The IXnet/IPC Registration Statement was misleading and omitted to disclose material information, including the (i) disabling conflicts of interest that SSB suffered; (ii) the unfettered access to and knowledge of the errors and irregularities alleged above that SSB knew or should have known of, (iii) that the value of Global Crossing stock was artificially inflated by virtue of Global Crossing’s misrepresentations and accounting machinations as set forth above, and (iv) that value of consideration received by the IXnet/IPC shareholders in the form of Global Crossing stock was materially overstated.
1179. SSB had a continuing duty to update, correct, and amend the IXnet/IPC Registration Statement with timely material information, and it knew or should have known that it violated such duty.

1180. SSB consented to the use of fairness opinions it issued to IXnet and IPC in the Ixnet/IPC Registration Statement. SSB knew or should have known that it had no reasonable basis for the belief that the statements contained in the IXnet Registration Statement were true and without omissions of any material facts and were not misleading.

1181. In ignorance of the materially false and misleading nature of the representations described above, the former IXnet/IPC shareholders received and/or acquired Global Crossing stock pursuant to the IXnet/IPC Registration Statement.

1182. Because of the misrepresentation and failures to disclose material facts, the former IXNET/IPC shareholders who are members of the Class received and/or acquired Global Crossing common stock at artificially inflated prices and were and are substantially damaged thereby.

1183. By virtue of the foregoing, members of the Class who received and/or acquired Global Crossing common stock pursuant to the IXNET/IPC acquisition, are entitled to damages and other relief as a result of the IXNET/IPC Defendants' violations of Section 11, as measured by the provisions of Section 11(e), from the IXNET/IPC Defendants, and each of them, jointly and severally.

1184. This action was commenced within two years from the date Plaintiffs discovered, or could have discovered, the misrepresentation and omissions alleged herein and within five years from the date any of the registered securities were validly received by members of the Class.
COUNT XIII

Violation of Section 15 of the Securities Act

(Against The Individual Defendants, CIBC, CIBC World Markets and PCG)

1185. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein, except that, for purposes of this Count, Plaintiffs do not allege that the Individual Defendants are liable for intentionally fraudulent or intentional conduct, and disavowed and disclaims allegations of fraud in connection with this claim.

1186. This Count is asserted pursuant to Section 15 of the Securities Act on behalf of: Ohio PERS, Ohio STRS, Tucker and all persons or entities who purchased or otherwise acquired Global Crossing shares by exchanging their Frontier shares for Global Crossing shares in the September 28, 1999 merger; the Bennett Funds and all persons or entities who purchased or otherwise acquired Global Crossing's 9 1/8% and 9 1/2% Exchange Notes pursuant to the Registration Statement and Prospectus and amendments thereto; Bella Pill and all persons or entities who purchased or otherwise acquired Global Crossing's 8.7% Exchange Notes pursuant to the Registration Statement and Prospectus and amendments thereto; Staro and all persons or entities who purchased or otherwise acquired Global Crossing's 6 3/8% the cumulative convertible preferred stock and 7% cumulative convertible preferred stock pursuant to the Registration Statement and Prospectus and amendments thereto; all persons or entities who purchased or otherwise acquired Global Crossing common stock traceable to the Secondary Offering and pursuant to the Registration Statement and Prospectus filed in conjunction with the April 3, 2000 shelf offering and the Prospectus Supplement thereto dated April 11, 2000 and were damaged thereby; Shuster and all persons or entities who purchased or otherwise acquired Global Crossing's 6 3/4% cumulative convertible preferred stock pursuant to the Registration
Statement and Prospectus and amendments thereto; and Ohio PERS, Ohio STRS, Kleinknecht and all former IXNET/IPC shareholders who acquired Global Crossing shares by exchanging their IXNET/IPC shares for Global Crossing shares in Global Crossing's acquisition of IXNET/IPC.

1187. The Individual Defendants acted as controlling persons of Global Crossing within the meaning of Section 15 of the Securities Act as alleged herein. By reasons of their executive managerial positions with Global Crossing, these Defendants had the power and authority to cause Global Crossing to engage in the wrongful conduct complained of in Plaintiffs' Section 11 Claims.

1188. CIBC and CIBC World Markets acted as controlling persons of Bloom, Kehler, Levine, Phoenix and Raben and of the Company within the meaning of Section 15 of the Securities Act as alleged herein. CIBC and CIBC World Markets specifically mandated that each of Bloom, Kehler, Levine, Phoenix and Raben represent the interests of CIBC and CIBC World Markets on the Global Crossing board of directors by virtue of CIBC's and CIBC World Markets' power to control their actions and by specifically appointing each of them to Global Crossing's board of directors.

1189. PCG acted as a controlling person of Winnick, Lee, Porter and of the Company within the meaning of Section 15 of the Securities Act as alleged herein. PCG specifically mandated that each of Winnick, Lee and Porter represent the interests of PCG on the Global Crossing board of directors by virtue of PCG's power to control their actions.

1190. By reason of the aforementioned wrongful conduct, the Individual Defendants are liable pursuant to Section 15 of the Securities Act. As a direct and proximate result of their
wrongful conduct, Plaintiffs and the other members of the Class suffered damages in connection with their purchase or acquisition of Global Crossing securities.

COUNT XIV

Violation of Section 15 of the Securities Act

(Against Andersen Worldwide and Andersen)

1191. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein, except that for purposes of this claim, Plaintiffs do not allege that the Andersen Defendants are liable for intentional misconduct in connection with this claim.

1192. This Count is asserted pursuant to Section 15 of the Securities Act on behalf of:

(1) Ohio PERS, Ohio STRS, Tucker and all persons or entities who purchased or otherwise acquired Global Crossing shares by exchanging their Frontier shares for Global Crossing shares in the September 28, 1999 merger; (2) the Bennett Funds and all persons or entities who purchased or otherwise acquired Global Crossing's 9 1/8% and 9 1/2% Exchange Notes pursuant to the Registration Statement and Prospectus and amendments thereto; (3) Bella Pill and all persons or entities who purchased or otherwise acquired Global Crossing’s 8.7% Exchange Notes pursuant to the Registration Statement and Prospectus and amendments thereto; (4) Staro and all persons or entities who purchased or otherwise acquired Global Crossing’s 6 3/8% the cumulative convertible preferred stock and 7% cumulative convertible preferred stock pursuant to the Registration Statement and Prospectus and amendments thereto; (5) all persons or entities who purchased or otherwise acquired Global Crossing common stock traceable to the Secondary Offering and pursuant to the Registration Statement and Prospectus filed in conjunction with the April 3, 2000 shelf offering and the Prospectus Supplement thereto dated April 11, 2000 and were damaged thereby; (6) Shuster and all persons or entities who purchased or otherwise
acquired Global Crossing's 6 3/4% cumulative convertible preferred stock pursuant to the Registration Statement and Prospectus and amendments thereto; (7) Ohio PERS, Ohio STRS, Kleinknecht and all former IXnet/IPC shareholders who acquired Global Crossing shares by exchanging their IXnet/IPC shares for Global Crossing shares in Global Crossing's acquisition of IXNET/IPC.

1193. Andersen Worldwide and Andersen acted as controlling persons of Andersen, Perrone, and Fagan within the meaning of Section 15 of the Securities Act as alleged herein. By virtue of their unified international accounting firm structure, executive positions, partnership positions and ownership, as alleged above, Andersen Worldwide and Andersen had the power to influence and control and did influence and control, directly or indirectly, the decision-making of Andersen, Perrone, and Fagan, including the content and dissemination of the various statements which Plaintiffs contend are false and misleading. Andersen Worldwide and Andersen were provided with or had unlimited access to copies of Global Crossing's internal reports, press releases, public filings and other statements alleged by Plaintiffs to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

1194. In particular, Andersen Worldwide and Andersen had direct involvement in Andersen's audits of and consulting for Global Crossing, and therefore, are presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

1195. By reason of the aforementioned wrongful conduct, the Andersen Worldwide and Andersen are liable pursuant to Section 15 of the Securities Act. As a direct and proximate result
of the Andersen Defendants' wrongful conduct, Plaintiffs and the other members of the Class suffered damages in connection with their purchase or acquisition of Global Crossing securities.

COUNT XV

Violation of Section 15 of the Securities Act

(Against the Citigroup, SSB Holdings, and SSB)

1196. Plaintiffs repeat and realege each and every allegation contained above as if fully set forth herein, except that for purposes of this claim, Plaintiffs do not allege that SSB or the Citigroup Defendants are liable for intentional misconduct in connection with this claim.

1197. This Count is asserted pursuant to Section 15 of the Securities Act on behalf of: (1) Ohio STRS, Ohio PERS, Tucker and all persons or entities who purchased or otherwise acquired Global Crossing shares by exchanging their Frontier shares for Global Crossing shares in the September 28, 1999 merger; (2) all persons or entities who purchased or otherwise acquired Global Crossing common stock traceable to the Secondary Offering and pursuant to the Registration Statement and Prospectus filed in conjunction with the April 3, 2000 shelf offering and the Prospectus Supplement thereto dated April 11, 2000 and were damaged thereby; (3) Shuster and all persons or entities who purchased or otherwise acquired Global Crossing's 6 3/4% cumulative convertible preferred stock pursuant to the Registration Statement and Prospectus and amendments thereto; (4) Ohio PERS, Ohio STRS, Kleinknecht and all former IXNET/IPC shareholders who acquired Global Crossing shares by exchanging their IXNET/IPC shares for Global Crossing shares in Global Crossing's acquisition of IXNET/IPC.

1198. Citigroup acted as a controlling person of SSB Holdings, SSB, and SSB's employees. SSB Holdings, in turn, acted as a controlling person of SSB, and SSB's employees, including Grubman, Gochuico, and McCaffrey. SSB, in turn, acted as a controlling person of
Grubman, Gochuico, and McCaffrey. "Controlling person" has the meaning as set forth in Section 15 of the Securities Act, as alleged herein. By virtue of their ownership, executive positions, superior positions, contractual rights, participation in and/or interaction in the operations and/or underwriting of Offerings for Global Crossing, as alleged above, SSB, SSB Holdings, and Citigroup had the power to influence and control and did influence and control, directly or indirectly, the decision-making of SSB and/or Grubman, Gochuico, and McCaffrey, including the content and dissemination of the various statements which Plaintiffs contend are false and misleading. SSB, SSB Holdings and Citigroup were provided with or had unlimited access to copies of SSB's Company Research reports on Global Crossing, the internal reports, press releases, public filings and other statements alleged by Plaintiffs to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

1199. In particular, Citigroup, SSB Holdings, and SSB had direct involvement in the day-to-day operations of SSB, and its employees and agents, and therefore are presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

1200. By reason of the aforementioned wrongful conduct, Citigroup, SSB Holdings, and SSB are liable pursuant to Section 15 of the Securities Act. By virtue of their positions as controlling persons of SSB, Grubman, Gochuico, and McCaffrey, Citigroup, SSB Holdings, and SSB are liable pursuant to Section 15 of the Securities Act. As a direct and proximate result of Citigroup's, SSB Holdings’s, and SSB’s wrongful conduct, Plaintiffs and the other members of the Class suffered damages in connection with their purchase or acquisition of Global Crossing securities.
COUNT XVI

Violation of Section 12(a)(2) of the Securities Act

(Against CIBC, GKW, Winnick Family, Galenight, Ridgestone, Brown Trust, Porter, Cook, and Lee)
(the "Section 12(a)(2) Defendants")

1201. Plaintiffs repeat and reallege each and every allegation contained above, except to the extent such allegations could be construed to charge the defendants with intentional or reckless misconduct. Plaintiffs do not allege that the Section 12(a)(2) Defendants had scienter or fraudulent intent, which is not an element of a Section 12(a)(2) claim.

1202. This Count is brought by Plaintiffs pursuant to Section 12(a)(2) of the Securities Act on behalf of all purchasers of shares of Global Crossing common stock in connection with, and traceable to, the sale of shares by the Section 12(a)(2) Defendants pursuant to the Registration Statement and Prospectus filed in conjunction with the April 3, 2000 shelf offering and the Prospectus Supplement thereto dated April 11, 2000.

1203. Each of the Section 12(a)(2) Defendants were sellers and offerors of the shares offered pursuant to the Registration Statement and Prospectus.

1204. The Registration Statement and Prospectus contained untrue statements of material facts, omitted to state other facts necessary to make the statements made not misleading, and concealed and failed to disclose material facts.

1205. The Section 12(a)(2) Defendants owed to the purchasers of Global Crossing shares, including Plaintiffs and other Class members, the duty to make a reasonable and diligent investigation of the statements contained in the Registration Statement and Prospectus to ensure that such statements were true and that there was no omission to state a material fact required to be stated in order to make the statements contained therein not misleading. The Section 12(a)(2)
Defendants knew of, or in the exercise of reasonable care should have known of, the misstatements and omissions contained in the Registration Statement and Prospectus as set forth above.

1206. Plaintiffs and other members of the Class purchased or otherwise acquired Global Crossing shares pursuant to and traceable to the Registration Statement and Prospectus. Plaintiffs did not know, or in the exercise of reasonable diligence could not have known, of the untruths and omissions contained in the Registration Statement and Prospectus.

1207. Plaintiffs, individually and representatively, hereby offer to tender to the Section 12(a)(2) Defendants those securities which Plaintiffs and other Class members continue to own, on behalf of all members of the Class who continue to own such securities, in return for the consideration paid for those securities together with interest thereon. Class members who have sold their Global Crossing shares are entitled to rescissory damages.

1208. By reason of the conduct alleged herein, the Section 12(a)(2) Defendants violated Section 12(a)(2) of the Securities Act. Accordingly, Plaintiffs and members of the Class who hold Global Crossing shares purchased from the Section 12(a)(2) Defendants have the right to rescind and recover the consideration paid for their Global Crossing shares and, hereby elect to rescind and tender their Global Crossing shares to the defendant sued herein. Plaintiffs and Class members who have sold their Global Crossing shares are entitled to rescissory damages.

1209. This action has been brought within two years after the discovery of the untrue statements or after such discovery should have been made by the exercise of reasonable diligence and within five years after the securities were offered.
COUNT XVII

Violation Of Section 10(b) of The Exchange Act
And Rule 10b-5 Promulgated Thereunder

(Against the Asia Global Crossing Individual Defendants, SSB, Softbank, Microsoft and Andersen (except Andersen Worldwide) (the “AGX 10b-5 Defendants”)

1210. The Asia Global Crossing Lead Plaintiffs, Michael A. Bernstein Profit Sharing Plan and Roman Foltyn (the “AGX Lead Plaintiffs”), repeat and reallege each and every allegation contained above as if fully set forth herein.

1211. This Count is asserted by the AGX Lead Plaintiffs on behalf of themselves, and all persons and entities who purchased or otherwise acquired securities issued by Asia Global Crossing, against each and all of the AGX 10b-5 Defendants and is based upon Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5, 17 C.F.R. § 240.10b-5, promulgated thereunder.

1212. During the AGX Class Period, the AGX 10b-5 Defendants, individually and through their respective agents, carried out a plan, scheme and course of conduct which was intended to and, throughout the AGX Class Period, did: (a) deceive the investing public, including the AGX Lead Plaintiffs and other AGX Sub-Class members, as alleged herein; (b) artificially inflate and maintain the market price of Asia Global Crossing’s securities; and (c) cause the AGX Lead Plaintiffs and other members of the AGX Sub-Class to purchase or otherwise acquire Asia Global Crossing’s securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, the AGX 10b-5 Defendants, each and all of them, took the actions set forth herein.

1213. The AGX 10b-5 Defendants, individually and through their respective agents: (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact
and/or omitted to state material facts necessary to make the statements not misleading by use of
means or instrumentalities of interstate commerce; and (c) engaged in acts, practices, and a
course of business which operated as a fraud and deceit upon the purchasers and acquirers of the
Asia Global Crossing's securities in an effort to maintain artificially high market prices for such
securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5.

1214. The AGX 10b-5 Defendants, individually and through their respective agents,
engaged in the fraudulent activity described above knowingly and intentionally, or in such a
reckless manner as to constitute willful deceit and fraud upon the AGX Lead Plaintiffs and the
AGX Sub-Class. The AGX 10b-5 Defendants, individually and through their respective agents,
knowingly caused their reports and statements to contain misstatements and omissions of
material fact as alleged herein.

1215. As a result of the AGX 10b-5 Defendants' fraudulent activity, the market price of
Asia Global Crossing securities was artificially inflated during the AGX Sub-Class Period.

1216. In ignorance of the true financial condition of Asia Global Crossing, the AGX
Lead Plaintiffs and other members of the AGX Sub-Class, relying on the integrity of the market
and/or on the statements and reports of Asia Global Crossing containing the misleading
information, purchased or otherwise acquired Asia Global Crossing securities at artificially
inflated prices during the AGX Class Period.

1217. The market price of Asia Global Crossing securities declined materially upon the
public disclosure of the true facts, which had been misrepresented or concealed as alleged herein.

1218. Plaintiffs' losses were proximately caused by AGX 10b-5 Defendants' active and
primary participation in Asia Global Crossing's scheme to defraud the investing public by
exaggerating reported revenue, overstating assets and fabricating cash flow. Plaintiffs purchased
Asia Global Crossing securities in reliance on the integrity of the market price of those securities, and AGX 10b-5 Defendants, individually and through their respective agents, manipulated the price of Asia Global Crossing securities through their misconduct as described above. Further, AGX 10b-5 Defendants’ misconduct proximately caused plaintiffs’ losses. Plaintiffs’ losses were a direct and foreseeable consequence of defendants’ failure to disclose and concealment of, inter alia, the true financial condition of Asia Global Crossing, the true nature of Asia Global Crossing’s supposed revenue and cash position, and the true nature of the economically worthless swap transactions that Asia Global Crossing entered into with other telecom companies. Global Crossing ultimately collapsed because it did not have the actual cashflow and revenues necessary to achieve and maintain its business plan.

1219. Throughout the Class Period, AGX 10b-5 Defendants were aware of material non-public information concerning Asia Global Crossing’s accounting manipulations including the worthless capacity swaps, false and misleading financial statements and moribund business model. Throughout the Class Period, AGX 10b-5 Defendants, individually and through their respective agents, willfully and knowing concealed this adverse information regarding Asia Global Crossing’s falsified revenue and overvalued assets, and Plaintiffs’ losses were the foreseeable consequence of defendants’ concealment of this information. The public disclosure of these accounting machinations caused Plaintiffs’ losses.

1220. As a direct and proximate cause of the AGX 10b-5 Defendants' wrongful conduct, the AGX Lead Plaintiffs and other members of the AGX Sub-Class suffered damages in connection with their respective purchases and sales of Asia Global Crossing securities during the AGX Class Period.
COUNT XVIII

Violation of Section 11 of the Securities Act


1221. The AGX Lead Plaintiffs repeat and reallege each and every allegation contained above, except to the extent such allegations could be construed to charge the defendants named in this Count with intentional or reckless misconduct as related to this claim.

1222. This Count is brought by the AGX Lead Plaintiffs against the AGX Section 11 Defendants, on behalf of themselves and those persons or entities who purchased or otherwise acquired Asia Global Crossing common stock issued pursuant to, or traceable to, the AGX IPO Registration Statement.

1223. Asia Global Crossing would be named as a defendant in this Count but for the fact that it is bankrupt and in the process of being liquidated.

1224. The AGX IPO Registration Statement and AGX IPO Prospectus filed with the SEC contained untrue statements of material facts or omitted to state material facts required to be stated therein or necessary to make the statements therein not misleading, as set forth above. None of the defendants named in this Count made a reasonable investigation or possessed reasonable grounds to believe that the statements contained in the AGX IPO Registration Statement were true and without omissions of any material facts and were not misleading.
Each of the defendants named in this Count is jointly and severally liable under Section 11 for damages with respect to shares of Asia Global Crossing common stock sold pursuant to and traceable to the AGX Registration Statement as follows:

a. Defendants Winnick, Cook, Legere, Scanlon, Casey, Hindery, Clayton, Hippeau, Koll, Conway, Kent and Riesenfeld all signed the AGX IPO Registration Statement pursuant to Section 11(a)(1) of the Securities Act and/or were directors of Asia Global Crossing within the meaning of Section 11(a)(2) of the Securities Act;

b. Defendant Andersen was Asia Global Crossing’s auditor and is an accountant within the meaning of Section 11(a)(4) of the Securities Act and was, with Andersen’s express consent, named as having certified the financial statements of Asia Global Crossing contained in the AGX IPO Registration Statement;

c. Defendants Goldman Sachs, SSB, Merrill Lynch, J.P. Morgan Chase Securities, CIBC World Markets, CSFB, Deutsche Bank, Lehman Brothers, ABN AMRO, Bear Stearns, A.G. Edwards, First Union, RBC Dominion, Wasserstein Perella, Advest, Gerard Klauer Mattison, Guzman & Co., Kaufman Bros., McDonald Investments, Monness, Crespi, Hardt & Co., Samuel A. Ramirez & Co., Raymond James, Scott & Stringfellow, and Stephens were each underwriters within the meaning of Section 11(a)(5) of the Securities Act with respect to the Asia Global Crossing common stock sold pursuant to the AGX IPO Registration Statement after it became effective; and

d. Defendants Microsoft and Softbank are directly liable for the actions and omissions of their respective agents, Hippeau (for Softbank) and Knook and Koll (for Microsoft) who were acting under the actual or apparent authority of their principals.
1226. The AGX Lead Plaintiffs, and other similarly situated members of the AGX Sub-Class, purchased their shares of Asia Global Crossing common stock without knowledge of the misstatements and omissions alleged herein; and have been damaged through their purchases of Asia Global Crossing common stock.

1227. This action was commenced within two years from the date Asia Global Crossing Plaintiffs discovered, or could have discovered, the misrepresentations and omissions alleged herein and within five years from the date any of the registered securities were validly received by members of the AGX Sub-Class.

COUNT XIX

Violation of Section 12(a)(2) of the Securities Act


(The “AGX Section 12(a)(2) Defendants”)

1228. The AGX Lead Plaintiffs repeat and reallege each and every allegation contained above, except to the extent such allegations could be construed to charge the defendants named in this Count with intentional or reckless misconduct as related to this claim. The AGX Lead Plaintiffs do not allege that the AGX Section 12(a)(2) Defendants had scienter or fraudulent intent, which is not an element of a Section 12(a)(2) claim.

1229. This Count is brought by the AGX Lead Plaintiffs pursuant to Section 12(a)(2) of the Securities Act on behalf of themselves and all purchasers of Asia Global Crossing common stock in connection with, and traceable to, the sale of shares by the AGX Section 12(a)(2)
Defendants pursuant to the AGX IPO Registration Statement and the AGX IPO Prospectus filed in conjunction with the Asia Global Crossing IPO.

1230. Each and all of the AGX Section 12(a)(2) Defendants named in this Count were sellers and offerors of shares of Asia Global Crossing common stock offered pursuant to the AGX IPO Registration Statement and AGX IPO Prospectus for their own personal financial benefit.

1231. The AGX IPO Registration Statement and the AGX IPO Prospectus contained untrue statements of material facts or omitted to state material facts necessary to make the statements, in the light of the circumstances under which they were made, not misleading, and concealed and failed to disclose material facts.

1232. The AGX Section 12(a)(2) Defendants named in this Count owed to the purchasers of Asia Global Crossing shares, including the AGX Lead Plaintiffs and AGX Sub-Class members, the duty to make a reasonable and diligent investigation of the statements contained in the AGX IPO Registration Statement and the AGX IPO Prospectus to ensure that such statements were true and that there was no omission to state a material fact required to be stated in order to make the statements contained therein not misleading.

1233. The AGX Section 12(a)(2) Defendants named in this Count knew of, or in the exercise of reasonable care should have known of, the misstatements and omissions contained in the AGX IPO Registration Statement and AGX IPO Prospectus as set forth above.

1234. The AGX Lead Plaintiffs and other members of the AGX Sub-Class purchased or otherwise acquired Asia Global Crossing common stock pursuant to and traceable to the AGX IPO Registration Statement and the AGX IPO Prospectus. The AGX Lead Plaintiffs did not
know, nor in the exercise of reasonable diligence could have known, of the untruths or omissions which form the basis for the claims asserted in this Count.

1235. The AGX Lead Plaintiffs and other members of the AGX Sub-Class who purchased Asia Global Crossing common stock sold in the IPO have the right to rescind their purchases of the Stock and, hereby, elect to rescind and tender their stock to the defendants named in this Count for the consideration paid for these securities, together with interest thereon. In the alternative, persons who purchased shares of Asia Global Crossing common stock sold in the IPO are entitled to rescissory damages.

1236. This action was commenced within two years from the date the AGX Lead Plaintiffs discovered, or could have discovered, the misrepresentations and omissions alleged herein and within five years from the date any of the registered securities were validly received by members of the AGX sub-Class.

COUNT XX

Control Person Liability Pursuant to Section 15 of the Securities Act

(Against J.P. Morgan Chase & Co.)

1237. The AGX Lead Plaintiffs repeat and reallege each and every allegation contained above, except to the extent such allegations could be construed to charge the Defendants named in this Count with intentional or reckless misconduct as related to this claim.

1238. This Count is brought by the AGX Lead Plaintiffs against defendant J.P. Morgan Chase & Co. on behalf of themselves and all persons or entities that purchased or otherwise acquired Asia Global Crossing common stock issued pursuant to, or traceable, the AGX IPO Registration Statement.
1239. Defendant J.P. Morgan Chase & Co. acted as a controlling person of J.P. Morgan Chase Securities, Inc., and its employees. "Controlling person" has the meaning as set forth in Section 15 of the Securities Act, as alleged herein. By virtue of its ownership, executive positions, superior positions, contractual rights, participation in and/or interaction in the operations and/or underwriting of Offerings for Asia Global Crossing, as alleged above, J.P. Morgan Chase & Co. had the power to influence and control and did influence and control, directly or indirectly, the decision-making of J.P. Morgan Chase Securities, including the content and dissemination of the various statements which Plaintiffs contend are false and misleading.

1240. In particular, J.P. Morgan Chase & Co. and/or its predecessors in interest, had direct involvement in the day-to-day operations of J.P. Morgan Chase Securities and/or its predecessors in interest, and its employees and agents, and therefore are presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

1241. By reason of the aforementioned wrongful conduct, J.P. Morgan Chase & Co. is liable pursuant to Section 15 of the Securities Act by virtue of its position as controlling person of J.P. Morgan Chase Securities, and/or its predecessors, and its employees and agents liable pursuant to Section 15 of the Securities Act. As a direct and proximate result of J.P. Morgan Chase & Co.'s wrongful conduct, Plaintiffs and the other members of the Class suffered damages in connection with their purchase or acquisition of Asia Global Crossing securities.
COUNT XXI

Control Person Liability Pursuant to Section 15 of the Securities Act

(Against Microsoft, Softbank)

1242. The AGX Lead Plaintiffs repeat and reallege each and every allegation contained above, except to the extent such allegations could be construed to charge the Defendants named in this Count with intentional or reckless misconduct as related to this claim.

1243. This Count is brought by the AGX Lead Plaintiffs against defendants Microsoft and Softbank on behalf of themselves and all persons or entities that purchased or otherwise acquired Asia Global Crossing common stock issued pursuant to, or traceable, the AGX IPO Registration Statement.

1244. Defendants Microsoft and Softbank were each control persons of Asia Global Crossing by virtue of being substantial shareholders of Asia Global Crossing, each having a representative on the board of directors of Asia Global Crossing, and being parties to a shareholder agreement with Global Crossing (the third largest shareholder of Asia Global Crossing), which gave each of them substantial control of events such as the offering of securities in the Asia Global Crossing IPO.

1245. Defendant Microsoft was also a control person of defendant of Asia Global Crossing by virtue of defendants Koll and Knook serving as Microsoft's representative on Asia Global Crossing's board of directors. Defendant Softbank was also a control person of defendant of Asia Global Crossing by virtue of defendant Hippeau serving as Softbank's representative on Asia Global Crossing's board of directors.

1246. Asia Global Crossing, Koll, Knook and Hippeau each violated Section 11 of the Securities Act in connection with the Asia Global Crossing IPO. As control persons of primary
violators of Section 11 of the Securities Act, the defendants named in this Count are secondarily liable pursuant to Section 15 for those defendants’ violations of Section 11 of the Securities Act.

1247. Microsoft acted as a controlling person of its agents and employees, defendants Koll and Knook, who served on the AGX Board of Directors at Microsoft’s behest and direction, and in furtherance of their duties as employees and agents of Microsoft. Microsoft had the power to influence and control and did in fact influence and control, directly or indirectly, the decision-making of Koll and Knook, including their participation in the fraudulent scheme AGX employed to defraud investors, and the publication and dissemination of the various statements which Plaintiffs contend are false and misleading.

1248. Softbank acted as a controlling person of its agent and employee, defendant Hippeau, who served on the AGX Board of Directors at Softbank’s behest and direction, and in furtherance of his duties as employee and agent of Softbank. Softbank had the power to influence and control and did in fact influence and control, directly or indirectly, the decision-making of Hippeau, including his participation in the fraudulent scheme AGX employed to defraud investors, and the publication and dissemination of the various statements which Plaintiffs contend are false and misleading.

1249. Each of the defendants named in this Count could have discovered the misstatements or omissions of material fact if they had acted in a reasonably diligent fashion in connection with the Asia Global Crossing IPO.

1250. By reason of the aforementioned wrongful conduct, each of the defendants named in this Count are liable pursuant to Section 15 of the Securities Act. As a direct and proximate result of the wrongful conduct of each of the defendants named in this Count, the AGX Lead
Plaintiffs and the other members of the AGX Sub-Class suffered damages in connection with their purchase or acquisition of Asia Global Crossing securities.

COUNT XXII

Violation of Section 20(a) of the Exchange Act

(Against the AGX Individual Defendants, Microsoft and Softbank)

1251. The AGX Lead Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

1252. This Count is brought by the AGX Lead Plaintiffs against the AGX Individual Defendants and defendants Microsoft and Softbank on behalf of themselves and all persons or entities that purchased or otherwise acquired Asia Global Crossing securities during the AGX Class Period.

1253. The AGX Individual Defendants, Microsoft and Softbank acted as controlling persons of Asia Global Crossing within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their executive positions, Board membership and/or stock ownership, as alleged above, these AGX Individual Defendants, Microsoft, and Softbank each had the power to influence and control and did influence and control, directly or indirectly, the decision-making of Asia Global Crossing, including the content and dissemination of the various statements which Plaintiffs contend are false and misleading. The AGX Individual Defendants, Microsoft and Softbank were provided with or had unlimited access to copies of Asia Global Crossing's internal reports, press releases, public filings and other statements alleged by Plaintiffs to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.
1254. In particular, the AGX Individual Defendants, Microsoft and Softbank had the power to control and did control the day-to-day operations of Asia Global Crossing and therefore, are presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

1255. Microsoft acted as a controlling person of its agents and employees, defendants Koll and Knook, who served on the AGX Board of Directors at Microsoft's behest and direction, and in furtherance of their duties as employees and agents of Microsoft. Microsoft had the power to influence and control and did in fact influence and control, directly or indirectly, the decision-making of Koll and Knook, including their participation in the fraudulent scheme AGX employed to defraud investors, and the publication and dissemination of the various statements which Plaintiffs contend are false and misleading.

1256. Softbank acted as a controlling person of its agent and employee, defendant Hippeau, who served on the AGX Board of Directors at Softbank's behest and direction, and in furtherance of his duties as employee and agent of Softbank. Softbank had the power to influence and control and did in fact influence and control, directly or indirectly, the decision-making of Hippeau, including his participation in the fraudulent scheme AGX employed to defraud investors, and the publication and dissemination of the various statements which Plaintiffs contend are false and misleading.

1257. Defendants Winnick, Cook, Legere, Scanlon, Casey, Hindery, Clayton, Hippeau, Koll, Knook, Conway, Kent and Riesenfeld were each control persons of Asia Global Crossing by virtue of their being members of the board of directors of Asia Global Crossing. Defendants Winnick, Cook, Legere, Scanlon, Casey and Hindery were also control persons by virtue of their senior executive positions at Asia Global Crossing and their senior executive positions at Global
Crossing, which was one of the controlling shareholders of Asia Global Crossing. Defendants Koll, Knook and Hippeau were also controlling persons of Asia Global Crossing by virtue of their of their being the representatives and deputies of, respectively, defendants Microsoft and Softbank, which were each substantial shareholders of Asia Global Crossing.

1258. Defendants Microsoft and Softbank were each control persons of Asia Global Crossing by virtue of being substantial shareholders of Asia Global Crossing, each having a representative on the board of directors of Asia Global Crossing, and being parties to a shareholder agreement with Global Crossing, the third largest shareholder of Asia Global Crossing, which gave each of them substantial control of material events. Defendant Microsoft was also a control person of defendant Asia Global Crossing by virtue of defendants Koll and Knook serving as Microsoft's representatives on Asia Global Crossing’s board of directors. Defendant Softbank was also a control person of defendant of Asia Global Crossing by virtue of defendant Hippeau serving as Softbank's representative on Asia Global Crossing's board of directors.

1259. As set forth above, the AGX Individual Defendants and Asia Global Crossing committed a primary violation of Section 10(b) and Rule 10b-5 of the Exchange Act by the acts and omissions alleged in this Amended Complaint. By virtue of their positions as controlling persons of Asia Global Crossing, the AGX Individual Defendants, Microsoft and Softbank are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of the AGX Individual Defendants', Microsoft's and Softbank's wrongful conduct, the AGX Lead Plaintiffs and the other members of the AGX Sub-Class suffered damages in connection with their purchase or acquisition of Asia Global Crossing securities.
COUNT XXIII

Violation of Section 20(a) of the Exchange Act

(Against Citigroup, SSB Holdings and SSB)

1260. The AGX Lead Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

1261. This Count is brought by the AGX Lead Plaintiffs against Citigroup, SSB Holdings and SSB on behalf of themselves and all persons or entities that purchased or otherwise acquired Asia Global Crossing securities during the AGX Class Period.

1262. Citigroup acted as a controlling person of SSB Holdings, SSB and SSB's employees; SSB Holdings acted as a controlling person of SSB and SSB's employees; and SSB acted as a controlling person of its employees, including Grubman, within the meaning of Section 20(a) of the Exchange Act, as alleged herein. By virtue of its ownership, superior position, contractual rights, participation in and/or interaction in the operations and/or underwriting of the AGX IPO, as alleged above, Citigroup, SSB Holdings and SSB had the power to influence and control and did influence and control, directly or indirectly, the decision-making of SSB and its employees, including Grubman, including the content and dissemination of the various statements which Plaintiffs contend are false and misleading. Citigroup, SSB Holdings and SSB were provided with or had unlimited access to copies of SSB's company research reports on Asia Global Crossing, internal reports, press releases, public filings and other statements alleged by Plaintiffs to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.
1263. In particular, Citigroup, SSB Holdings and SSB had direct involvement in the
day-to-day operations of SSB and therefore, are presumed to have had the power to control or
influence the particular actions giving rise to the securities violations as alleged herein, and
exercised the same.

1264. As set forth above, SSB committed a primary violation of Section 10(b) and Rule
10b-5 of the Exchange Act by the acts and omissions alleged in this Amended Complaint. By
virtue of its position as a controlling person of SSB, Citigroup is liable pursuant to Section 20(a)
of the Exchange Act. As a direct and proximate result of Citigroup's wrongful conduct, the
AGX Lead Plaintiffs and the other members of the AGX Sub-Class suffered damages in
connection with their purchase or acquisition of Asia Global Crossing securities.

COUNT XXIV
Violations of the Securities Act and the Exchange Act Based Upon Respondeat Superior
(Against Microsoft and Softbank)

1265. Plaintiffs repeat and reallege the allegations contained in each of the foregoing
paragraphs.

1266. This Count is brought by the AGX Lead Plaintiffs against defendants Microsoft
and Softbank on behalf of themselves and all persons or entities that purchased or otherwise
acquired Asia Global Crossing securities during the AGX Class Period.

1267. Defendants Koll, Knook and Hippeau were agents of Microsoft and Softbank in
connection with their actions as members of the Asia Global Crossing board of directors. Asia
Global Crossing, Koll Knook, and Hippeau each performed one or more acts that violated
Sections 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, and Section 11 of
the Securities Act. Koll, Knook, and Hippeau took these actions as an employee and
representative of Microsoft and Softbank, respectively. Koll’s, Knook’s and Hippeau’s actions in issuing false and misleading statements and false and misleading Registration Statements and participating in a scheme or course of conduct that caused Asia Global Crossing to issue false and misleading SEC filings and Registration Statements were within the scope of their agency and were calculated to facilitate or promote Microsoft’s and Softbank’s business.

1268. Both Microsoft and Softbank are responsible for the actions of their agents in intentionally or recklessly issuing or causing to be issued false and misleading statements and Registration Statements, which enabled Microsoft and Softbank to reap millions of dollars from their investment in Asia Global Crossing.

1269. The AGX Lead Plaintiffs and other members of the Class suffered damages as a consequence of the actions of Koll, Knook and Hippeau, including their violations of the Securities Act and the Exchange Act.

**COUNT XXV**

Violation of the Securities Act and the Exchange Act Based Upon Respondeat Superior

(Against Andersen Worldwide)

1270. The Plaintiffs repeat and reallege the allegations contained in each of the foregoing paragraphs.

1271. Defendant Andersen and Andersen’s audit partners performing services for Asia Global Crossing were agents of Andersen Worldwide in connection with their actions as outside auditors of Global Crossing and Asia Global Crossing. Andersen and its partners took actions as the auditors of Global Crossing and Asia Global Crossing at the behest of Andersen Worldwide and such actions were within the scope of their agency and directly benefitted Andersen Worldwide.
1272. Andersen Worldwide had the power to and did control Andersen. The intentional or reckless acts of Andersen and its partners in performing audits for Global Crossing and Asia Global Crossing were calculated to facilitate or promote Andersen Worldwide's business.

1273. Andersen Worldwide is responsible for the actions of its agents, Andersen and its audit partners, for all actions or inactions they performed in providing auditing services to Global Crossing and Asia Global Crossing.

1274. Plaintiffs suffered damages as a consequence of Andersen Worldwide's agents' actions or non-actions giving rise to violations of the Securities Act and the Exchange Act in connection with Global Crossing's and Asia Global Crossing's audits.

COUNT XXVI

Violations of the Securities Act and the Exchange Act Based Upon Respondeat Superior
(Against Citigroup, SSB Holdings and SSB)

1275. Plaintiffs repeat and reallege the allegations contained in each of the foregoing paragraphs.

1276. This Count is brought by Plaintiffs against defendant Citigroup, SSB Holdings and SSB on behalf of themselves and all persons or entities that purchased or otherwise acquired Global Crossing securities or Asia Global Crossing securities during the Class Period or the AGX Class Period.

1277. SSB's employees, including Carpenter, Grubman and Gouchico, McCaffrey, and Sobti, were agents of SSB, and SSB and its employees were agents of Citigroup and SSB Holdings in connection with SSB's actions in intentionally or recklessly issuing false and misleading analyst research reports and registration statements for Global Crossing and Asia Global Crossing. SSB and its employees took actions as a subsidiary, representative and agent
of Citigroup and SSB Holdings and performed one or more acts that violated Sections 10(b) of
the Exchange Act and Rule 10b-5 promulgated thereunder and Section 11 and Section 12(a)(2)
of the Securities Act. SSB’s and SSB’s employees’ actions in issuing false and misleading
analyst reports and false and misleading Registration Statements and participating in a scheme or
course of conduct that caused Global Crossing and Asia Global Crossing to issue false and
misleading SEC filings and Registration Statements were within the scope of its agency and were
calculated to facilitate or promote Citigroup’s, SSB Holdings’s and SSB’s business.

1278. Citigroup, SSB Holdings, and SSB are responsible for the actions of its agents in
intentionally or recklessly issuing or causing to be issued false and misleading analyst reports
and false and misleading registration statements, which enabled Citigroup, SSB Holdings and
SSB to reap millions of dollars in investment banking fees from Global Crossing and Asia
Global Crossing.

1279. Plaintiffs suffered damages as a consequence of the actions of Citigroup, SSB
Holdings and SSB, including SSB’s and SSB’s employees’ violations of the Securities Act and
the Exchange Act.

COUNT XXVII

Violations of the Securities Act and the Exchange Act Based Upon Respondeat Superior
(Against CIBC and CIBC World Markets)

1280. Plaintiffs incorporate herein by reference and reallege each and every allegation
contained in the preceding paragraphs of this Complaint as if fully set forth herein.

1281. This Count is brought by Plaintiffs against defendants CIBC and CIBC World
Markets on behalf of themselves and all persons or entities that purchased or otherwise acquired
Global Crossing securities or Asia Global Crossing securities during the Class Period or the AGX Class Period.

1282. CIBC World Market’s employees, including Raben, Phoenix, Levine, Kehler and Bloom were agents of CIBC and CIBC World Markets, in connection with their service on Global Crossing’s board of directors. CIBC World Markets was an agent of CIBC in appointing its employees to serve as directors of Global Crossing. As alleged above, CIBC World Markets Employees’s, including Raben, Phoenix, Levine, Kehler, and Bloom, performed one or more acts that violated Sections 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder and Section 11 and Section 12(a)(2) of the Securities Act, all within the scope of their employment with CIBC World Markets and at the direction, control and behest of CIBC.

1283. CIBC World Markets performed one or more acts that violated Section 11 and Section 12(a)(2) of the Securities Act, all at the direction of and within the scope of its role as an agent of CIBC, in connection with its role as underwriter for the AGX IPO.

1284. CIBC World Markets’s employees’ actions in participating in the rampant fraud at Global Crossing, and participating in a scheme or course of conduct that caused Global Crossing to issue false and misleading SEC filings and Registration Statements, were within the scope of their employment and were calculated to facilitate or promote CIBC’s and CIBC World Markets’ business.

1285. CIBC World Markets’ and its employees’ actions in participating in a scheme and course of conduct that caused Asia Global Crossing to issue false and misleading SEC filings and Registration Statements were in the course of their employement and/or agency and were calculated to facilitate or promote CIBC’s business.

**COUNT XXVIII**

(Common Law Fraud For Inducing Plaintiffs To Purchase Global Crossing Securities)

(Against “Settling Defendants”)

1287. Plaintiffs incorporate herein by reference and reallege each and every allegation contained in the preceding paragraphs of this Complaint as if fully set forth herein.

1288. This cause of action is asserted against all Settling Defendants, based on common law principles of fraud and conspiracy, by Lead Plaintiffs on behalf of themselves and members of a class comprised solely of other States, political subdivisions or State pension plans, as defined in 15 U.S.C. § 77p, that have authorized participation in this action.

1289. As alleged herein, each of the Settling Defendants made material misrepresentations, or omitted to disclose material facts, to Plaintiffs and the investing public regarding Global Crossing’s financial condition.

1290. In addition, the Settling Defendants each conspired with each other for the purpose of misleading Plaintiffs and the investing public regarding Global Crossing’s financial condition, and each committed overt acts, including the making of false and misleading statements, in furtherance of such conspiracy.

1291. The aforesaid misrepresentations and omissions by Settling Defendants were made intentionally, or at a minimum recklessly, to induce reliance thereon by Plaintiffs and the investing public when making investment decisions.
1292. The aforesaid misrepresentations and omissions by Settling Defendants constitute fraud and deceit under applicable state law.

1293. The aforesaid conduct by Settling Defendants also constitutes conspiracy to commit fraud and deceit under applicable state law.

1294. Plaintiffs reasonably relied on Settling Defendants' representations when deciding to purchase Global Crossing's securities.

1295. At the time Global Crossing’s securities were purchased by Plaintiffs, Plaintiffs did not know of any of the false and/or misleading statements and omissions.

1296. As a direct and proximate result of the fraud and deceit of Settling Defendants, Plaintiffs suffered damages in connection with their purchases of Global Crossing’s securities.

COUNT XXIX

(Common Law Fraud For Inducing Plaintiffs To Hold Global Crossing Securities)

(Against the “Settling Defendants”)

1297. Plaintiffs incorporate herein by reference and reallege each and every allegation contained in the preceding paragraphs of this Complaint as if fully set forth herein.

1298. This cause of action is asserted against the Settling Defendants based on common law principles of fraud and conspiracy by Lead Plaintiffs on behalf of themselves and members of a class comprised solely of other States, political subdivisions or State pension plans, as defined in 15 U.S.C. § 77p, that have authorized participation in this action.

1299. As alleged herein, each of the Settling Defendants made material misrepresentations, or omitted to disclose material facts, to Plaintiffs and the investing public regarding Global Crossing’s financial condition.
1300. In addition, the Settling Defendants each conspired with each other for the purpose of misleading Plaintiffs and the investing public regarding Global Crossing's financial condition, and each committed overt acts, including the making of false and misleading statements, in furtherance of such conspiracy.

1301. The aforesaid misrepresentations and omissions by Settling Defendants were made intentionally, or at a minimum recklessly, to induce reliance thereon by Plaintiffs and the investing public when making investment decisions.

1302. The aforesaid misrepresentations and omissions by Settling Defendants constitute fraud and deceit under applicable state law.

1303. The aforesaid conduct by Settling Defendants also constitutes conspiracy to commit fraud and deceit under applicable state law.

1304. Plaintiffs reasonably relied on Settling Defendants' representations when deciding to hold (and refrain from selling) Global Crossing's securities.

1305. Specifically, with respect to deciding whether to hold (and refrain from selling) Global Crossing's securities, Plaintiffs continued to rely on Settling Defendants' statements regarding the Company's "Adjusted EBITDA" and "Cash Revenues".

1306. At the time Global Crossing's securities was held by Plaintiffs, Plaintiffs did not know of any of the false and/or misleading statements and omissions.

1307. As a direct and proximate result of the fraud and deceit of Settling Defendants, Plaintiffs suffered damages in connection with their decisions to refrain from selling Global Crossing's securities.
COUNT XXX

(Negligent Misrepresentation For Inducing Plaintiffs
To Purchase Global Crossing’s Securities)

(Against the “Settling Defendants”)

1308. Plaintiffs incorporate herein by reference and reallege each and every allegation contained in the preceding paragraphs of this Complaint as if fully set forth herein.

1309. This cause of action is asserted against the Settling Defendants by Lead Plaintiffs on behalf of themselves and members of a class comprised solely of other States, political subdivisions or State pension plans, as defined in 15 U.S.C. § 77p, that have authorized participation in this action.

1310. The Settling Defendants made the materially false and misleading statements, set forth above, regarding *inter alia*, the sales, income and revenues of the Company and regarding the accounting practices of the Company.

1311. The Settling Defendants knew, or should have known in the exercise of reasonable care, that their statements regarding the Company’s sales, income, revenues and accounting practices were materially false and misleading.

1312. Settling Defendants owed Plaintiffs a duty of reasonable care in connection with the provision of information concerning the financial condition of Global Crossing. Settling Defendants breached these duties knowingly, wantonly, recklessly, or at least negligently, by including untrue statements of material facts and/or omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading in Global Crossing’s financial statements disseminated to Plaintiffs and their agents.
1313. Plaintiffs and their agents justifiably relied to their detriment upon the integrity of 
Global Crossing’s financial statements in purchasing Global Crossing securities.

1314. The Settling Defendants had actual knowledge of the misrepresentations and 
omissions of material facts set forth above, or acted with reckless disregard for the truth of those 
representations in that they failed to ascertain and to disclose such facts, even though such facts 
were available to them. Such material misrepresentations and/or omissions were made 
knowingly or recklessly and for the purpose and effect of concealing Global Crossing’s 
operating condition and future business prospects from the investing public and supporting the 
artificially inflated price of the Company’s securities. As demonstrated by the Settling 
Defendants’ overstatements and misstatements of the Company’s business, operations and 
earnings, the Settling Defendants, if they did not have actual knowledge of the 
misrepresentations and omissions set forth above, were reckless in failing to obtain such 
information by deliberately refraining from taking those steps necessary to discover whether 
those statements were materially false or misleading.

1315. The Plaintiffs, as investors, were entitled to rely and justified in relying on the 
representations made by the Settling Defendants, set forth above, regarding the Company’s 
income, revenue, accounting practices and financial performance. Plaintiffs reasonably relied on 
Settling Defendants’ representations when deciding to purchase Global Crossing’s securities. 
Plaintiffs had no actual knowledge of the false and misleading nature of the Settling Defendants’ 
statements when purchasing Global Crossing’s securities.

1316. As a direct and proximate result of the dissemination of the materially false and 
misleading information and failure to disclose material facts, as set forth above, the market price
of Global Crossing’s securities was artificially inflated and Plaintiffs suffered damages in connection with their purchases of Global Crossing’s securities.

1317. In ignorance of the fact that market prices of Global Crossing’s publicly-traded securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by the Settling Defendants, and/or in the absence of knowledge of material adverse information that was known to the Settling Defendants, Plaintiffs purchased Global Crossing’s securities and was damaged when the price of that security declined.

COUNT XXXI

(Negligent Misrepresentation For Inducing Plaintiffs To Hold Its Global Crossing’s Securities)

(Against All Settling Defendants)

1318. Plaintiffs incorporate herein by reference and reallege each and every allegation contained in the preceding paragraphs of this Complaint as if fully set forth herein.

1319. This cause of action is asserted against the Settling Defendants by Lead Plaintiffs on behalf of themselves and members of a class comprised solely of other States, political subdivisions or State pension plans, as defined in 15 U.S.C. § 77p, that have authorized participation in this action.

1320. The Settling Defendants made the materially false and misleading statements, set forth above, regarding inter alia, the sales, income and revenues of the Company and regarding the accounting practices of the Company.

1321. The Settling Defendants knew, or should have known in the exercise of reasonable care, that their statements regarding the Company’s sales, income, revenues and accounting practices were materially false and misleading.
1322. Settling Defendants owed Plaintiffs a duty of reasonable care in connection with the provision of information concerning the financial condition of Global Crossing. Settling Defendants breached these duties knowingly, wantonly, recklessly, or at least negligently, by including untrue statements of material facts and/or omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading in Global Crossing’s financial statements disseminated to Plaintiffs and their agents.

1323. Plaintiffs and their agents justifiably relied to its detriment upon the integrity of Global Crossing’s financial statements when deciding to hold (and refrain from selling) Global Crossing’s securities. Had Plaintiffs and/or their agents been aware of the true facts, they would not have retained Global Crossing’s securities.

1324. The Settling Defendants had actual knowledge of the misrepresentations and omissions of material facts set forth above, or acted with reckless disregard for the truth of those representations, in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such material misrepresentations and/or omissions were made knowingly or recklessly and for the purpose and effect of concealing Global Crossing’s operating condition and future business prospects from the investing public and supporting the artificially inflated price of the Company’s securities. As demonstrated by the Settling Defendants’ overstatements and misstatements of the Company’s business, operations and earnings, the Settling Defendants, if they did not have actual knowledge of the misrepresentations and omissions set forth above, were reckless in failing to obtain such information by deliberately refraining from taking those steps necessary to discover whether those statements were materially false or misleading.
The Plaintiffs, as investors, were entitled to rely and justified in relying on the representations made by the Settling Defendants, set forth above, regarding the Company’s income, revenue, accounting practices and financial performance. Plaintiffs reasonably relied on Settling Defendants’ representations when deciding to hold (and refrain from selling) Global Crossing’s securities. Plaintiffs had no actual knowledge of the false and misleading nature of the Settling Defendants’ statements when deciding to hold and holding Global Crossing’s securities.

As a direct and proximate result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market price of Global Crossing’s securities was artificially inflated and Plaintiffs suffered damages in connection with their decisions to refrain from selling Global Crossing’s securities.

In ignorance of the fact that market prices of Global Crossing’s publicly-traded securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by the Settling Defendants, and/or in the absence of knowledge of material adverse information that was known to the Settling Defendants, Plaintiffs held Global Crossing’s securities and was damaged when the price of that security declined.

**COUNT XXXII**

(Violation of California Corporations Code §§ 25400(d), 25403 & 25500)

(Against All Settling Defendants)

Plaintiffs incorporate herein by reference and reallege each and every allegation contained in the preceding paragraphs of this Complaint as if fully set forth herein.

This cause of action is brought pursuant to California Corporations Code §§ 25400(d), 25403 and 25500 against all Settling Defendants by Lead Plaintiffs on behalf of
themselves and members of a class comprised solely of other States, political subdivisions or State pension plans, as defined in 15 U.S.C. § 77p, that have authorized participation in this action.

1330. Settling Defendants willfully participated in violations of California Corporations Code § 25400(d). As set forth above, Settling Defendants, and each of them, made or caused to be made statements in applications, press releases, reports and documents filed with the SEC pursuant to the Securities Exchange Act of 1934 or any rule or regulation thereunder, including statements in applications, press releases, reports and documents filed with the SEC pursuant to the Securities Exchange Act of 1934 or any rule or regulation thereunder, including Global Crossing’s 10-Ks and 10-Qs, which were, at the time and in light of the circumstances under which they were made, false or misleading with respect to material facts or which omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.

1331. The false and misleading statements were distributed to investors and potential investors, including Plaintiffs, in California. Global Crossing has substantial operations in California. Global Crossing’s securities were sold or offered for sale to Plaintiffs in California. All Settling Defendants’ false and misleading statements were intended to and did enter into and were disseminated in California both directly and by way of the nationwide release of press releases, nationwide telephone conference calls and interviews which the Settling Defendants knew or should have known would be disseminated on a national if not worldwide basis.

1332. As set forth above, Settling Defendants knew or had reasonable ground to believe that such statements were false or misleading and knowingly made such false and misleading 506
statements with the deliberate intent to affect the price of Global Crossing's securities and to
induce the purchase of such securities.

1333. Settling Defendants' statements as set forth herein, including statements regarding
Global Crossing's accounting practices, financial results and then existing business conditions
were expressly materially false and misleading. Settling Defendants' statements as set forth
herein were also materially false and misleading because the Settling Defendants knew or had
access to the materially adverse non-public information about Global Crossing's accounting
practices, financial results and then existing business conditions, which were not disclosed.

1334. The Settling Defendants participated in drafting, reviewing and/or approving the
misleading statements, releases, reports and other public representations relating to the financial
statements of Global Crossing and had an obligation to inform themselves and the shareholders,
including Plaintiffs, of the accounting policies and procedures, as well as the financial statements
of the Company.

1335. The Settling Defendants also each directly and indirectly controlled and induced
Global Crossing to violate § 25400 of the California Corporation Code and provided substantial
assistance to Global Crossing's violations of § 25400 of the California Corporation Code.

1336. The Settling Defendants sold or offered for sale Global Crossing's securities
during the time period Plaintiffs purchased their shares of Global Crossing's common securities.

1337. During the time period that Plaintiffs purchased their Global Crossing securities,
Defendant Global Crossing was constantly selling or offering for sale Global Crossing securities
via registration statements.

1338. These materially false and misleading statements proximately caused Plaintiffs to
purchase Global Crossing securities at prices which were affected by the Settling Defendants'
conduct, and thereby proximately caused Plaintiffs to suffer damages at least equal to the
difference between the consideration paid by Plaintiffs for Global Crossing securities and the
value Global Crossing securities would have had at the time of purchase in the absence of
Settling Defendants' conduct.

1339. By virtue of the foregoing, the Settling Defendants have violated California
Corporation Code §§ 25400, 25403 and 25500.

COUNT XXXIII

(Violation of California Corporations Code §§ 25401, 25501, 25504)

(Against All Settling Defendants)

1340. Plaintiffs incorporate herein by reference and reallege each and every allegation
contained in the preceding paragraphs of this Complaint as if fully set forth herein

1341. This cause of action is brought pursuant to California Corporations Code
§§25401, 25501 and 25504 against all Settling Defendants by Lead Plaintiffs on behalf of
themselves and members of a class comprised solely of other States, political subdivisions or
State pension plans, as defined in 15 U.S.C. § 77p, that have authorized participation in this
action.

1342. Global Crossing committed a primary violation of California Corporations Code
§§ 25401 and 25501 by selling Global Crossing's securities to Plaintiffs in California by means
of materially false, and misleading Form 10-K and 10-Q filings, press releases, and other public
statements (as described herein).

1343. Global Crossing acted intentionally, or was at least negligent by failing to
exercise reasonable care in ensuring that the SEC filings, press releases and other public
statements, were accurate and complete.
1344. Each of the Settling Defendants was an officer or director of Global Crossing at the time of Global Crossing’s violations of §§ 25401 and 25501. The Settling Defendants materially aided in acts or transactions by which Global Crossing violated §§ 25401 and 25501, including by supplying the financial data for, and/or participating in the preparation of, public statements, including the Form 10-K and 10-Q filings which were filed with the SEC and disseminated to investors, including Plaintiffs.

1345. Each of the Settling Defendants controlled Global Crossing within the meaning of California Corporations Code § 25504. By virtue of their high level positions with Global Crossing, their participation in and/or awareness of Global Crossing’s finances and operations, and/or their intimate knowledge of the materially false, misleading, and incomplete statements which were disseminated to investors including Plaintiffs, these Settling Defendants had the power to influence and control, and did influence and control, directly or indirectly, the decision-making process of Global Crossing, including the content and dissemination of the public statements which were false and misleading. These Settling Defendants were provided with, or had unlimited access to, the SEC filings and other statements that were false and misleading prior to and/or shortly after they were issued or publicly disseminated, and had the ability to prevent their issuance or public dissemination, or cause the misstatements and omissions to be corrected, but failed to do so.

1346. Each of the Settling Defendants knew, or had reasonable grounds to believe, that the Company’s statements were materially false and misleading statements or omitted material facts.
1347. During the time period that Plaintiffs purchased their Global Crossing’s securities, Global Crossing was constantly selling or offering for sale Global Crossing’s securities via registration statements.

1348. The Settling Defendants sold or offered for sale Global Crossing’s securities during the time period Plaintiffs purchased their shares of Global Crossing’s securities.

1349. Each purchase of Global Crossing securities by Plaintiffs was made without knowledge of the Company’s uncorrected false and misleading statements and omissions of material fact, and was made in reliance on the truth, accuracy and completeness of the Company’s public statements, including statements in its Form 10-K and 10-Q filings (including those later determined to be materially false and misleading).

1350. These materially false and misleading statements proximately caused Plaintiffs to purchase Global Crossing’s securities and thereby proximately caused Plaintiffs to suffer damages in an amount at least equal to the difference between the consideration paid by Plaintiffs for Global Crossing’s securities and the current value of Global Crossing’s securities.

1351. By virtue of their positions as directors, principal executive officers, and/or controlling persons of Global Crossing, the Individual Settling Defendants are liable pursuant to California Corporations Code §25504.

1352. The Individual Settling Defendants are also liable pursuant to § 25504 because they are employees of Global Crossing who materially aided in the acts or transactions constituting Global Crossing’s violations of § 25501.
COUNT XXXIV

(For Violation of California Corporations Code § 25504.1)

(Against All Settling Defendants)

1353. Plaintiffs incorporate herein by reference and reallege each and every allegation contained in the preceding paragraphs of this Complaint as if fully set forth herein.

1354. This cause of action is brought pursuant to California Corporations Code § 25504.1 against the Settling Defendants by Lead Plaintiffs on behalf of themselves and members of a class comprised solely of other States, political subdivisions or State pension plans, as defined in 15 U.S.C. § 77p, that have authorized participation in this action.

1355. As alleged above, Global Crossing committed a primary violation of California Corporations Code § 25401 by offering and selling Global Crossing's securities by means of materially false and misleading Form 10-K and 10-Q filings, as well as other false and misleading statements (as described herein).

1356. The Settling Defendants materially assisted Global Crossing's violation of § 25401 by supplying the financial data for and/or participating in the preparation of the materially false public statements, including Form 10-K and 10-Q filings which were filed with the SEC and disseminated to investors, including Plaintiffs.

1357. The Settling Defendants intended to deceive or defraud investors, including Plaintiffs, knowing that the statements contained in the public statements described herein, including statements in Global Crossing's Form 10-K and 10-Q filings were false and misleading.

1358. Each purchase of Global Crossing's securities by Plaintiffs was made without knowledge of the Company's uncorrected false and misleading statements and omissions of
material fact, and was made in reliance on the truth, accuracy and completeness of the Company’s statements (including those in the Form 10-K and 10-Q filings which were later determined to be materially false and misleading).

1359. These materially false and misleading statements proximately caused Plaintiffs to purchase Global Crossing’s securities. As a result of Settling Defendants’ conduct, Plaintiffs are without a plain, speedy and adequate remedy at law and hereby tender their Global Crossing’s securities and seeks rescission of their purchases to the extent that continue to own such securities in an amount reflecting the consideration paid for Global Crossing’s securities.

**COUNT XXXV**

*(For Violation of California Corporations Code § 1507)*

*(Against the Settling Defendants)*

1360. Plaintiffs incorporate herein by reference and reallege each and every allegation contained in the preceding paragraphs of this Complaint as if fully set forth herein.

1361. This cause of action is brought pursuant to California Corporations Code § 1507 against the Individual Settling Defendants by Lead Plaintiffs on behalf of themselves and members of a class comprised solely of other States, political subdivisions or State pension plans, as defined in 15 U.S.C. § 77p, that have authorized participation in this action.

1362. Each Settling Defendant participated in the making, issuance, and publication of public notices and reports, earnings announcements, financial statements, balance sheets, and other documents respecting Global Crossing’s assets, liabilities, capital, business, sales and earnings, which were false in material respects. For example, each of these Settling Defendants participated in the making, issuance, and publication of one or more of the following: Global Crossing’s 1999, 2000 and 2001 Form 10-K filings, and the financial statements and balance
sheets contained therein; Global Crossing’s Form 10-Q filings from the first quarter of 1999 through the first two quarters of 2002, and the financial statements and balance sheets contained therein; and/or press releases announcing Global Crossing’s quarterly financial results for that same time period. All of these documents contained materially false and misleading statements, and omitted material facts, regarding Global Crossing’s financial condition.

1363. Each of these Settling Defendants participated in the making, issuance, and publication of these documents and statements with knowledge that they were materially false and with the intent to deceive.

1364. Plaintiffs relied on the accuracy and completeness of the Settling Defendants’ statements (including the statements later determined to be materially false and misleading) when purchasing Global Crossing’s securities.

1365. These materially false and misleading statements proximately caused Plaintiffs to purchase Global Crossing’s securities and thereby proximately caused Plaintiffs to suffer damages in an amount at least equal to the difference between the consideration paid by Plaintiffs for the securities and the current value of the securities.

1366. Further, during the Class Period each Settling Defendant participated in the making, issuance, and publication of additional public notices, reports, announcements and other documents respecting the Company, its assets, liabilities, business and earnings. For example, each of these Settling Defendants participated in the making, issuance, and publication of one or more of the following: Global Crossing’s Form 10-Q filing from the second quarter of 2002 and the financial statements and balance sheets contained therein; and/or press releases, conference calls and announcements regarding its revenues, “Adjusted EBITDA” and “Cash Revenues”.
1367. All of these documents contained materially false and misleading statements, and
omitted material facts, regarding Global Crossing’s financial condition because, among other
reasons, they failed to adequately describe the nature and extent of Global Crossing’s accounting
practices, as described above which the Settling Defendants utilized to materially overstate
Global Crossing’s Revenues, Adjusted EBITDA and Cash Revenues.

1368. Each of these Settling Defendants participated in the making, issuance, and
publication of these documents and statements with knowledge that they were materially false
and with the intent to deceive.

1369. Plaintiffs relied on the accuracy and completeness of the Settling Defendants’
statements (including the statements later determined to be materially false and misleading)
when deciding to hold and to refrain from selling Global Crossing’s securities.

COUNT XXXVI

FOR COMMON LAW BREACH OF FIDUCIARY DUTY

(Against the Settling Defendants)

1370. Plaintiffs incorporate herein by reference and reallege each and every allegation
contained in the preceding paragraphs of this Complaint as if fully set forth herein.

1371. This cause of action is brought against the Settling Defendants by Lead Plaintiffs
on behalf of themselves and members of a class comprised solely of other States, political
subdivisions or State pension plans, as defined in 15 U.S.C. § 77p, that have authorized
participation in this action.

1372. The Settling Defendants were officers and/or directors of Global Crossing during
the Class Period and as a result of their respective positions, owed to the holders of Global
Crossing securities a fiduciary duty of utmost good faith, honesty and fair dealing.
1373. The Settling Defendants made materially false and misleading statements, set forth above, regarding *inter alia*, the sales, income and revenues of the Company and regarding the accounting practices of the Company.

1374. The Settling Defendants knew, or should have known in the exercise of reasonable care, that their statements regarding the Company’s sales, income, revenues and accounting practices were materially false and misleading.

1375. Settling Defendants owed Plaintiffs a fiduciary duty to honestly, fairly and accurately communicate information concerning the financial condition of Global Crossing. Settling Defendants breached these duties knowingly, wantonly, recklessly, or at least negligently, by including untrue statements of material facts and/or omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading in Global Crossing’s financial statements disseminated to Plaintiffs and their agents.

1376. Plaintiffs and their agents justifiably relied to their detriment upon the integrity of Global Crossing’s financial statements in purchasing Global Crossing securities.

1377. The Settling Defendants had actual knowledge of the misrepresentations and omissions of material facts set forth above, or acted with reckless disregard for the truth of those representations in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such material misrepresentations and/or omissions were made knowingly or recklessly and for the purpose and effect of concealing Global Crossing’s operating condition and future-business prospects from the investing public and supporting the artificially inflated price of the Company’s securities. As demonstrated by the Settling Defendants’ overstatements and misstatements of the Company’s business, operations and
earnings, the Settling Defendants, if they did not have actual knowledge of the misrepresentations and omissions set forth above, were reckless in failing to obtain such information by deliberately refraining from taking those steps necessary to discover whether those statements were materially false or misleading.

1378. As a direct and proximate result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market price of Global Crossing’s securities was artificially inflated and Plaintiffs suffered damages in connection with their purchases of Global Crossing’s securities.

1379. In ignorance of the fact that market prices of Global Crossing’s publicly-traded securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by the Settling Defendants, and/or in the absence of knowledge of material adverse information that was known to the Settling Defendants, Plaintiffs purchased Global Crossing’s securities and was damaged when the price of that security declined.

1380. These materially false and misleading statements proximately caused Plaintiffs to hold and to refrain from selling Global Crossing’s securities and thereby proximately caused Plaintiffs to suffer damages in an amount to be determined.
PRAYER FOR RELIEF

WHEREFORE, Plaintiffs pray for relief and judgment, as follows:

a. Determining that this action is a proper class action, and certifying Plaintiffs as class representatives under Rule 23 of the Federal Rules of Civil Procedure;

b. Awarding compensatory damages in favor of Plaintiffs and the other class members against all defendants, jointly and severally, for all damages sustained as a result of the defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

c. Awarding Plaintiffs and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees;

d. Compel the defendants to disgorge all proceeds they realized from their illegal insider trading;

e. Restitution of investors' monies of which they were defrauded;

f. As to the §§11, 12(a)(2) and/or §15 claims, awarding rescission or a rescissionary measure of damages; and

g. Awarding such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiffs hereby demand a trial by jury on all claims so triable.

Dated: March 22, 2004

Jay W. Eisenhofer
Sidney S. Liebesman (SL 8444)
Michael J. Barry
Eric Lechtzin
Sharan Nirmul

GRANT & EISENHOFER, P.A.
1201 North Market Street, Suite 2100
Wilmington, DE 19801
Telephone: (302) 622-7000
Facsimile: (302) 622-7100

LEAD COUNSEL FOR PLAINTIFFS
EXECUTIVE COMMITTEE MEMBERS
Sherrie R. Savett
Barbara A. Podell
BERGER & MONTAGUE, P.C.
1622 Locust Street
Philadelphia, PA 19103
Telephone: (215) 875-3000
Facsimile: (215) 875-4604
Counsel for Staro Asset Management

Carol V. Gilden
Michael E. Moskovitz
MUCH SHELIST FREED DENENBERG, AMENT & RUBENSTEIN, P.C.
191 North Wacker Drive, Suite 1800
Chicago, Illinois 60606-1615
Telephone: (312) 521-2000
Facsimile: (312) 521-2100
Counsel for Bennett Restructuring Funds

John Halebian (JH 8005)
Robert W. Rodriguez (RR 3002)
LOVELL STEWART HALEBIAN LLP
500 Fifth Ave.
New York, NY 10110
Telephone: (212) 608-1900
Facsimile: (212) 719-4677
Counsel for Richard P. Kleinknecht

Dennis J. Johnson, Esq.
Jacob B. Perkinson, Esq.
JOHNSON & PERKINSON
1690 Williston Road
South Burlington, Vermont 05403
Telephone: (802) 862-0030
Facsimile: (802) 862-0060
Counsel for James F. Tucker

Joseph H. Weiss Esq.
WEISS & YOURMAN
551 Fifth Avenue, Suite 1600
New York, NY 10176
Telephone: (212) 682-3025
Facsimile: (212) 682-3010
Counsel for Michael A. Bernstein Profit Sharing Plan and Roman Foltyn
COUNSEL FOR BELLA PILL
Alan R. Plutzik
Bramson, Plutzik, Mahler & Birkhaeuser, LLP
2125 Oak Grove Road, Suite 120
Walnut Creek, California 94598
Telephone: 925-945-0200
Facsimile: 925-945-8792

COUNSEL FOR BERNIE I. SHUSTER
Richard D. Greenfield
Greenfield & Goodman LLC
24579 Deep Neck Road
Royal Oak, MD 21662
Telephone: 410-745-4149
Facsimile: 410-745-4158

COUNSEL FOR MICHAEL A. BERNSTEIN PROFIT SHARING PLAN & ROMAN FOLTYN
Jeffrey S. Abraham
Abraham & Associates
One Penn Plaza, Suite 1910
New York, NY 10119
Telephone: (212) 714-2444
Facsimile: (212) 279-3655
CERTIFICATE OF SERVICE

Michael J. Barry, hereby certifies that on March 23, 2004, copies of the foregoing document were served by U.S. mail upon the following counsel at the addresses listed below:

PAUL, WEISS, RIFKIND, WHARTON & GARRISON LLP
Joyce S. Huang
Martin London
Richard Rosen
Brad S. Karp
Eric S. Goldstein
1285 Avenue of the Americas
New York, NY 10019-6064

WILMER, CUTLER & PICKERING
Peter K. Vigeland
399 Park Avenue
New York, NY 10022

DEBEVOISE & PLIMPTON
Ralph C. Ferrara
Ann M. Ashton
555 13th Street N.W.
Washington, DC 20004

DEBEVOISE & PLIMPTON
Jonathan E. Richman
919 Third Avenue
New York, NY 10022

MAYER, BROWN, ROWE & MAW
T. Mark McLaughlin
Robert J. Ward
190 South LaSalle Street
Chicago, IL 60603

CHRISTENSEN, MILLER, FINK, JACOBS, GLASER, WEIL AND SHAPIRO LLP
Terry N. Christensen
Suite 1900
10250 Constellation Blvd.
Los Angeles, CA 90067

CURTIS MALLEY-PREVOST, COLT & MOSLE LLP
Peter Fleming
Eliot Lauer
Jacques Semmelman
Jonathan Harris
101 Park Avenue
New York, NY 10178

MAYER, BROWN, ROWE & MAW
Robert J. Ward
1675 Broadway
New York, NY 10019

PAUL, HASTINGS, JANOFSKY & WALKER LLP
J. Allen Maines
600 Peachtree Street, NE, Suite 2400
Atlanta, GA 30308

MELVENY & MYERS LLP
Jonathan Rosenberg
400 South Hope Street
Los Angeles, CA 90071-2899

KAYE SCHOLER, LLP
Aaron Stiefel
425 Park Avenue
New York, NY 10022

IRELL & MANELLA, LLP
Charles Elder
David Siegel
1800 Avenue of the Stars
Los Angeles, CA 90067
HENNIGAN, BENNETT & DORMAN
Jeanne Irving
601 South Figueroa Street, Suite 330
Los Angeles, CA  90017

ROPE & GRAY
Philip S. Khinda
Robert Jones
One Franklin Square, Suite 800 East
1301 K Street, NW
Washington, D.C.  20005

DAVIS, POLK & WARDWELL
Thomas P. Ogden
450 Lexington Avenue
New York, NY  10017

SHEARMAN & STERLING
Kenneth M. Kramer
Richard Schwed
Amy L. Newhardt
599 Lexington Ave.
New York, NY  10022-6069

HOWREY SIMON ARNOLD & WHITE, LLP
Robert E. Gooding, Jr.
2020 Main Street, Suite 1000
Irvine, CA  92614

FRIED, FRANK, HARRIS, SHRIVER & JACOBSON
Peter L. Simmons
Howard W. Goldstein
One New York Plaza
New York, NY  10004

SONNENSchein NATH & ROSENTHAL
D. Ward Kallstrom
685 Market Street, 6th Floor
San Francisco, CA  94105

CLIFFORD CHANCE US LLP
George A. Schieren
Ignatius Grande
Met Life Building
200 Park Ave.
New York, NY  10166

MORVILLO, ABRAMOWITZ, GRAND, IAISON & SILBERBERG, P.C.
Edward M. Spiro
Lawrence Iason
565 Fifth Avenue
New York, NY  10017

Michael J. Batry