PIRELLI ARMSTRONG TIRE CORPORATION RETIREE MEDICAL BENEFITS TRUST, et al., On Behalf of Themselves and All Others Similarly Situated, Plaintiffs,

vs.

HANOVER COMPRESSOR COMPANY, et al., Defendants.

SECOND AMENDED COMPLAINT FOR VIOLATION OF THE FEDERAL SECURITIES LAWS

Civil Action No. H-02-0410 (Consolidated)
INTRODUCTION AND OVERVIEW

1. This is a securities class action on behalf of all persons who purchased the publicly-traded securities of Hanover Compressor Company or entities affiliated therewith ("Hanover" or the "Company") between May 4, 1999 and December 23, 2002 (the "Class Period"). Plaintiffs allege violations of the federal securities laws by Hanover, certain of its officers and directors, as well as PricewaterhouseCoopers LLP ("PWC"), the Company’s auditor.

2. Hanover’s financial statements for 1999, 2000 and 2001 violated Generally Accepted Accounting Principles ("GAAP") and were false when issued. Indeed, *Hanover has restated these financials three times. By restating these financials, Hanover has admitted that they violated GAAP at the time they were issued.*

3. In total, revenues were overstated by $5.1 million in 1999, by $41 million in 2000 and by $31 million in 2001:

<table>
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<tr>
<th>Hanover Reported vs. Restated Results (in thousands)</th>
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<tbody>
<tr>
<td>3 months ended 12/31/99</td>
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<td>Revenues</td>
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<td>Reported</td>
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<td>Net Income</td>
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<tr>
<th>Revenues</th>
<th>3/31/00</th>
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<td>Restated</td>
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<td>Net Income</td>
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<tr>
<td>Reported</td>
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<td>$12,773</td>
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<td>$10,743</td>
<td>$11,870</td>
<td>$16,194</td>
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4. Hanover’s financial statements violated GAAP with regard to at least nineteen transactions, representing over $77 million in revenue over a period of twenty-seven months. The violations took many forms. For example, the Company repeatedly recognized revenue before controlling transactional documents had even been signed. It recognized revenue when customers committed to purchase products, even though it was highly unlikely they would ever be able to pay. The Company also treated consignments sales and loan repayments as if they were sales and improperly recognized revenue associated with them.

5. PWC had direct knowledge of most of these accounting violations and recklessly disregarded others. For example, Hanover recognized revenue on many transactions prematurely, then could not collect the money it was owed. However, Hanover’s credit department reported to PWC every month about the status of all overdue receivables. Hence, the Company notified PWC over and over again that it had not and could not collect millions of dollars it had already recognized as revenue.

6. In many cases, Hanover’s accounting violations were apparent on the face of documents presented to PWC. For example, Hanover improperly recognized revenue for purported “technical assistance” it rendered to a third party. The terms of the technical assistance contract made it clear, however, that these payments were in fact a refunded investment. Based only upon this contract, Hanover’s internal accountants immediately recommended to their superiors that the Company not recognize this revenue. PWC reviewed the same contract. Further, one of Hanover’s

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<th>3 months ended</th>
<th>3/31/01</th>
<th>6/30/01</th>
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</table>

internal accountants told PWC that this revenue should not be recognized. Nonetheless, PWC permitted Hanover to improperly recognize this revenue.

7. On PWC’s watch, Hanover improperly recognized over $77 million in revenue over twenty-seven months. As set forth herein at ¶¶50-88, internal Hanover documents and statements by Hanover employees demonstrate that PWC had actual knowledge of Hanover’s GAAP violations. Moreover, the sheer number of those violations, the large sums of money involved, and the long period of time during which they occurred indicate that PWC, at best, recklessly disregarded these facts.

8. PWC turned a blind eye to one accounting violation after another for one reason: money. Hanover paid PWC over $6.9 million for the reports at issue: $1.43 million in 2000; $3.6 million in 2001; and $1.88 million in 2002. In order to collect these pay-offs and retain Hanover as a client, PWC helped Hanover bilk investors.

9. PWC did so by issuing unqualified reports on Hanover’s 1999, 2000 and 2001 financial statements. These reports violated Generally Accepted Auditing Standards ("GAAS") and Securities and Exchange Commission ("SEC") rules because, as PWC knew full well, Hanover’s financial statements were not prepared in conformity with GAAP. PWC’s false audit reports were then included in Hanover’s Form 10-Ks filed with the SEC as well as the Registration Statement and Prospectus presented to investors concerning Hanover’s secondary public offering of stock on March 16, 2001. The dissemination of these false financials artificially inflated Hanover’s stock price and cost investors tens of millions – if not hundreds of millions of dollars when Hanover’s true financial condition became known.

JURISDICTION AND VENUE

10. The claims asserted arise under §10(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Rule 10b-5, and §11 of the Securities Act of 1933 (the “Securities Act”).

11. PWC conducts business in and maintains operations in this district. PWC’s wrongful conduct took place in this district, including dissemination of many of the false and misleading statements made by defendant in and from this district. For example, the false audit reports on Hanover’s financial statements audited by PWC, presented in Hanover’s 1999, 2000 and 2001 Form 10-Ks, were prepared and disseminated from this district.

THE PARTIES

12. (a) Plaintiff Plumbers & Steamfitters, Local 137 Pension Fund purchased shares of Hanover’s common stock during the Class Period and pursuant to the Company’s Registration Statement and Prospectus filed in connection with its March 16, 2001 Secondary Offering, and was damaged thereby.

(b) Plaintiff O. Bryant Lewis purchased shares of Hanover’s common stock during the Class Period and was damaged thereby.

(c) Plaintiff 720 Capital Management, LLC purchased shares of Hanover’s common stock during the Class Period and was damaged thereby.

(d) Plaintiff Pirelli Armstrong Tire Corp. Retiree Medical Benefits Trust purchased shares of Hanover’s common stock during the Class Period and was damaged thereby.

(e) Plaintiff Specialists DPM purchased shares of Hanover’s common stock, call options, and put options during the Class Period and was damaged thereby.

13. Defendant PWC is a partnership of accountants. PWC was engaged by Hanover to provide “independent” auditing and accounting services and to review SEC filings. PWC issued unqualified (clean) audit reports on what Hanover has since admitted were false financial statements for 1999-2001.
FALSE AND MISLEADING STATEMENTS

14. PWC conducted quarterly reviews of Hanover’s financial results. As part of that review, PWC received copies of all transactional documents regarding each significant transaction during the quarter. PWC also received a status report from Hanover’s credit department, describing each outstanding receivable and any changes or payments made on that receivable since the prior quarter. PWC reviewed all aspects of Hanover’s quarterly financials, and to the extent PWC identified GAAP violations which the Company refused to correct but which, in PWC’s opinion, were not material, PWC issued Summaries of Adjustments Identified But Not Recorded (“SUDS”) listing such GAAP violations each quarter. PWC also read press releases and SEC filings prepared by Hanover prior to their issuance to verify the accuracy of the financial statements contained therein. These press releases, which contained false and misleading statements regarding Hanover’s financial performance are as follows:

15. On March 8, 2000, Hanover issued a press release announcing “record” 4Q 99 results:

   For the fourth quarter of 1999, total revenues increased 18 percent to $94.3 million from $79.8 million in the year-earlier period. Net income rose 42 percent to $12.9 million from $9.1 million. Diluted earnings per common share increased 40 percent to $0.42 from $0.30. For the full year 1999, total revenues increased 12 percent to $317.0 million from $282.0 million in the prior year. Net income rose 33 percent to $40.4 million from $30.4 million. Diluted earnings per common share increased 31 percent to $1.32 from $1.01.

   PWC approved these results and this release before they were issued.

16. In response to Hanover’s press release, Hanover’s common stock price increased from $25.09 to $26.03 the next day.

17. In fact, as described in ¶¶48-105, Hanover’s 4Q 99 results were false and misleading in violation of GAAP, due to improper revenue recognition. Hanover has since admitted that its 4Q 99 revenues and net income were only $89.2 million and $10.9 million, respectively, rather than the amounts claimed.
18. On March 30, 2000, Hanover filed its Form 10-K for the period ended December 31, 1999. The Form 10-K included an unqualified opinion by PWC as to the accuracy of these financial statements dated March 8, 2000. In response to Hanover’s filing, Hanover’s stock price increased from $27.41 to $28.44 the next day.

19. On May 3, 2000, Hanover announced “record” 1Q 00 results:

Hanover Compressor Company, the market leader in outsourcing of natural gas compression services, today reported significantly higher revenue, cash flow and net income for the first quarter ended March 31, 2000.

First quarter 2000 total revenue increased to $89.7 million, compared with $64.4 million for the quarter ended March 31, 1999. Net income grew 29 percent to $11.2 million or $0.36 per fully diluted share, compared with $8.6 million or $0.29 per fully diluted share for the first quarter of 1999.

20. In response to Hanover’s announcement, Hanover’s common stock increased from $29.34 to $29.53 the next day.

21. On August 9, 2000, Hanover announced “record” 2Q 00 results:

Hanover Compressor Company (NYSE:HC), a leading provider of outsourced natural gas compression services, today reported significantly higher revenue, cash flow and net income for the second quarter ended June 30, 2000.

Second quarter 2000 total revenues increased to $114.2 million, compared with $73.8 million for the quarter ended June 30, 1999. Net income grew 50 percent to $12.8 million or $0.20 per fully diluted share, compared with $8.5 million or $0.14 per fully diluted share for the second quarter of 1999.

22. In fact, as described in ¶¶48-105, Hanover’s 1Q and 2Q 00 results were false and misleading in violation of GAAP, due to improper revenue recognition. Hanover has since admitted that its 1Q 00 net income was only $10.8 million, and its 2Q 00 revenues and net income were only $112.7 million and $10.7 million, respectively, rather than the amounts claimed.

23. On November 8, 2000, Hanover issued a press release announcing “record” 3Q 00 results:

Hanover Compressor Company (NYSE: HC), a leading provider of outsourced natural gas compression services, today reported continued strong growth in revenue, cash flow and net income for the third quarter ended September 30, 2000.
Total revenue for the third quarter 2000 was $162.6 million, representing an 86 percent increase over total revenue for the quarter ended September 30, 1999 of $87.3 million. Net income grew 48 percent to $15.4 million or $0.23 per fully diluted share, compared with $10.4 million or $0.17 per fully diluted share for the third quarter of 1999.

24. In fact, as described in ¶48-105, Hanover’s 3Q 00 results were false and misleading in violation of GAAP, due to improper revenue recognition. Hanover has since admitted that its 3Q 00 revenues and net income were only $147.5 million and $11.9 million, respectively, rather than the amounts claimed.

25. On March 9, 2001, Hanover issued a press release announcing “record” 4Q 00 results:

Hanover Compressor Company (NYSE: HC), a leading provider of outsourced natural gas compression services, today reported record revenues, cash flow and earnings per common share for both the fourth quarter and year ended December 31, 2000, continuing the Company’s strong growth record.

For the fourth quarter of 2000, total revenues increased 145 percent to $233.6 million from $95.4 million in the year-earlier period. Net income rose 50 percent to $19.4 million from $12.9 million. Diluted earnings per common share increased 29 percent to $0.27 from $0.21. For the full year 2000, total revenues increased 87 percent to $603.8 million from $323.2 million in the prior year. Net income rose 45 percent to $58.7 million from $40.4 million. Diluted earnings per common share increased 33 percent to $0.88 from $0.66.

The press release was included in a Form 8-K filed with the SEC on March 9, 2001. PWC approved these results and this release before they were issued.

26. In fact, as described in ¶148-105, Hanover’s 4Q 00 results were false and misleading in violation of GAAP, due to improper revenue recognition. Hanover has since admitted that its 4Q 00 revenues and net income were only $213 million and $16.2 million, respectively, rather than the amounts claimed.

27. On March 16, 2001, Hanover announced the public offering of 10 million shares of common stock – 2.5 million of which were to be sold by Hanover, and 7.5 million convertible notes which were to be sold by Hanover insiders:
Hanover Compressor Company (NYSE: HC), today announced the public offering of 10 million shares of common stock and $170 million convertible senior notes.

The initial public offering price will be $35.15 for 10 million shares of its common stock, 2.5 million of which are offered by Hanover and 7.5 million shares of which are offered by selling stockholders.

Hanover also will issue $170 million aggregate principal amount of 4.75% Convertible Senior Notes due 2008. The notes will mature on March 15, 2008 and are first subject to call on March 15, 2004. The notes will be convertible into shares of Hanover Compressor Company common stock at a conversion price of approximately $43.94 per share.

28. On March 16, 2001, Hanover also filed its Registration Statement and Prospectus with the SEC pursuant to the public offering of ten million shares. The Registration Statement/Prospectus included the Company’s financial statements for 1999 and for the nine months ended September 30, 2000. The Registration Statement/Prospectus also incorporated by reference Hanover’s Form 8-K dated March 9, 2001, which contained Hanover’s press release announcing its “record” fourth quarter and full-year 2000 financial results. The documents included a representation by PWC that the financial statements for 1999 were presented in accordance with GAAP and included PWC’s “consent” letter to include the audited financial statements in the Registration Statement/Prospectus. In fact, Hanover and PWC have now admitted that the financial statements included in the Registration Statement/Prospectus were materially false when issued.


30. On May 9, 2001, Hanover announced “record” results for 1Q 01:

First quarter total revenues increased 143% to $219.8 million from $90.6 million for the quarter ended March 31, 2000 .... First quarter net income of $18.6 million was 66% higher than the year earlier level of $11.2 million.

PWC approved these results and this release before they were issued.
31. On August 9, 2001, Hanover reported "record" results for 2Q 01:

Hanover Compressor (NYSE: HC), a leading provider of outsourced natural gas compression and treating services, today reported revenues increased 124.7 percent .... Net income for the quarter increased 83.2 percent over the prior year period.

PWC approved these results and this release before they were issued.

32. In fact, as described in ¶¶48-105, Hanover’s 2Q 01 results were false and misleading in violation of GAAP, due to improper revenue recognition. Hanover has since admitted that its 2Q 01 revenues and net income were only $245.4 million and $20.8 million, respectively, rather than the amounts claimed.

33. On November 7, 2001, Hanover announced "record" revenue for 3Q 01:

Hanover ... today reported continued strong growth for the third quarter ended September 30, 2001. For the quarter revenues of $298.8 million increased 84 percent over the prior year quarter ... and net income of $83.8 million and $22.5 million, or $0.29 per share, respectively, increased 52 percent and 46 percent, respectively, compared with the same quarter a year earlier.

Cash flow before special items, excluding the effects of market to market for derivative instruments, a bridge loan fee commitment fee and a deferred lease transaction charge, was $92.3 million, a 67 percent increase over the prior year period. Net income before special charges was $28.1 million or $0.36 per share compared with $15.4 million or $0.23 per share for the third quarter of 2000.

PWC prepared, reviewed, and approved these results and this release before they were issued.

34. In fact, as described in ¶¶48-105, Hanover’s 3Q 01 results were false and misleading in violation of GAAP, due to improper revenue recognition. Hanover has since admitted that its 3Q 01 revenues and net income were only $282.3 million and $15.8 million, respectively, rather than the amounts claimed.

**Defendant’s Fraud Begins to Unravel**

35. During November and December of 2001, a series of analyst reports began to question the propriety of Hanover’s accounting. As a result, Hanover’s stock price declined from
$28.69 on November 9, 2001 to $16.05 on January 25, 2002, when *The Wall Street Journal* published an article which stated:

Off-balance-sheet partnerships – those sometimes debt-laden entities through which companies can do business while keeping financial obligations off their books – were once pretty much ignored by investors.

* * *

Hanover Compressor’s partnership dissolved last February, though it doesn’t appear that most shareholders learned of its existence until last April, in a footnote in the company’s annual report. Some investors’ belated concern is over whether Hanover’s accounting treatment of the partnership inflated the company’s revenues and earnings figures during periods when Hanover executives sold millions of shares and the company raised $170 million in convertible debt.

* * *

Among critics of Hanover Compressor’s treatment of its partnership is Mark Roberts, Research Director at Off Wall Street Consulting Group, Cambridge, Mass., who maintains that Hanover should have told shareholders about the partnership at a time the company was selling the convertible debt and top executives were selling shares. “It doesn’t appear they made all the disclosures that would be necessary for reasonable investors to decide whether or not to make an investment,” he says.

* * *

But Mr. Roberts of Off Wall Street recommends investors sell Hanover shares, partly on the basis of its ties to Enron. “Did Hanover management acquire any of its business friends bad accounting habits? It appears that this may be the case.”

36. Market reaction to this article was so severe that trading in Hanover common stock had to be halted. When trading resumed, Hanover’s common stock price fell from $16.05 to $14.05 on record volume of 10,829,300, a loss of over 12% in a single day.

37. On January 28, 2002, the Company issued a press release which stated:

- Hanover owns a 25% interest in Hampton Roads Shipping Investors II, L.L.C. (“Hampton Roads”), formed in 2000 as a joint venture to own barge-mounted gas compression and gas processing facilities to be stationed off the coast of Nigeria with an equipment sale price of $51 million. The equipment was to be used pursuant to a 10-year contract on behalf of Shell to commence September 2001. In the first quarter of 2001, the scope of the project was reduced to 15 years with a projected start date of September 2003. As the project has not yet started, Hanover has recorded no income attributable to its equity ownership in the venture.
Hanover is fabricating the equipment to be used in the gas compression and processing project with Shell under a construction contract with Hampton Roads and is accounting for this activity under the percentage of completion method of accounting. Hanover recorded total revenue from the construction contract of $16 million and net income of $2.6 million in fiscal 2000, and it recorded total revenue of $3.6 million and net income of $0.6 million for the nine-month period ended September 30, 2001. These amounts reflect the revenue related only to the majority owners’ 75% interest in Hampton Roads. The Company and its Board of Directors are reviewing the transactions of this joint venture and the related accounting.

To date, the joint venture’s majority owner has invested $4.75 million in the venture, which has been paid to Hanover by the venture in respect of the construction contract. Hanover has contributed $1.5 million to Hampton Roads, proportionate to its 25% ownership in the venture.

In response to a claim for expense reimbursement, the Company initiated litigation against the former majority owner in the Hampton Roads joint venture. Hanover’s former majority partner in the venture was replaced entirely in July 2001 by a new independent investment group and the joint venture is functioning successfully.

After Hanover’s announcement, Hanover’s common stock price decreased from $14.05 to $13.55 the next day.

On February 26, 2002, the Company issued a press release announcing that it was restating its financial results for the year ended December 31, 2000 and for the nine months ended September 30, 2001:

Hanover Compressor (NYSE: HC) today announced that as a result of its transaction and accounting review, and with the concurrence of its outside auditor, it will restate its financial results for the year ended December 31, 2000 and the nine months ended September 30, 2001 to reflect changes in its accounting treatment for certain transactions.

The Company expects to restate $37.7 million of the total $603.8 million of revenues and approximately $7.5 million of the $58.7 million of net income for the year ended December 31, 2000. The restatement is expected to reduce Hanover’s total fully diluted per share earnings of $0.88 for the year ended December 31, 2000 by approximately $0.11.

The Company expects to restate $25.1 million of the total $781.6 million in revenues and approximately $1.4 million of the $64.5 million of net income for the nine months ended September 30, 2001. The restatement is expected to reduce
Hanover’s total fully diluted per share earnings of $0.86 for the nine months ended September 30, 2001 by approximately $0.02.

The transactions involved in the restatement are the Cawthorne Channel project in Nigeria, initially conducted though the Hampton Roads joint venture, Hanover’s acquisition of two compressors in a non-monetary exchange transaction, its sale of three turbine engines and a compressor sale transaction. The restatement relating to Cawthorne Channel will result in a reduction of $16.0 million of revenue and $2.8 million of net income for the year ended December 31, 2000 and a reduction of $3.6 million of revenue and $0.7 million of net income for the nine months ended September 30, 2001. The restatement relating to the other transactions will result in a reduction of $21.7 million of revenue and $4.7 million of net income for the year ended December 31, 2000 and a reduction of $21.5 million of revenue and $0.7 million of net income for the nine months ended September 30, 2001.

In a separate development, the Company also said the Fort Worth District Office of the Securities and Exchange Commission has requested information relating to the Hampton Roads joint venture. Hanover is cooperating fully with the SEC’s request.

* * *

A brief summary of each transaction for which the Company will restate its financial results follows.

**Cawthorne Channel Project in Nigeria/Hampton Roads Joint Venture**

Cawthorne Channel is a project to build, own and operate barge-mounted gas compression and gas processing facilities to be stationed off the coast of Nigeria in performance of a contract between Global Energy and Refining Ltd (“Global”) and Shell Petroleum Development Company of Nigeria Limited, the Nigerian operating unit of The Royal/Dutch Shell Group (“Shell”). Hanover entered into a contract with Global in June 1999 to fabricate and lease the facilities to Global to fulfill the Shell contract. Subsequently, Hanover acquired a 10% interest in Global.

In September 2000, a joint venture known as Hampton Roads Shipping Investors II, L.L.C. (“Hampton Roads”) was formed to own the gas processing facilities and lease them to Global. Hanover owned a 25% interest in Hampton Roads and entered into a turn-key construction contract with Hampton Roads to construct the facilities. The equipment, which had a sale price of $51 million, was to be used pursuant to a 10-year contract on behalf of Shell to commence September 30, 2001. In the first quarter of 2001, the scope of the project was reduced to $43 million and the contract term was extended to 15 years with a projected start date of September 2003. As the project has not yet started, Hanover has recorded no income attributable to its equity ownership in the venture.

Hanover is constructing the equipment to be used in the gas compression and processing project with Shell under the turn-key construction contract with Hampton Roads and has accounted for this activity under the percentage of completion method.
of accounting. The restatement relating to Cawthorne Channel will result in the reduction of $16.0 million of revenue and $2.8 million of net income for the year ended December 31, 2000, and a reduction of $3.6 million of revenue and $0.7 million of net income for the nine months ended September 30, 2001. These amounts reflect the revenue related only to the majority owners’ 75% interest in Hampton Roads.

Based upon the evaluation of new information related to these transactions, the Company has determined that it should not have recognized revenue for this activity during these periods. Moreover, in February 2002, Hanover purchased the 75% interest in Hampton Roads that it did not own. The Company now owns 100% of the venture and will recognize the rental revenues pursuant to its contract with Global once startup begins. “Our internal review reaffirmed the long-term economic value to Hanover and its shareholders of the Cawthorne Channel project,” McGhan stated. “The Company anticipates that beginning in September 2003, upon startup, the project will generate $300,000 of net income per month over the life of the contract with Global. In light of the strong upside for this project, we decided to purchase the 75% of the project owned by our partner, thereby accruing all future benefits directly to Hanover. This project has led Hanover to a second gas processing project in Nigeria with Shell, which is scheduled to start this year.”

**Acquisition of Compressors in Non-Monetary Exchange**

In the third quarter of 2000, the Company entered into an acquisition of two compressors in a non-monetary exchange transaction with an independent oil and gas producer. In the transaction, Hanover acquired the two compressors in exchange for certain gas reservoir rights that Hanover had obtained in settlement of a payment default by one of its customers. The Company accounted for the transaction as an exchange of non-monetary assets and recorded $2.2 million in revenue and $1.4 million of net income in 2000. Based upon the evaluation of new information related to this transaction, the Company has determined that it should not have recognized a gain on this transaction.

The Company has leased the compressors to the oil and gas producer through 2007. “This transaction enabled the Company to exchange an unpaid account receivable for highly productive long term assets in its core business,” McGhan stated. “The two compressors are not subject to a lease which is anticipated to generate over $4 million in revenue over its remaining life.”

**Sale of Turbine Engines**

In the fourth quarter of 2000, Hanover entered the non-oil field power generation market to take advantage of rising electricity demand and purchased used turbines to carry out this effort. Subsequently, the Company agreed to sell three turbines on extended credit and recognized revenues and the related profits at the time of such transactions.

The Company recorded $0.8 million of net income on a $7.5 million turbine sale in the fourth quarter of 2000, $1.1 million of net income on a $16.1 million
turbine sale in the second quarter of 2001 and $1.7 million of net income on a $17.0 million turbine sale in the third quarter of 2001. In addition, the Company recorded $0.4 million in net income related to the $16.1 million sale in the third quarter of 2001. Upon further evaluation of the transactions, the Company determined that revenue should have been recognized on these transactions at the time that collectibility of the sales price was reasonably assured. The Company received full payment on the $7.5 million turbine sale in the fourth quarter of 2001 and recorded the related $0.8 million net income in that quarter. The Company expects to be paid in full on the $17.0 million turbine sale in the second quarter of 2002. The $16.1 million turbine was ultimately sold to a project that is utilizing the turbine in a contract with the California Department of Water and Resources. The Company received payment in full on the turbine. However, since Hanover is a participant in the project financing, it will not record a profit related to the sale of that turbine.

**Compressor Sale Transaction**

The Company sold 33 gas compressors to a gas pipeline system then controlled by Enron for $12.0 million pursuant to invoices issued in December 2000. Hanover recorded $2.5 million of net income from the transaction in the fourth quarter of 2000. In January 2001, Hanover entered into an agreement with its customer to provide transition services and settle claims between the parties arising from the operation of the compressors prior to their sale. The agreement also provided for the issuance of a bill of sale. Upon further evaluation of the transaction, the Company has determined that it should have recognized the gain on this transaction when it issued the bill of sale in January 2001 rather than December 2000.

41. On March 10, 2002, The Wall Street Journal reported that Hanover knew by October 2000 that the Hampton Roads project was delayed, but still booked revenue:

Hanover Compressor Co. knew in October 2000 that a Nigerian plant it was booking revenue for was delayed, the Wall Street Journal reported, citing Spyro Contogouris, a partner on the project.

**Hanover's local partner in Nigeria, Global Energy, Inc., and Royal Dutch/Shell Group had been in arbitration since 1999** over a contract to recover natural-gas liquids for the plant, and in November of 2000 Shell had said that the required pipelines would take an additional 36 months, the paper said, citing Contogouris.

Even if the arbitration with Shell had been resolved quickly, the plant wouldn’t have been able start operating in August 2001, as Hanover had promised, and it would have been more likely to start up in 2003, the Journal reported. Hanover had been booking expected revenue from the plant in 2000 and 2001, the paper said.

**Hanover acknowledged it knew about the arbitration with Shell before the end of 2000** and the company booked revenue because it was building the project,
the paper said, citing Hanover Chief Financial Officer John Jackson. It is the company’s practice to record revenue from projects under construction based on the percentage completed, the paper reported.

42. On April 16, 2002, Hanover filed its Form 10-K for the period ended December 31, 2001. The Form 10-K included an unqualified opinion by PWC as to the accuracy of these financial statements dated April 16, 2002.

43. On August 5, 2002, Hanover issued a press release announcing an additional restatement of 2000 and 2001 financial results with the concurrence of PWC:

An independent committee of [Hanover’s] board of directors, aided by outside legal counsel, recently completed an extensive investigation. One result of that investigation is an additional restatement of 2000 and 2001 financial results.

*   *   *

Restatement

An independent committee of the board of directors, aided by outside legal counsel, recently completed an extensive investigation of transactions recorded during 2000 and 2001, including those transactions restated by the Company last February. The investigation ultimately focused on a group of additional transactions similar to those included in the February restatement and involving revenues of $15.3 million and net income of $5.0 million. As a result of this investigation, the Company determined and its independent auditors agreed that several transactions will be restated, including one that was the subject of restatement last February. For 2001, the Company reduced revenue by $7.1 million of the total $1.1 billion, and reduced pretax expenses by $7.4 million. The results, after taxes, added $0.2 million to the total of $72.6 million of net income for the year ended December 31, 2001, with fully diluted per share earnings remaining $0.95. The restatement also reduced 2000 revenue by $2.2 million of the total $566.1 million and $1.5 million of the total $51.2 million of net income for the year ended December 31, 2000, and reduced fully diluted per share earnings of $0.77 by $0.02.

On February 26, 2002, the Company announced a restatement based upon an investigation that was concluded by counsel under the direction of the Audit Committee. While the Company did not believe any additional matters would require restatement when it made its February announcement, and although the amounts involved in the present restatement are small in the context of the Company’s overall revenues and net income, additional information came to light as part of the investigation conducted by a committee of the board since February that made the current restatement necessary under the circumstances. The Company will provide information concerning its internal investigations to the Securities and Exchange Commission.

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“The committee spent months conducting an extensive investigation which involved thousands of documents and numerous interviews,” Grijalva said. “Our Board has taken this matter very seriously, and we are now eager to focus our energy and attention on addressing our customer’s needs and on building a solid foundation for the future. We believe that Hanover will be well positioned to meet the challenges that lie ahead with new leadership at the helm to direct the outstanding talent at the Company.”

The restated transactions include the correction of $7.5 million of revenue and $0.8 million of net income from the sale of a power generation unit. The sale was one of three such turbine sales the company restated last February after determining that the revenue would have been recognized on these transactions at the time that collection of the sales price was reasonably assured. The transaction in question was restated last February to reflect the fact that the Company did not receive full payment on the $7.5 million turbine sale until the fourth quarter of 2001 and, therefore, recorded the related $0.8 million net income in that quarter. The Company subsequently determined, based on new information related to this transaction, that the turbine sale in question should have been accounted for as an exchange of equipment rather than an asset sale and, consequently, revenue and net income for both the full year and fourth quarter 2001 need to be reduced accordingly. In addition, the Company, with the concurrence of its auditors, restated several other small transactions.

On October 23, 2002, the Company issued a press release announcing that it would restate its 1999 financial results:

Hanover ... today announced it has completed its review of prior business transactions and, with the concurrence of its independent auditors, will restate 1999 financial results to more properly reflect four transactions totaling revenues of $5.1 million and net income of $2.0 million.

The decision follows completion of reviews by management, the board of directors, and outside counsel of 1999 transactions.

Senior management is satisfied it has conducted a thorough review of prior transactions and, consequently, will certify and file with the Securities and Exchange Commission within 30 days amended financial results for 1999, 2000 and 2001 to reflect the restatements,” said John Jackson, chief financial officer. He said information concerning its internal investigation will be provided to the SEC.

Operating managers identified a few transactions that, although relatively small in their overall affect on our historical results, the Company felt warranted restatement in order to assure shareholders that the Company’s accounts are accurate and transparent,” said Chad Deaton, chief executive officer. “Our focus now is to begin making the necessary changes that takes Hanover to the next level of performance.
Restating 1999 financial results will reduce revenues by $5.1 million, pre-tax income by $3.1 million and net income by $2.0 million for 1999. The impact of the restatement of the 1999 transactions on 2000 net income is an increase of $0.4 million and the impact on 2001 net income is a decrease of $0.4 million.

HANOVER’S FALSE FINANCIAL RESULTS

45. Throughout the Class Period, defendant prepared financial statements and SEC filings that falsely portrayed Hanover’s financial condition and results of operations in violation of GAAP. GAAP are those principles recognized by the accounting profession and the SEC as the conventions, rules and procedures necessary to define accepted accounting practices at a particular time. SEC Regulation S-X (17 C.F.R. §210.4-01(a)(1)), states that financial statements filed with the SEC which are not prepared in compliance with GAAP are presumed to be misleading and inaccurate, despite footnotes or other disclosures. Regulation S-X requires that interim financial statements must also comply with GAAP, with the exception that interim financial statements need not include disclosures which would be duplicative of disclosures accompanying annual financial statements. 17 C.F.R. §210.10-01(a).

46. The fact that PWC and Hanover restated Hanover’s financial statements for 1999, 2000 and 2001 is an admission that the financial statements originally issued were false and that the overstatement of revenues and income was material. Pursuant to GAAP, as set forth in Accounting Principles Board (“APB”) Opinion No. 20, the type of restatement announced by Hanover was to correct for material errors in its previously issued financial statements. See APB Opinion No. 20, ¶¶7-13. The restatement of past financial statements is a disfavored method of recognizing an accounting change as it dilutes confidence by investors in the financial statements, it makes it difficult to compare financial statements and it is often difficult, if not impossible, to generate the numbers when restatement occurs. See APB Opinion No. 20, ¶14. Thus, GAAP provides that financial statements should only be restated in limited circumstances, i.e., when there is a change in the reporting entity, when there is a change in accounting principles used or to correct an error in
previously issued financial statements. Hanover’s restatement was not due to a change in the reporting entity or a change in accounting principle but was rather due to errors in previously issued financial statements. Thus, the restatement is an admission by PWC and Hanover that the previously issued financial results were false and misleading.

47. Further, for the same reason, the financial and other statements purporting to describe, quantitatively or qualitatively, the Company’s revenues and earnings were materially false and misleading. The impact of the restatement was very significant:

### Hanover
**Reported vs. Restated Results**
*(in thousands)*

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<th>3 months ended 12/31/99</th>
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HANOVER'S IMPROPER REVENUE RECOGNITION

48. Revenues were overstated by $5.1 million in 1999, by $41 million in 2000 and by $31 million in 2001. GAAP generally provides that revenue should not be recognized until and unless revenue has been earned and is realizable (collectable) and where the risks and rewards of ownership have passed to another party. FASB Statement of Concepts No. 5, ¶¶83-84. See SEC Staff Accounting Bulletin No. 101.

49. Hanover has restated the following transactions, admitting its false financial reporting:

(a) Improper Recognition of Return of Investment from SDK as “Technical Assistance”

50. In early 2000, Hanover began investigating the purchase of a plant from an Indonesian company, SDK. Subsequently, Hanover paid $1.1 million for the right to obtain a controlling interest in SDK. Hanover also executed a contract to provide SDK with “technical assistance.” Under that contract, Hanover recognized revenue of $378,000 in the first quarter of 2000, $300,000 in the second quarter of 2000, $138,000 in the second quarter of 2001, and $138,000 in the third quarter of 2001. In fact, the technical assistance contract was a sham. Hanover had decided not to purchase SDK and was simply getting its investment back. However, Hanover sought to characterize this refund as a series of technical assistance payments in order to improperly recognize it as revenue. Hanover had not earned the revenue as required by GAAP, as described in FASB Statement of Concepts No. 5, ¶83.

51. PWC knew that Hanover could not recognize this investment refund as revenue. To begin with, the true nature of the transaction was apparent from the face of the purported technical assistance contract. That contract specifically tied SDK’s supposed technical assistance payments to Hanover’s investment in SDK. Based only on a review of this agreement, Turner Darden (“Darden”), a Hanover accounting manager, concluded that the revenue could not be recognized and
memorialized that conclusion in a memorandum to Matt Gaisor ("Gaisor"), Hanover’s Director of Planning and Analysis, on July 27, 2000. According to Darden, Hanover sent PWC a copy of this same agreement in the second quarter of 2000, and its true nature should have been as obvious to PWC as it was to Darden. In any event, even if PWC was slow to catch on, Darden told Peter Speer ("Speer") of PWC that this revenue should not be recognized. Nonetheless, PWC permitted Hanover to recognize it. This revenue was later restated.

(b) Premature Recognition of Pre-Closing Revenue Regarding the Acquisition of Three Companies Known as the “Three Amigos” – Rino, Compressor Components and K&K

52. In the second quarter of 2000, Hanover completed negotiations for the acquisition of three used equipment companies known as the “Three Amigos” – Rino Equipment, Ltd. ("Rino"), Compressor Components and K&K. Hanover entered into acquisition agreements with effective dates of June 1, 2000 which were not completed until July 2000. The Company recorded $2,085,000 in revenue and $965,000 in pre-tax income in the second quarter of 2000 and $442,000 in revenue and $128,000 in pre-tax income in the third quarter of 2000, reflecting the results of the acquired entities for the period between the effective date of the acquisitions and the closing of the acquisitions. These pre-closing results should not have been recorded, as the earnings process was not complete. PWC was not only aware that Hanover’s accounting for these transactions was improper, it told Hanover so in the SUDS sheets that it presented to the Company on June 30, 2000; September 30, 2000; December 31, 2000; March 31, 2001; June 30, 2001; and September 30, 2001. Further, Michael J. McGhan ("McGhan") (former President and CEO of Hanover) has stated that Frank Steinegger of PWC told him in 2Q 00 that this transaction was improper. Despite repeatedly opining that it was improper, PWC allowed Hanover to improperly recognize this revenue in the second quarter of 2000.

(c) The Frame 6 Turbine Transactions
On December 15, 2000, Schanson Energy LLC ("Schanson") committed to purchase a Frame 6 turbine from Hanover for $7,500,000. The terms of the transaction were 10% down, due by February 15, 2001 and the balance due by April 15, 2001. Hanover recognized all of this revenue in the fourth quarter of 2000 and paid Schanson Capital Management, Inc., represented by Spyro Contogouris ("Contogouris"), a $375,000 commission for arranging the "sale." On February 15, 2001 Schanson assigned the obligations of the "Equipment Purchase and Sale Agreement" to Strategic Energy Partners ("Strategic") for consideration of $10, and Strategic agreed to make the initial 10% payment due. Hanover received $700,000 on February 21, 2001 and $50,000 on February 22, 2001.

In early April 2001, Strategic notified Hanover that it would default on the April 15, 2001 final payment, and Hanover agreed to grant Strategic an extension to June 15, 2001. Strategic then remitted $250,000 on June 7, 2001. On August 15, 2001, Hanover granted Strategic an additional sixty days, at which point Strategic remitted an additional $350,000 and promised to pay the balance off by year end. Strategic later notified Hanover that it would not honor this commitment.

After Strategic dropped out, a company called B-Tech purportedly agreed to pay Hanover $8,000,000 for the Frame 6. At the same time, however, Hanover agreed to pay B-Tech $8,000,000 for a 51.6% interest in a different turbine in B-Tech's possession. On February 26, 2002, Hanover announced that it was restating the income associated with this transaction to the fourth quarter of 2001, when it was purportedly purchased by B-Tech. On August 5, 2002, Hanover restated this transaction again because the B-Tech was actually a very thinly-disguised exchange of equipment, not a sale.

PWC knew all along that Hanover had improperly booked $7.5 million of revenue in the fourth quarter of 2000. Contogorous was essentially paid $375,000 to take the Frame 6 off
Hanover’s books and allow it to book $7.5 million in revenue. The day payment came due, he assigned his interest in the turbine to Strategic for $10. PWC received copies of all documents associated with these transactions. Former Hanover CEO McGhan has stated that Hanover always conducted credit checks of all customers utilizing credit and forwarded the results to PWC immediately. Further, PWC received quarterly updates on Hanover’s attempt to collect the balance, money PWC knew Hanover had recognized as revenue the previous year. As the months wore on, the Frame 6, which consisted of twelve tractor-trailers full of equipment, remained in Hanover’s warehouse. Neither Schanson nor Strategic ever took possession of it.

57. Finally, Hanover restated the transaction in April 2002. PWC performed the restatement and reviewed the B-Tech transactional documents. These documents very clearly demonstrate that Hanover was exchanging the Frame 6 for an interest in B-Tech’s Frame 7. Nonetheless, PWC allowed Hanover to recognize revenue on the transaction. In fact, Hanover has never seen a dime from that transaction. The Frame 7 is still at B-Tech, waiting for a buyer.

58. Regarding this transaction, an internal Hanover document states:

"Price Waterhouse auditors were consistently advised of the status of the account throughout the year. They were always provided copies of all the documentation surrounding this transaction including the contract, assignment, and copies of checks received. We discussed quarterly Hanover’s potential risk and legal remedies should the need arise to proceed with such remedies.

McGhan, Hanover’s former CEO, has confirmed that Hanover followed this procedure with regard to every credit transaction, including all those that were restated.

(d) LM 6000 Turbine Sold to Wagner

59. Howard L. Wagner & Associates ("Wagner") verbally entered into a “Purchase and Sale Agreement” with Hanover in late February or early March with the corresponding paperwork being completed on March 29, 2001. The transaction was for the purchase of a Stewart and Stevenson LM 6000 Turbogenerator. The sale price was $16,100,000, with 10% due April 18, 2001
and the remaining 90% due June 18, 2001. Wagner did not remit the initial 10% until June 18, 2001. Hanover then invoiced Wagner for the remainder on June 30, 2001. The remaining balance of $14,500,000.00 was due and payable on August 31, 2001.

60. Subsequently, Wagner's potential project fell through and left it unable to remit the balance due on August 31, 2001. Hanover verbally agreed to an extension of time but required a payment of $700,000 and that the account balance be paid on or before year end. Wagner remitted $700,000 on November 9, 2001.

61. During the third quarter of 2001, Wagner reached an agreement with Hal Dittmer of Wellhead Electric to lease the LM6000 to Wellhead at the Gates facility. As a result, Hanover's receivable from Wagner was collected on December 31, 2001. However, because Hanover was a participant in the financing of the Gates facility, it could not record a profit on this transaction.

62. Once again, PWC received all of the documents associated with the transactions described above as well as quarterly updates and payment receipts. Former Hanover CEO McGhan has stated that Hanover always conducted credit checks of all customers utilizing credit and forwarded the results to PWC immediately. Accordingly, PWC allowed Hanover to record the revenue in the second quarter of 2001 when payment was not due for another two months and the original payment date had already slipped two and a half months. Further, Wagner's ability to pay was wholly contingent upon an uncertain and ultimately doomed project. Under these circumstances, PWC should not have allowed Hanover to recognize this revenue.

(e) LM 6000 Turbine Sold to JT

63. JT Energy Holdings, Inc. ("JT") entered into an "LM6000 Gas Turbine Generator Asset Purchase Agreement" on September 28, 2001 for the purchase of an LM6000 turbogenerator at a price of $16,950,000. Terms of the agreement required a $2,000,000 payment with the order and the execution of a "Promissory Note and Security Agreement" for the unpaid balance of
$14,950,000 due on June 30, 2002. With PWC’s approval, Hanover recognized revenue on the entire $16,950,000 in the third quarter of 2001. This was flagrantly improper. Hanover did not even have JT’s financial statements showing that JT was capable, let alone likely, to honor the promissory note. In fact, predictably, JT did not honor its note and Hanover was forced to restate the revenue from this transaction on February 26, 2002. As usual, PWC was provided with all documents associated with the JT deal. McGhan has stated that Hanover always conducted credit checks of all customers utilizing credit and forwarded the results to PWC immediately. Even a cursory review of these documents would have indicated that Hanover had no basis to expect JT to fulfill its obligation and, as such, that Hanover could not recognize that revenue until it was received. The revenue was not reliable, or collectible, as required by FASB Statement of Concepts No. 5, such that revenue should not have been recognized at the time it was.

(f) Premature Revenue Recognition on Delay Penalty from Global

64. In July of 1999, Hanover entered into a Contract Gas Processing Master Equipment and Operating Agreement with Global Energy, Inc. (“Global”). Global failed to perform timely and, pursuant to the terms of the contract, owed Hanover $1,100,000 in penalty fees. Before Global had paid Hanover a single dime of that money, Hanover recognized $920,000 of it as income in the fourth quarter of 1999. This was improper because at that time, Hanover had no reasonable expectation that Global, which was in dire financial straits, would ever pay. In the end, Global never paid Hanover the penalty fee. Instead, in February 2000, Global promised to give Hanover 1,000,000 shares of Global stock, which Hanover did not receive until December of 2000. Steve Russom, the Hanover employee who negotiated with Global, said at the time Hanover recognized this revenue that the stock was worthless.

65. PWC knew full well that this revenue should not have been recognized. Darden, an accounting manager at Hanover, witnessed Gaisor arguing with PWC representatives about this
revenue in the fourth quarter of 1999. Gaisor wanted Hanover to recognize this revenue, PWC asserted that it was improper. Eventually, PWC allowed Hanover to recognize the revenue, but included it on the SUDS list it submitted to the Company in the fourth quarter of 1999. This revenue which was finally restated in November, 2002.

(g) Improper Revenue Recognition Regarding the Hampton Roads Project in Nigeria

66. Hanover improperly recognized revenue on its construction of a barge-mounted gas compression and gas processing facility to be stationed in Nigeria. In September 2000, Hanover formed a joint venture known as Hampton Roads which was to own the gas processing facilities. Hanover held a 25% interest in Hampton Roads, and a supposedly independent investor, Contogouris, held the remaining 75% interest. Hanover’s initial capital contribution to Hampton Roads was $1,250,000 and Contogouris’ initial capital contribution was $3,750,000. In fact, Hanover guaranteed a refund of Contogouris’ investment and issued a loan commitment letter, saying it would loan Hampton Roads $43.5 million in the event the joint venture could not line up the additional financing necessary to pay the partnership’s obligations to Hanover Maintech. Additionally, Hanover paid a $1 million commission to Contogouris for arranging the investment of the partnership. Moreover, there was already uncertainty as to the start date of the project and exactly what equipment would be needed. Hanover had already attempted to recognize revenue on the contract in the second quarter 2000 based solely on a term sheet agreement with Contogouris. Clearly, management was aggressive in wanting to record revenue from the Hampton Roads venture and was having difficulty finding a bona fide third party willing to invest in the partnership. Notwithstanding its de facto ownership of Hampton Roads, Hanover recognized revenue for the work performed under the construction contract using the percentage of completion method of accounting even though it was essentially performing services for itself. Hanover recorded 75% of the revenue and net income from the services due to Contogouris’ ownership share of Hampton
Roads. Hanover has since restated all revenues recognized under the contract because it retained all risks associated with Hampton Roads.

67. PWC was involved in the Hampton Roads transaction since 1999, when Hanover began speaking with PWC regarding structuring the Hampton Roads transaction. On November 15, 1999, Speer of PWC wrote a memo to Hanover setting forth the requirements for recognizing revenue early using the percentage of completion method. That memo stated in part “the risks and rewards of ownership for the portion sold must have been irrevocably transferred to the other investors with substantial certainty.” Since that time, PWC ignored numerous red flags in allowing Hanover to improperly recognize revenue related to Hampton Roads.

68. A significant red flag to PWC was that it knew Hanover management was overly aggressive in accounting matters and that top management had overruled the accounting judgment of its own internal auditors and fought aggressively to override PWC. In 2Q 00, Hanover entered into a “term sheet” agreement with Contogouris. Hanover sought to record revenue on this term sheet, which PWC disagreed with because obviously, a company cannot recognize revenue on the basis of a term sheet, which is not a final contract. Remarkably, even though management was told that they could not recognize revenue, management reacted vociferously, arguing that they could, further demonstrating the aggressiveness of management. Hanover had been working on this agreement since 1999. The fact that by July 2000, they still were not able to get an agreement concluded demonstrates that they were having difficulty finding a bona fide independent investor.

69. In or about late July 2000, before Hanover’s release of quarterly earnings, Hanover management and PWC engaged in heated discussions regarding whether Hanover could recognize revenue in the second quarter 2000 for the Hampton Roads transaction. Ultimately, Hanover management determined not to record the revenue in 2Q 00, but was very angry and made it clear to
PWC how urgent it was that they record the revenue from the transaction because they had an offering coming up in just a few months.

70. To avoid a similar confrontation with management the following quarter, PWC recklessly signed off on the agreement put forth by management in the third quarter of 2000, notwithstanding the fact that they knew that the supposedly independent investor received a $1 million commission for entering into the contract, and PWC disregarded any possible side agreement which may have been created to induce the previously reluctant investor to enter into the deal.

71. Several factors should have put PWC on notice that Contogouris was not an independent investor – the fact that the agreement took so long to consummate, the heated discussions with management, the $1 million commission back to Contogouris, Hanover management’s over-aggressive stance and desperation to record revenue before its offering and the fact that the agreement which Contogouris refused to finalize in 2Q 00 was suddenly consummated in 3Q 00. Darden of Hanover sent PWC the commission agreement in 3Q 00.

72. In addition to these red flags, PWC should have expanded the scope of its procedures due to the complex structure of the Hampton Roads transaction. Hanover was creating the complex Hampton Roads joint venture just to recognize revenue from building a natural gas processing plant in Nigeria earlier than it otherwise would be able to do. Without the creation of the partnership, Hanover would not be able to recognize revenue until the processing plant was complete. However, with the formation of a joint venture with an independent investor, Hanover could recognize revenue under the “percentage of completion” accounting method with respect to the 75% and the joint venture owned by the independent investor – assuming of course that the investor was truly independent and that there were no lingering guarantees.
73. Under AU §316, which deals with consideration of fraud in a financial statement audit, this complex transaction required PWC to expand the scope of their audit procedures and determine whether Hanover was, in fact, dealing with entities that were not independent. However, PWC ignored these factors and failed to expand the scope of their audit procedures.

74. Even if Contogouris had been an independent investor, thus allowing Hanover to recognize revenue on a “percentage of completion” basis, PWC recklessly allowed Hanover to recognize revenue that exceeded the percentage of the project’s completion. By December 2000, PWC knew, or recklessly failed to disclose, that the Hampton Roads completion date had been pushed out from 2001 to 2003 or 2004. PWC also knew, or recklessly failed to discover, that Hanover’s local partners in Nigeria, Global and Royal Dutch/Shell Group had been in arbitration since 1999 over a contract to recover natural-gas liquids for the plant and that even if the arbitration was resolved quickly, the plant would not be ready to start operating until 2003, rather than 2001, as Hanover had indicated.

75. On February 5, 2001, Contogouris asked Hanover for his money back under the refund agreement and sent a letter to Hanover requesting the refund on February 6, 2001. Hanover management told Contogouris that it would not refund the money directly to him. Instead, it would refund the money to a company related to Contogouris – The C Group, Inc. (“The C Group”) – by issuing a $4 million “loan” to The C Group. In return, Hanover management requested that The C Group issue a promissory note to Hanover for $4 million, but assured Contogouris that they would not seek repayment of the loan. This promissory note, which was executed on March 19, 2001, was signed by Contogouris as President of The C Group.

76. PWC was aware of this $4 million “loan” and, according to Gaisor at Hanover, was provided a copy of the agreement and promissory note. Certain aspects of the loan should have raised red flags, such as the fact that it did not provide for interest. PWC should have asked for
confirmation from The C Group that (1) the loan would be repaid, and (2) that The C Group was not related to Hampton Roads – especially since the promissory note was signed by Contogouris. Upon discovering the relationship between Contogouris and The C Group, PWC should have expressed to the audit committee that the substance of the loan was not what the Company represented it to be, but that it was actually a return of capital.

(h) Premature Recognition of Revenue for Non-Monetary Exchange with Callon Petroleum

77. In the third quarter of 2000, Hanover exchanged certain oil and gas reservoir rights for two compressors in a non-monetary exchange transaction with an independent oil and gas producer, Callon Petroleum Operating Company (“Callon”). Hanover recorded $2,225,000 in revenue and pre-tax income in 2000. In fact, Hanover had made certain guarantees with respect to the performance of the oil and gas reservoir rights. Specifically, Hanover guaranteed that if Callon did not receive $1.2 million in net revenue from the oil and gas rights, Hanover would pay Callon the difference between $1.2 million and the amount that Callon received. Additionally, the revenue recognition was improper because the transaction was not complete at the end of the third quarter 2000. Of the several closing documents regarding the transaction, only one was actually dated prior to the quarter end; the remainder were dated in October 2000. Therefore, the earnings process was not complete in the third quarter of 2000.

78. PWC was intimately involved in monitoring the terms of this transaction and knew that Hanover could not recognize revenue for the transaction in the third quarter of 2000. William S. Goldberg (the former Executive Vice President and CFO of Hanover) has stated that he provided Frank Steinneger at PWC with the Callon agreements and guarantee in 3Q 00, while defendant McGhan has stated that PWC told him in 3Q 00 that Hanover could not recognize the Callon revenue that quarter. In fact, PWC required an appraisal of the compressors Hanover was obtaining from Callon, because it was concerned that the value of the compressors was not sufficient to justify...
an exchange for the oil and gas reservoir rights Hanover was providing. Nonetheless, PWC allowed Hanover to recognize the revenue. Hanover later restated its financial results for the third quarter of 2000 to reverse the $2,225,000 in revenue it originally recognized on this transaction.

(i) Premature Revenue Recognition on a Sale of 33 Compressors to Crestone/Enron

79. In the fourth quarter of 2000, Hanover recognized revenue on the sale of 33 gas compressors to a gas pipeline system then controlled by Crestone Gathering Services, L.L.C. ("Crestone"), formerly known as Enron Midstream Services, L.L.C. ("Enron") for $12,004,000 pursuant to a letter and invoice sent from Hanover to Crestone on December 27, 2000. Crestone had been leasing the compressors prior to this time. Despite the fact that risks and rewards of ownership were not technically transferred until 2001, Hanover recorded the $12,004,000 in revenue and the $4,050,000 of pre-tax income from the transaction in the fourth quarter of 2000. On January 30, 2001, Hanover and Crestone entered into a Bill of Sale and a Purchase, Settlement and Release Agreement ("Bill of Sale") which indicated that title did not pass until "closing," which was in January, 2001, when the Bill of Sale was executed. Thus, this revenue should not have been recognized until January 2001 when the Bill of Sale was issued.

80. PWC knew that Hanover could not recognize revenue for this transaction in the fourth quarter of 2000 because, according to Dana Gutierrez, Hanover’s Director of Credit, Hanover’s internal accountants provided PWC with the Bill of Sale which stated that the transaction did not close until the first quarter of 2001. Further, by December, 2000, Crestone was over 90 days late in its lease payments, and PWC was receiving Crestone’s payment receipts and quarterly updates on Crestone’s delinquency from Gutierrez. Nonetheless, PWC allowed Hanover to recognize this revenue, all of which was later restated.
(j) Revenue Recognition on Consignment Sales to Interstate Treating, Rino and TIPS A

81. In the fourth quarter of 1999, Hanover recorded three transactions totaling $4,170,000 in revenue from the sale of used compression and production equipment to Interstate Treating, TIPS A, and Rino. An additional $310,000 in revenue was recorded on one of the transactions in the second quarter of 2000. These sales were actually consignment sales and Hanover should not have recognized revenue or income on these transactions. GAAP, as set forth in SFAS No. 48 does not permit revenue recognition where an item sent to a customer may be returned and payment is contingent on resale of the item.

82. PWC should have realized that these sales were not legitimate because they received monthly updates on these transactions from Hanover’s credit department. Thus, PWC should have noticed that although the standard terms of sale at Hanover were net 30, i.e., full payment was due within thirty days of delivery, payment was not due on the consignment sales for two years. This was to allow the consigners to resell the equipment before they had to pay Hanover. That the payment terms were over 2400% longer than usual was a red flag to PWC that something was amiss.

(k) Premature Revenue Recognition on Scrap Sale to Gilstrap

83. In the third quarter of 2000, Hanover recorded $700,000 of revenue from the sale of scrap inventory to an independent salvage metal company, Gilstrap, pursuant to invoices issued in September 2000. Yet delivery did not occur and payment was not assured until 2001 at the earliest. Hanover simply recorded revenue on a forward sale contract. PWC was aware of this accounting violation because it received monthly updates regarding this transaction and all payment receipts from Hanover’s credit department. Indeed, Hanover personnel have stated that PWC inquired about the terms and accounting treatment of this transaction.
(l) Improper Valuation of the Cost Basis in the Sale of Used Compression Equipment by Hanover’s Subsidiary, Rino

84. In the fourth quarter of 2000, Hanover recognized $1,500,000 in revenue and $1,200,000 in pre-tax income from the sale of used compression equipment by one of Hanover’s subsidiaries, Rino. The compression equipment was acquired as a result of the acquisition of a subsidiary by the Company less than six months prior to the sale of the equipment. The compression equipment should have been valued at $900,000 (instead of $300,000) in the allocation of the purchase price and the gain on the sale should be reduced by $600,000 with a corresponding adjustment made to reduce goodwill.

(m) Premature Revenue Recognition on a Sale of Four Compressors to Duke Energy

85. In connection with the sale of four compressors to Duke Energy (“Duke”), Hanover recorded revenue of $1,486,000 and pre-tax income of $1,081,000 in the first quarter of 2000, and revenue of $750,000 and pre-tax income of $468,000 in the third quarter of 2000. However, Duke fell behind on its payment schedule almost immediately after signing the purchase agreement. As a result, Hanover renegotiated the terms of the agreement. Even under the renegotiated terms, however, Duke did not pay in full until approximately six months after the renegotiated due date.

86. PWC was informed of Duke’s delinquency on a quarterly basis by Hanover’s credit department and was forwarded the receipts of all Duke payments. Thus, almost immediately, PWC knew that it was far from certain when, or even if, Duke would pay Hanover. As a result, PWC should not have allowed Hanover to recognize the revenue associated with this transaction. Eventually, this income was restated and recognized in the fourth quarter of 2000, when Duke finally paid and title to the equipment was transferred.
(n) Premature Revenue Recognition on Power Plant Sale to ETG

87. In the second quarter of 2000, Hanover sold a 25% interest in a Venezuelan power plant, Benton Vinecler, to Energy Transfer Group, LLC ("ETG") in an exchange for an interest in Hanover’s Peace River project. Hanover accounted for the transaction as a sale and recorded a gain on sale of other assets of $1,250,000 in the second quarter of 2000. In fact, the exchange was not complete until the fourth quarter of 2000. Hanover’s internal accountants provided PWC with all of the documents associated with this transaction. As such, PWC was fully aware that the exchange was not complete during the quarter in which Hanover recognized the revenue associated with it.

(o) Premature Revenue Recognition on Management Fee for Services Provided to Ouachita

88. In the second quarter of 2000, Hanover recorded $450,000 in revenue for management services provided to Ouachita Energy Corporation ("Ouachita"), a compression services company, pursuant to an invoice dated June 30, 2000. In the third quarter of 2000, the Company reversed the revenue, because the management fee was not agreed to by both parties until that quarter. In fact, the revenue had been improperly reported in the second quarter 2000 and should have been reversed in the quarter. PWC was presented with quarterly updates on the status of the Ouachita deal by Hanover’s credit department. As such, PWC knew the terms and timing of the transaction and knew that the associated revenue should not have been recognized until the following quarter.

89. Hanover has since restated its results for 1999, 2000 and 2001 to correct its improper accounting for these many issues, reducing previously reported revenues by tens of millions of dollars.
90. Due to these accounting improprieties, the Company presented its financial results and statements in a manner which violated GAAP, including the following fundamental accounting principles:

(a) The principle that interim financial reporting should be based upon the same accounting principles and practices used to prepare annual financial statements was violated (APB No. 28, ¶10);

(b) The principle that financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit and similar decisions was violated (FASB Statement of Concepts No. 1, ¶34);

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

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

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

(f) The principle that financial reporting should be reliable in that it represents
what it purports to represent was violated. That information should be reliable as well as relevant is
a notion that is central to accounting (FASB Statement of Concepts No. 2, ¶58-59);

(g) The principle of completeness, which means that nothing is left out of the
information that may be necessary to insure that it validly represents underlying events and
conditions was violated (FASB Statement of Concepts No. 2, ¶79); and

(h) The principle that conservatism be used as a prudent reaction to uncertainty to
try to ensure that uncertainties and risks inherent in business situations are adequately considered
was violated. The best way to avoid injury to investors is to try to ensure that what is reported
represents what it purports to represent (FASB Statement of Concepts No. 2, ¶¶95, 97).

91. Further, the undisclosed adverse information concealed by defendant during the Class
Period is the type of information which, because of SEC regulations, regulations of the national
stock exchanges and customary business practice, is expected by investors and securities analysts to
be disclosed and is known by corporate officials and their legal and financial advisors to be the type
of information which is expected to be and must be disclosed.

PWC'S FALSE AND MISLEADING AUDIT REPORTS

92. PWC’s opinion on Hanover’s 2000 year end financial statements, dated March 30,
2001 and included in the Company’s 2000 10-K, contained the following representations:

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
Hanover Compressor Company

In our opinion, the accompanying consolidated balance sheet and the related
consolidated statements of income and comprehensive income, of cash flows and of
common stockholders’ equity present fairly, in all material respects, the financial
position of Hanover Compressor company and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PRICEWATERHOUSECOOPERS LLP

Houston, Texas
March 30, 2001

93. PWC issued nearly identical audit reports on Hanover’s 1999 and 2001 financial statements included in the Company’s 1999 and 2001 Form 10-Ks. PWC also signed off on and approved Hanover’s quarterly financial results prior to their issuance to the public.

94. In fact, PWC’s reports were false and misleading because its audit failed to comply with GAAS and due to the fact that Hanover’s financial statements were not prepared in conformity with GAAP, causing the report to be a violation of GAAS and SEC rules. The SEC has stressed the importance of meaningful audits being performed by independent accountants:

Moreover, the capital formation process depends in large part on the confidence of investors in financial reporting. An investor’s willingness to commit his capital to an impersonal market is dependent on the availability of accurate, material and timely information regarding the corporations in which he has invested or proposes to invest. The quality of information disseminated in the securities markets and the continuing conviction of individual investors that such information is reliable are thus key to the formation and effective allocation of capital. Accordingly, the audit function must be meaningfully performed and the accountants’ independence not compromised.

SEC Accounting Series Release No. 296 (emphasis added).
GAAS, as approved and adopted by the American Institute of Certified Public Accountants ("AICPA"), relate to the conduct of individual audit engagements. Statements on Auditing Standards ("SAS") are recognized by the AICPA as the interpretation of GAAS.

PWC's responsibility, as Hanover’s independent auditor, included determining “[s]ufficient competent evidential matter ... to afford a reasonable basis for an opinion regarding the financial statements under audit” as to “the fairness with which they present, in all material respects, financial position, results of operations, and its cash flows in conformity with generally accepted accounting principles.” AU §§110, 150.

In certifying Hanover’s 1999, 2000 and 2001 year-end financial statements, PWC represented that its audits had been made in accordance with GAAS. These statements were false and misleading in that PWC knew or was reckless in failing to discover that its audit was not performed in accordance with GAAS in at least the following respects:

(a) PWC violated the general standard that due professional care be exercised in the performance of the audit. An example of such violation is PWC’s willingness to issue a “clean” opinion notwithstanding its knowledge that the financial information from which the financial statements were derived was false. Furthermore, PWC did not exercise due care in its attempt to obtain competent evidential matter and therefore did not obtain sufficient evidence to form the basis of the “clean” opinion issued.

(b) PWC violated the first standard of fieldwork that requires the auditor to properly plan the engagement. In fact, under AU §316, consideration of fraud in a financial statement audit, PWC was required to consider and plan for factors that indicated Hanover may be dealing with entities that were not independent. The risk factors under AU §316.17 included:

- Significant, unusual, or highly complex transactions, especially those close to year end, that pose difficult “substance over form” questions.
• Overly complex organizational structure involving numerous or unusual legal entities, managerial lines of authority, or contractual arrangements without apparent business purpose.

• Difficulty in determining the organization or individual(s) that control(s) the entity.

• Unusually rapid growth or profitability, especially compared with that of other companies in the same industry.

(c) PWC violated the second standard of fieldwork that requires the auditor to make a proper study of existing internal controls, including accounting, financial and managerial controls, to determine whether reliance on those controls was justified and, if such controls are not reliable, to expand the nature and scope of audit procedures to be applied.

(d) PWC violated the third standard of fieldwork that requires the auditor to obtain sufficient, competent evidential matter through inspection, observation, inquiries and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.

(e) PWC violated the third standard of reporting that states that informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report. PWC did not modify its audit opinion although Hanover did not adequately disclose its relevant accounting practices relating to sales and non-monetary transactions.

(f) PWC violated the fourth standard of reporting that requires that when an opinion on the financial statements as a whole can not be expressed, the reasons therefore must be stated. In view of the aforementioned GAAS and GAAP violations, PWC should have stated that it could express no opinion as to the financial statements of Hanover or should have issued an adverse opinion stating that the 1999, 2000 and 2001 financial statements were not presented fairly in accordance with GAAP.

98. PWC also consented to the issuance of its report on Hanover’s 1999 financial statements in the Registration Statement/Prospectus. Such consents, according to accounting
literature, are tantamount to a representation that the auditor is not aware of deviations from GAAP in the interim financial results included in the Registration Statement. GAAS, as set forth in AICPA AU §711, Filings Under Federal Securities Statutes, states the following:

If an accountant concludes on the basis of facts known to him that unaudited financial statements or unaudited interim financial information presented or incorporated by reference in a registration statement are not in conformity with generally accepted accounting principles, he should insist on appropriate revision. Failing that,

* * *

(i) If the accountant has not reported on a review of the unaudited financial statements or interim financial information, he should modify his report on the audited financial statements to describe the departure from generally accepted accounting principles contained in the unaudited financial statements or interim financial information.

In either case, the accountant should also consider, probably with the advice of his legal counsel, withholding his consent to the use of his report on the audited financial statements or interim financial information.

AU §711.13.

99. In the course of issuing its unqualified audit opinion as to Hanover’s year ended 1999, 2000 and 2001 financial statements, PWC knew that it was required to adhere to all of the standards and principles of GAAS, including the requirement that the financial statements comply in all material respects with GAAP. In issuing its unqualified opinions for Hanover’s financial results, PWC knew or was deliberately reckless in not knowing that its audits and reports were not in compliance with GAAS and that Hanover’s financial results were not reported in accordance with GAAP.

100. PWC was extensively involved with Hanover and had continual contact with the Company. PWC reviewed Hanover’s press releases, Form 10-Qs, Form 10-Ks and marked up copies of Hanover’s Form 10-Ks and Prospectus. The PWC team was at the Company frequently and, in fact, maintained an office there at times. PWC asked about Hampton Roads every quarter.
101. Throughout 1999, 2000, 2001 and much of 2002, PWC’s Hanover audit team lacked consistency. PWC would bring in staff who would work on the engagement for two weeks, then PWC would send in different staff from other offices. Because of this lack of consistency, the auditors were always having to overcome a learning curve and were not as familiar with the engagement as they should have been. It was not until late 2002 that PWC finally got consistent with staffing.

102. PWC participated in the wrongdoing alleged herein in order to retain Hanover as a client and to protect the fees it received from Hanover. PWC received millions of dollars of audit and non-audit during the Class Period, including $1.4 million in 2000, $3.6 million in 2001, and $1.88 million in 2002. The PWC partners who were responsible for the Hanover account were paid a portion of these fees and had an interest in retaining Hanover as accounting and auditing clients. This is a case where the Company tried to grow rapidly through making acquisitions. PWC audited Hanover’s finances for three years in a row. PWC did not miss just one item or two items, but 19 items, so that revenue was misstated by over $77 million over a three-year period. There were three large restatements covering several years and a larger offering when the Company was trying to raise money at the same time as the restated financials. There was not just one form of manipulation, but several, most of which involve revenue recognition, which PWC was aware of, or which PWC would have been aware of had they not recklessly ignored numerous red flags.
DEFE N D A N T’S FALSE AND MISLEADING STATEMENTS ARTIFICIALLY INFLATED HANOVER’S STOCK PRICE

103. Defendant’s statements artificially inflated Hanover’s stock price as follows:

![Graph showing stock prices]

104. At all relevant times, the market for Hanover common stock was an efficient market for the following reasons, among others:

(a) Hanover common stock met the requirements for listing, and was listed and actively traded, on the New York Stock Exchange;

(b) As a regulated issuer, Hanover filed periodic public reports with the SEC; and

(c) Hanover stock was followed by 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. Among the securities firms that followed the Company and/or issued reports about Hanover were: CIBC World Markets, RBC Capital Markets (United States), Wachovia Securities, Greenwich Research Analytics, ValuEngine, Inc., Black Box Investing, Pechala's Reports, Reuters Investment Profile, TrueCourse, Inc., PriceTarget Research, Inc., Standard & Poor's, Columbine Capital Services, Inc., Morningstar, and Ford Investor Services, Inc.

105. As a result, the market for Hanover securities digested current information with respect to Hanover from all publicly available sources and reflected such information in Hanover's securities prices. Under these circumstances, all purchasers of Hanover securities during the Class Period suffered similar injury through their purchase of securities at artificially inflated prices and a presumption of reliance applies.

CLASS ACTION ALLEGATIONS

106. Plaintiffs bring this lawsuit pursuant to Rule 23(a) and (b)(3) of the Federal Rules of Civil Procedure, on behalf of itself and on behalf of a class of persons who purchased Hanover publicly-traded securities from May 4, 1999 through December 23, 2002, inclusive (the "Class"). Excluded from the Class is the defendant, and any person, firm, trust, corporation, officer, director or other individual or entity in which any defendant has a controlling interest or which is related to or affiliated with any defendant, and the legal representatives, agents, affiliates, heirs, successors-in-interest or assigns of any such excluded party.

107. This action is properly maintainable as a class action for the following reasons:

(a) The Class is so numerous that joinder of all Class members is impracticable. As of November 1, 2001, Hanover had approximately 79 million shares outstanding. Members of the Class are scattered throughout the United States.
(b) There are questions of law and fact which are common to members of the Class and which predominate over any questions affecting only individual members. The common questions include, *inter alia*, the following:

(i) Whether the defendant’s acts as alleged herein violated the federal securities laws;

(ii) Whether defendant participated in and pursued the common course of conduct complained of herein;

(iii) Whether documents, SEC filings, press releases and other statements disseminated to the investing public and Hanover’s common stockholders during the Class Period misrepresented material facts about the operations, financial condition and earnings of Hanover;

(iv) Whether the market prices of Hanover publicly traded securities during the Class Period were artificially inflated due to material misrepresentations and the failure to correct the material misrepresentations complained of herein; and

(v) To what extent the members of the Class have sustained damages and the proper measure of damages.

(c) Plaintiffs’ claims are typical of the claims of other members of the Class and plaintiffs have no interests that are adverse or antagonistic to the interests of the Class.

(d) Plaintiffs are committed to the vigorous prosecution of this action and has retained competent counsel experienced in litigation of this nature. Accordingly, plaintiffs are adequate representatives of the Class and will fairly and adequately protect the interests of the Class.

(e) Plaintiffs anticipate that there will not be any difficulty in the management of this litigation as a class action.

108. For the reasons stated herein, a class action is superior to other available methods for the fair and efficient adjudication of this action and the claims asserted herein. Because of the size
of the individual Class members' claims, few, if any, Class members could afford to seek legal redress individually for the wrongs complained of herein.

**COUNT I**

*For Violation of Section 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder*

109. Plaintiffs repeat and reallege the allegations set forth above as though fully set forth herein.

110. This Count is brought by plaintiffs pursuant to §10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by the SEC.

111. Defendant: (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary in order to make the statements made not misleading; and (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of Hanover securities in an effort to maintain artificially high market prices for Hanover securities in violation of §10(b) of the Exchange Act and Rule 10b-5. Defendant is sued as primary participants in the wrongful and illegal conduct charged herein.

112. Defendant, directly and indirectly, by using the means and instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about the business, operations and future prospects of Hanover as specified herein. Defendant employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of Hanover's value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about Hanover and its business operations, in light of the circumstances under
which they were made, not misleading, as set forth more particularly herein, and engaged in
transactions, practices and a course of business which operated as a fraud and deceit upon the
purchasers of Hanover publicly traded securities during the Class Period.

113. Defendant had actual knowledge of the misrepresentations and omissions of material
facts set forth herein or was deliberately reckless in failing to discover them. Defendant’s material
misrepresentations or omissions were done knowingly and in order to maintain its competitive
position by retaining Hanover as a client, to protect the fees it received from Hanover, and to
maintain and increase its marketshare for auditing, accounting, and consulting services to be
performed for energy-related companies in Texas. The effect was to permit Hanover to misstate its
business, operations and future earnings prospects and/or financial statements throughout the Class
Period.

114. As a result of the dissemination of the materially false and misleading information
and failure to disclose material facts by defendant, as set forth above, the market prices of Hanover
publicly traded securities were artificially inflated during the Class Period. In ignorance of the fact
that the market prices for Hanover securities were artificially inflated, and relying directly or
indirectly on the false and misleading statements made by defendant, or upon the integrity of the
market in which the securities trade, and the truth of any representations made to appropriate
agencies and to the investing public, at the times at which any statements were made, and/or on the
absence of material adverse information that was known by defendant but not disclosed in public
statements by defendant during the Class Period, plaintiffs and the other members of the Class
acquired Hanover publicly traded securities during the Class Period at artificially high prices and
were damaged thereby.

115. At the time of said misrepresentations and omissions, plaintiffs and other members of
the Class were ignorant of their falsity and believed them to be true. Had plaintiffs and the other
members of the Class and the marketplace known of the true financial condition and business
prospects of Hanover, which were not disclosed by defendant, plaintiffs and other members of the
Class would not have purchased Hanover publicly traded securities during the Class Period, or, if
they had purchased such securities during the Class Period, they would not have done so at the
artificially inflated prices which they paid.

116. By virtue of the foregoing, defendant has violated §10(b) of the Exchange Act and
Rule 10b-5 promulgated thereunder.

117. As a direct and proximate result of the wrongful conduct of defendant, plaintiffs and
the other members of the Class suffered damages in connection with their purchases of Hanover
publicly traded securities during the Class Period.

COUNT II
Violation of Section 11 of the Securities Act

118. Plaintiffs repeat and reallege the allegations set forth above in ¶¶1-108 as if set forth
fully herein. Plaintiffs, for purposes of this claim, disclaim any allegations of fraud. This claim is
brought on behalf of a Class of all purchasers of Hanover common stock issued pursuant to
Hanover’s March 16, 2001 Registration Statement/Prospectus who were damaged thereby, seeking
to pursue remedies under the Securities Act against defendant PWC.

119. On March 16, 2001, Hanover filed its Registration Statement and Prospectus with the
SEC pursuant to the public offering of ten million shares. The Registration Statement/Prospectus
included the Company’s financial statements for 1999 and for the nine months ended September 30,
2000. The documents included a representation by PWC that the financial statements for 1999 were
presented in accordance with GAAP. In fact, Hanover has since acknowledged that the 1999 and
2000 financial statements included in the Registration Statement/Prospectus were materially
misstated.
120. PWC consented to the inclusion or incorporation of its reports on Hanover’s false financial statements in the Registration Statements and Prospectuses issued pursuant to the offering. PWC’s report on Hanover’s 1999 financial statements represented that PWC had performed its audit in accordance with GAAS and that based on that audit, Hanover’s financial statements were presented in conformity with GAAP. Moreover, pursuant to AU §711, PWC’s consent to reissue its audit report on Hanover’s 1999 financial statements was an implicit assertion that PWC was not aware of any deviations from GAAP in the unaudited financial results included in the Registration Statement/Prospectus, as well as the 2000 financial statements which were reported in a press release and Form 8-K, dated March 9, 2001, which was incorporated by reference into the Registration Statement/Prospectus. The Registration Statement/Prospectus also incorporated by reference Hanover’s Form 8-K dated March 9, 2001 which contained Hanover’s press release announcing its “record” fourth quarter and full-year 2000 financial results. In fact, the Registration Statement/Prospectus explicitly incorporated by reference Hanover’s March 9, 2001 Form 8-K which contained Hanover’s press release announcing its 2000 financial results. Hanover did not issue its earnings release until PWC had signed off on the release. Thus, PWC’s consent was in essence a representation that it approved of the 2000 financial statements as presented in the press release and incorporated in the Registration Statement/Prospectus. The explicit PWC approval was released in Hanover’s 2000 Form 10-K, issued a couple of weeks after the offering.

121. Hanover has subsequently admitted that its 1999 interim 2000 financial results included in the Registration Statement/Prospectus were false and misleading and not presented in conformity with GAAP. PWC’s audits were not performed in accordance with GAAS, as described in ¶¶94-99, and PWC’s consent to reissue its 1999 audit report, which implicitly represented that PWC was not aware of deviations from GAAP in the interim 2000 final results, was false. Due to its review procedures, PWC was aware of deviations from GAAP with respect to the interim results.
122. By the time of the March 16, 2001 Registration Statement/Prospectus, PWC had substantially completed its audit as to Hanover’s 2000 financial statements. It was PWC’s practice to be substantially finished with its audit before Hanover disseminated its fourth quarter earnings release, so that PWC could approve the release prior to dissemination. Hanover’s 4Q 00 release was disseminated March 9, 2001.

123. Each of the statements alleged herein relating to Hanover’s financial statements made in the Prospectuses and Registration Statements were false or misleading when issued. In truth, Hanover’s financial statements were materially false and misleading due to the accounting manipulations described in ¶¶48-105 and PWC’s audits were not performed in accordance with GAAP.

124. Defendant owed to plaintiffs and the Class the duty to make a reasonable and diligent investigation of the statements contained in the Registration Statements/Prospectuses at the time they became effective to assure that those statements were true and that there was no omission to state material facts required to be stated in order to make the statements contained therein not misleading.

125. By reason of the conduct herein alleged, defendant violated §11 of the Securities Act.

126. Plaintiff Plumbers and Steamfitters, Local 137 Pension Fund purchased Hanover shares pursuant to the March 16, 2001 Registration Statement/Prospectus without knowledge of the falsity contained therein. The secondary stock offering was accomplished at $35.15 per share. Hanover’s stock now trades below $12 per share.

PRAYER FOR RELIEF

WHEREFORE, plaintiffs, on behalf of themselves and the Class, pray for judgment as follows:

A. Declaring this action to be a class action properly maintained pursuant to Rule 23 of the Federal Rules of Civil Procedure;
B. Awarding plaintiffs and other members of the Class damages together with interest thereon;

C. Awarding plaintiffs and other members of the Class costs and expenses of this litigation, including reasonable attorneys’ fees, accountants’ fees and experts’ fees and other costs and disbursements; and

D. Awarding plaintiffs and other members of the Class such equitable/injunctive and/or other and further relief as may be just and proper under the circumstances.

JURY DEMAND

Plaintiffs demand a trial by jury.

DATED: October 4, 2004

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CERTIFICATE OF SERVICE

I, hereby certify that on this the 4th day of October, 2004, true and correct copies of the above and foregoing instruments have been duly forwarded to the following parties and/or counsel of record, by hand delivery and/or certified mail, return receipt requested.

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