

U.S. Department of Justice



United States Attorney
District of Connecticut

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New Haven, Connecticut 06510

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April 15, 1996

Eliot Lauer, Esq.
Curtis, Mallet-Prevost, Colt & Mosle
101 Park Avenue
New York, NY 10178

Shaun S. Sullivan, Esq.
Wiggin & Dana
One Century Tower
New Haven, CT 06508-1832

Re: Arthur Andersen LLP, I/R/a Arthur Andersen & Co.

Gentlemen:

This letter sets forth the agreement between the United States Attorney's Office for the District of Connecticut ("the Government") and the entity Arthur Andersen LLP, formerly known as Arthur Andersen & Co., ("Andersen") concerning the deferred resolution of the Government's investigation ("the Investigation") into Andersen's work for the former Colonial Realty Company of West Hartford, Connecticut ("Colonial"). As you know, the investigation has focused primarily on Andersen's work on the Colonial Constitution Limited Partnership and the related Colonial Constitution Zero Coupon Limited Partnership, both of which relate to the property commonly referred to as Constitution Plaza located in downtown Hartford, Connecticut (collectively referred to herein as "Constitution").

The Government believes that it is in the interest of the Government, as well as in the best interests of justice and the community to resolve this matter on the following terms:

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Shawn S. Sullivan, Esq.
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1. The Government and Andersen expressly acknowledge that this agreement, which addresses only the deferred resolution of the investigation, as is more fully set forth in paragraph 6 below, does not conclude or otherwise resolve any other related or unrelated investigation that may exist or that may yet arise concerning any other entity or any individual who performed work for, or related to, Colonial. The Government and Andersen further expressly acknowledge, consistent with paragraph 7 below, and notwithstanding any other provision herein, that this agreement in no way affects, impairs, or otherwise limits the rights of any parties, including the United States of America, with respect to any civil or administrative claims or proceedings — whether pending or filed in the future — concerning any aspect of Andersen's work for Colonial, including Andersen's right, if any, to claim that the distribution of the Fund defined in paragraph 3 below constitutes an offset against or mitigation of any claims for damages by such parties. In addition, the parties agree that this agreement is intended to be tax neutral; that is, nothing in this agreement is intended to, or in fact does, settle the liability, if any, that Andersen has or may have arising under Title 26 of the United States Code and/or the regulations arising thereunder. As of the date of execution of this agreement, no such tax liability relating to the investigation is known to any party to this agreement.

2. It is understood that neither this agreement nor any action taken by Andersen under this agreement is an acknowledgment or admission in any way by Andersen that it has acted improperly or has violated any law, rule, regulation, professional standard, or other standard of practice. The Government understands that Andersen denies any such act or violation.

3. Andersen will, at the time you and its duly authorized representative execute this agreement on its behalf, pay ten million three hundred thousand dollars (\$10,300,000.00) by electronic funds transfer to an account established for the Constitution Fund ("the Fund") to be distributed solely to investors in Constitution, or their transferees, who have sustained a loss on that investment and who were neither principals or employees of Colonial, nor relatives of such principals or employees. The Fund will be administered by the law firm of Updike, Kelly & Spellacy, P.C., One State Street, Hartford, Connecticut, a third-party administrator acceptable to the Government ("the Administrator"), as assisted by any financial services institutions, providers, consultants, or other advisers deemed necessary for these purposes by the Administrator.

Eliot Lassar, Esq.
Kieran S. Sullivan, Esq.
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Simultaneously with the above-noted transfer to establish the Fund, Andersen will pay by electronic funds transfer an additional \$200,000.00, and no more, to be held by the Administrator as a retainer to be billed against and drawn upon by the Administrator for providing these services ("the retainer"). The Administrator's rates will be set in a separate agreement to be reached with the Government. The retainer is the maximum amount that will be paid for the completion of any and all administrative work performed by the Administrator, and is to include all costs for any financial services institutions, providers, consultants, or other advisors retained by the Administrator. Any amount of the retainer not paid to the Administrator shall be paid into the Fund for further distribution as described above.

4. At six month intervals from the execution of this agreement, and at the conclusion of the distribution of the Fund, the Administrator of the Fund shall provide to the Government and Andersen reports identifying the name and address of each recipient of a portion of the Fund and the amount of the Fund distributed to each recipient.

5. Andersen agrees that it will provide full cooperation to the Government as requested in the course of the Government's ongoing investigation of Colonial-related matters. For example, if testimony or information from any present or former Andersen partner or employee is requested by the Government, Andersen will encourage those individuals to provide their full cooperation. In addition, Andersen will preserve and, upon reasonable request and notice, furnish the Government all nonprivileged documents (including computer memories or tapes) in Andersen's possession, custody, or control that are relevant to the Government's ongoing Colonial investigation. Andersen also will provide, upon reasonable request and notice, a log of relevant, privileged documents to the Government.

6. Ninety (90) days after the execution of this agreement and payment by Andersen of the amounts described in paragraph 3 of this agreement, the Government, in the person of the Acting United States Attorney for the District of Connecticut, will provide written notice that it has concluded the investigation provided that the Government is satisfied that it has continued to receive, and will continue to receive, the cooperation anticipated by paragraph 5 of this agreement. Assuming those conditions and continuing assurances are fully satisfied, the Government agrees that, subject to the reservation of rights set forth in paragraph 1 above, the Government will conclude the investigation.

Elliot Lauer, Esq.
Dwain S. Sullivan, Esq.
April 18, 1996
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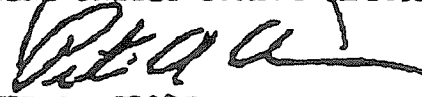
7. This agreement is binding on the parties hereto, their respective successors and assigns, and will insure only to the benefit of the parties hereto and respective successors and assigns. No other person shall be entitled to enforce any provision of this agreement, nor shall any other person be entitled to any benefits hereunder. This agreement is entered, on the conditions set forth herein, for the sole and exclusive purpose of settling and ending the investigation.

8. The agreement set forth in the preceding paragraphs applies to only the resolution of the investigation by the United States Attorney's Office for the District of Connecticut. As such, Andersen expressly agrees that it waives and will not raise this agreement or any part of it as either a substantive or procedural bar to any civil or administrative claim or action that may be brought by any other representative of the United States of America relating to Andersen's work for Colonial.

Undersigned counsel for the Government understand that you, as Andersen's counsel, fully agree with the terms set forth in this five (5)-page agreement. Accordingly, please have your client, in the person of a properly authorized representative of Andersen, execute this agreement below where indicated. Then, once the agreement is fully executed by your client's representative and yourselves, please return the executed original to Assistant United States Attorney Thomas J. Murphy.

Very truly yours,


EDWIN J. GALE
ACTING UNITED STATES ATTORNEY


PETER A. CLARK
ASSISTANT UNITED STATES ATTORNEY


THOMAS J. MURPHY
ASSISTANT UNITED STATES ATTORNEY

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ARTHUR ANDERSEN LLP, P/R/S
ARTHUR ANDERSEN & CO.

By: *Shawn Sullivan*

Its *Partner*

DATED: *April 17*, 1996

Approved:

Eliot Lauer
ELIOT LAUER, ESQ.
Attorney for ARTHUR ANDERSEN LLP,
P/R/S ARTHUR ANDERSEN & CO.

DATED: *4/17*, 1996

Shawn Sullivan
SHAWN S. SULLIVAN, ESQ.
Attorney for ARTHUR ANDERSEN LLP,
P/R/S ARTHUR ANDERSEN & CO.

DATED: *4/17*, 1996