

**U.S. Department of Justice***United States Attorney
District of Connecticut**Connecticut Financial Center
157 Church Street
Post Office Box 1824
New Haven, Connecticut 06508*

203-773-2108

Fax 203-773-5376

April 23, 1996

PRESS RELEASE

The United States Attorney's Office for the District of Connecticut today announced the deferred resolution of its investigation of the accounting firm Arthur Andersen LLP, formerly known as Arthur Andersen & Co. ("Andersen"). The investigation that is the subject of today's resolution arose from Andersen's accounting services for the former real estate syndicator Colonial Realty Company of West Hartford, Connecticut ("Colonial"), which was placed in involuntary bankruptcy in September 1990. The Government's investigation focused particularly on Andersen's accounting services in late 1989 and 1990 for the last and largest of Colonial's syndications, Colonial Constitution Limited Partnership ("Constitution"), which offered interests in the downtown Hartford landmark Constitution Plaza.

By the agreement announced today, Andersen has paid \$10,300,000 into a fund to be used to reimburse Colonial's Constitution investors. Andersen also has paid another \$200,000 to cover the costs of the Administrator to oversee the distribution of the Constitution Fund. By this agreement, Andersen also has pledged to provide its complete and continuing cooperation in the

Government's ongoing investigation of Colonial-related matters. Assuming Andersen satisfies each of these conditions to the satisfaction of the Government, the Government formally will conclude its investigation of Andersen in another 90 days. Acting United States Attorney Edwin J. Gale noted that Andersen already has made the wire transfers to effect the payments contemplated by the agreement.

The agreement announced today anticipates the resolution of Andersen's liability as a firm only. That is, the agreement expressly recognizes that it in no way resolves the liability of any individuals or other entities. Similarly, today's agreement makes clear that this resolution in no way limits the rights of any individuals to pursue private civil claims against Andersen -- whether pending or yet-to-be-filed -- for any of Andersen's work for Colonial.

Mr. Gale said that the decision to enter into a deferred resolution with Andersen was based on a number of considerations, including: (1) the fact that the allegations were not firm-wide; (2) the related concern that an indictment would cause significant collateral consequences to many innocent Andersen employees; (3) Andersen's efforts to date to cooperate, and its commitment to continue cooperating, in the Government's ongoing investigation of Colonial matters; and (4) Andersen's willingness to pay significant monies to make whole the wronged investors in Colonial's Constitution offerings.

Mr. Gale further stated: "The public interest is well served by this agreement. Each decision concerning prosecution is

necessarily fact-intensive. Even upon conviction, a partnership could be required only to pay fines and restitution and to take certain other corrective actions. The agreement announced today accomplishes all the reasonable ends that could be expected in these specific factual circumstances. It ensures that Constitution investors will receive over \$10 million in restitution, while losing none of their already existing civil remedies against Andersen. It further ensures the continuing cooperation of Andersen as needed in the Government's ongoing investigation of Colonial."

Acting United States Attorney Edwin J. Gale praised the diligent efforts of the Internal Revenue Service, Criminal Investigation Division, and the Federal Bureau of Investigation. The multi-year investigation jointly undertaken by those agencies was critical to achieving the resolution announced today. The Colonial Realty investigation, including the negotiation of the resulting deferred resolution with Andersen, is being handled by Assistant United States Attorneys Peter A. Clark and Thomas J. Murphy.

A copy of the agreement between the Government and Andersen is attached.



U.S. Department of Justice

United States Attorney
District of Connecticut

Connecticut Financial Center
157 Church Street
Post Office Box 1824
New Haven, Connecticut 06508

203-773-2108

Fax: 203-773-5376

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, f/k/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:

Eliot Lauer, Esq.
Shaun S. Sullivan, Esq.
April 15, 1996
Page 2

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 acknowledgement 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 Lauer, Esq.
Shaun S. Sullivan, Esq.
April 15, 1996
Page 3

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 advisers 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.

Eliot Lauer, Esq.
Shaun S. Sullivan, Esq.
April 15, 1996
Page 4

7. This agreement is binding on the parties hereto, their respective successors and assigns, and will inure 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.

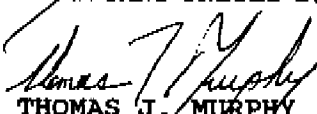
8. The agreement set forth in the preceding paragraphs applies to only the resolution of the Investigation by the United States Attorney's Office for the District of Connecticut. As such, Andersen expressly agrees that it waives and will not raise this agreement or any part of it as either a substantive 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

Eliot Lauer, Esq.
Shaun S. Sullivan, Esq.
April 15, 1996
Page 5

ARTHUR ANDERSEN LLP, f/k/a
ARTHUR ANDERSEN & CO.

By: Philip Keller

Its Partner

DATED: April 17, 1996

Approved:

Eliot Lauer
ELIOT LAUER, ESQ.
Attorney for ARTHUR ANDERSEN LLP,
f/k/a ARTHUR ANDERSEN & CO.

DATED: 4/17, 1996

Shaun S. Sullivan
SHAUN S. SULLIVAN, ESQ.
Attorney for ARTHUR ANDERSEN LLP,
f/k/a ARTHUR ANDERSEN & CO.

DATED: 4/17, 1996