

Alaska Attorney General Files Securities Fraud Litigation Against America Online, Inc., and Time Warner

(Juneau, AK) -Attorney General Gregg Renkes filed a complaint in Juneau Superior Court today against America Online, Inc. ("AOL"), Time Warner, Inc., Historic TW Inc., Ernst & Young, Morgan Stanley, and several former corporate officers of America Online. The complaint alleges that various State of Alaska funds incurred substantial losses in their investments in AOL, Time Warner, and AOLTimeWarner (AOLTW) stock because the defendants were negligent and misrepresented facts in connection with the merger of AOL and Time Warner. The State of Alaska lost over \$70 million as a result.

"The corporate scandals of the past few years resulted in the State of Alaska losing millions of dollars from our investment portfolios," stated Attorney General Gregg Renkes. "Public funds all across the country from New York to California and now to Alaska are standing up and holding the responsible businesses and persons accountable for their actions. This office is committed to aggressively protecting the financial interests of the state and the people of the State of Alaska."

The complaint alleges that the defendants' actions violated Alaska law. The State will seek recovery of losses under Alaska law, and will also seek a punitive damages award to deter future fraudulent corporate conduct.

"We are no longer going to rely on the federal courts located in far flung jurisdictions to protect our interests," Renkes added. "The defendants' actions violated Alaska's state law and so we are seeking recovery right here in the Juneau Superior Court."

The complaint seeks recovery from each of the corporate entities involved (AOL, Time Warner and Historic TW), the accountant (Ernst & Young), the underwriter (Morgan Stanley), and the AOL corporate officers who were responsible for the sham transactions (Steve Case, Robert Pittman, Michael Kelly, David Colburn, and Eric Keller). The State may add additional defendants as it learns more through the discovery process.

The Alaska funds with investments in AOL, Time Warner, and Historic TW stock include the Alaska Permanent Fund, the various state pension funds (public employee, teachers, judicial, and military), the Mental Health Trust Fund, the Exxon Valdez Oil Spill Trust Fund, the University of Alaska Trust Fund, as well as smaller funds such as the Constitutional Budget Reserve Fund sub-account, the Public School Trust Fund, and the Alaska Children's Trust Fund. The State estimates that aggregate losses exceeded \$70 million.

Although the State's losses are large, there is no material impact on the payment of the Permanent Fund Dividend, the check sent annually to all Alaskans, or the payment of pension benefits. The loss to the Alaska Permanent fund, over \$50 million, is only 0.2% of the total \$28 billion fund. The over \$20 million loss sustained by other funds is less than 0.1% of the other funds' aggregate values.

The Attorney General is committed to protecting the \$50 billion of invested State funds from securities fraud. All of the State's investment portfolios are actively and regularly monitored. The Attorney General is also seeking recovery of losses related to its investments in WorldCom bonds, and is prepared to file cases in the future when warranted by particular facts.

In the late 1990s, AOL experienced explosive growth as a result of the internet boom. AOL's stock price skyrocketed, and the company had a market capitalization of over \$200 billion.

In January of 2000, AOL and Time Warner announced a proposal for a non-cash merger of their two companies. Because consummation of the merger depended on AOL maintaining its high share value, it was vitally important that AOL continue to report positive growth and earnings. The company reported positive growth and earnings for the period between the announcement of the proposed merger and the approval of the merger in January of 2001.

However, in 2002, shareholders learned that AOL's reported growth and earnings in 2000 were false. To report continued growth, the Business Affairs unit of AOL engaged in a series of sham transactions designed only to report revenue on paper. The transactions continued after the companies consummated the merger in January of 2001. When the truth surfaced in 2002, the federal Securities Exchange Commission commenced an investigation, and AOLTimeWarner began to restate its earnings. A share of Time Warner stock that traded for more than \$60 before the merger trades for less than \$17 today.

A federal class action lawsuit on behalf of all aggrieved investors is currently awaiting class certification in federal court in the Southern District of New York. The lead plaintiff is the Minnesota State Board of Investment. Since the filing of the federal lawsuit, however, a number of large institutional investors decided to file their own independent lawsuits. Such institutional investors include the University of California and the states of California, New Jersey, Ohio, Pennsylvania, and West Virginia.

The Alaska Department of Law has retained the law firm of Lief, Cabraser, Heimann, and Bernstein, L.L.P., to handle this matter on a contingency fee basis. Partners Richard Heimann and James Finberg will lead the litigation efforts. For more information about Lief Cabraser please visit their website at <http://www.lieffcabraser.com>.

The Department of Law will handle local counsel duties. For a copy of the complaint and more information about this case, please visit the Department of Law's website at <http://www.law.state.ak.us>.

Video and sound bites from the press conference will air on the Governor's feed at 3:30 this afternoon.