STATE OF CONNECTICUT

NEWS RELEASE

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Forstmann Little Agrees to $15 Million Settlement of Lawsuit Filed by Connecticut Pension Fund

Connecticut Treasurer Denise L. Nappier and Attorney General Richard Blumenthal today announced that Forstmann Little & Co. has agreed to pay the Connecticut Pension Fund $15 million to resolve all issues in a lawsuit charging that the company breached its contract and fiduciary responsibility to the state. In exchange for the payment, Nappier and Blumenthal have agreed to end further prosecution in the case.

In addition to the $15 million settlement, Forstmann Little has agreed to return to the pension fund $1.2 million that had been withheld from the state earlier this year to cover legal expenses stemming from the suit.

"From the outset, we had two unequivocal goals: recover money for the pension fund, and demonstrate in court that Forstmann Little had breached its contract," Nappier said. "The unanimous jury verdict and monetary settlement achieve both goals, so for the Connecticut pension fund, this is a win-win and a landmark victory."

"In this ground breaking fight, we have held Forstmann Little accountable –- and made it pay a price -- for gravely violating the state's legal rights," Blumenthal said. "A jury found that the company acted negligently and in bad faith –- willfully ignoring its contractual obligations to make highly speculative and spectacularly bad investments. My office will act aggressively to assure that investment firms strictly adhere to their agreements and duties when investing state retirement funds."

Nappier and Blumenthal sued Forstmann Little in February 2002 after the private equity firm lost $125 million of state pension funds making investments that were not consistent with its contract. At issue were investments made in two telecom industry firms, McLeod USA and XO Communications.

On July 1, a Connecticut Superior Court jury agreed with Nappier and Blumenthal, finding that Forstmann Little repeatedly breached its contract with the state, violated its fiduciary duty and acted "with gross negligence, in bad faith or with willful misconduct." The jury, however, awarded the state no monetary damages.

Nappier and Blumenthal filed motions with the court arguing that it made no sense for the jury to find that Forstmann Little repeatedly violated its contract and acted in bad faith,

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but then award the state no damages. Those motions will be withdrawn as part of the settlement.

"What's the bottom line of this litigation? For the Connecticut pension fund, the recovery of $16.2 million," Nappier said. "However, what we ultimately achieved with this case is a recognition of the rights of limited partners in the private equity industry, and that's priceless."

"This case broke new and significant ground," said Nappier, principal fiduciary of the $20 billion Connecticut Retirement Plans and Trust Funds (CRPTF). "For the first time, a limited partner successfully raised and pursued serious questions about the actions of a general partner and prevailed. This case marks a critical turning point in the evolving relationship between limited and general partners in the investment industry."

Nappier and Blumenthal said the case and the jury verdict underscore the importance of private equity firms selecting only those investments that are consistent with the investment approach agreed to at the time investors commit capital to a firm. The settlement was reached following more than two months of negotiations among the parties, including a face-to-face meeting between Nappier and Forstmann Little founder Ted Forstmann in her Hartford offices.

"Two months ago, a jury found unanimously that Forstmann Little breached its contract with Connecticut and did so in bad faith," Nappier said. "Today, the state pension fund is in receipt of $15 million as a result of the settlement, and an additional $1.2 million recovered from the firm's reserve fund for legal expenses. In effect, we went from zero to $16.2 million in about 80 days."

The $15 million being returned to the pension fund represents an amount equivalent to the CRPTF's share of the third investment Forstmann Little made in XO Communications. In the state's view, this investment was the most egregious of the breaches of contractual obligations and of Forstmann Little's fiduciary duty.

"Notwithstanding the unfortunate conduct in this instance, the firm is among the giants in the industry, and well poised to provide the pension fund with a good return on those investments we are obligated to see through," said Nappier, noting that the CRPTF remains a Forstmann Little investor, and has thus far received in excess of $51.3 million in cash distributions from Forstmann Little investments.

"We have a job to do in safeguarding and growing our pension fund assets, and so does Forstmann Little on our behalf, so it is time to move forward. Our primary concern remains to serve the best interests of the pension fund beneficiaries, and we will continue to operate the pension fund with strict attention to the highest standards of integrity, prudence and accountability," Nappier said.

"We will also continue to take a measured approach to litigation whenever we believe that our investment managers have acted improperly, which fortunately is not indicative of the industry as a whole… an industry that has enjoyed stellar performance by highly responsible investment professionals," Nappier concluded.

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