Nickoloff, Peter

From: Carleton, Norman
Sent: Friday, December 14, 2001 3:00 PM
To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: WSJ: Arthur Andersen's 'Double Duty' Work Raises Questions About Its Independence

December 14, 2001

Money & Investing

Arthur Andersen's 'Double Duty' Work Raises Questions About Its Independence

By JONATHAN WEIL
Staff Reporter of THE WALL STREET JOURNAL

In addition to acting as **Enron** Corp.'s outside auditor, Arthur Andersen LLP also performed internal-auditing services for Enron, raising further questions about the Big Five accounting firm's independence and the degree to which it may have been auditing its own work.

That Andersen performed "double duty" work for the Houston-based energy concern likely will trigger greater regulatory scrutiny of Andersen's role as Enron's independent auditor than would ordinarily be the case after an audit failure, accounting and securities-law specialists say.

It also potentially could expose Andersen to greater liability for damages in shareholder lawsuits, depending on whether the internal auditors employed by Andersen missed key warning signs that they should have caught. Once valued at more than $77 billion, Enron is now in proceedings under Chapter 11 of the U.S. Bankruptcy Code.

Internal-audit departments, among other things, are used to ensure that a company's control systems are adequate and working, while outside independent auditors are hired to opine on the accuracy of a company's financial statements. Every sizable company relies on outside auditors to check whether its internal auditors are working effectively to prevent fraud, accounting irregularities and waste. But when a company hires its outside auditor to monitor internal auditors working for the same firm, critics say it creates an unavoidable conflict of interest for the firm.

Still, such arrangements have become more common over the past decade. In response, the Securities and Exchange Commission last year passed new rules, which take effect in August 2002, restricting the amount of internal-audit work that outside auditors can perform for their clients, though not banning it outright.

"It certainly runs totally contrary to my concept of independence," says Alan Bromberg, a securities-law professor at Southern Methodist University in Dallas. "I see it as a double duty, double

responsibility and, therefore, double potential liability."

Andersen officials say their firm's independence wasn't impaired by the size or nature of the fees paid by Enron -- $52 million last year. An Enron spokesman said, "The company believed and continues to believe that Arthur Andersen's role as Enron's internal auditor would not compromise Andersen's role as independent auditor for Enron."

Andersen spokesman David Tabolt said Enron outsourced its internal-audit department to Andersen around 1994 or 1995. He said Enron began conducting some of its own internal-audit functions in recent years. Enron, Andersen's second-largest U.S. client, paid $25 million for audit fees in 2000, according to Enron's proxy last year. Mr. Tabolt said that figure includes both internal and external audit fees, a point not explained in the proxy, though he declined to specify how much Andersen was paid for each. Additionally, Enron paid Andersen a further $27 million for other services, including tax and consulting work.

Following audit failures, outside auditors frequently claim that their clients withheld crucial information from them. In testimony Wednesday before a joint hearing of two House Financial Services subcommittees, which are investigating Enron's collapse, Andersen's chief executive, Joseph Berardino, made the same claim about Enron. However, given that Andersen also was Enron's internal auditor, "it's going to be tough for Andersen to take that traditional tack that 'management pulled the wool over our eyes,' " says Douglas Carmichael, an accounting professor at Baruch College in New York.

Mr. Tabolt, the Andersen spokesman, said it is too early to make judgments about Andersen's work. "None of us knows yet exactly what happened here," he said. "When we know the facts we'll all be able to make informed judgments. But until then, much of this is speculation."

Though it hasn't received public attention recently, Andersen's double-duty work for Enron wasn't a secret. A March 1996 Wall Street Journal article, for instance, noted that a growing number of companies, including Enron, had outsourced their internal-audit departments to their outside auditors, a development that had prompted criticism from regulators and others. At other times, Mr. Tabolt said, Andersen and Enron officials had discussed their arrangement publicly.

Accounting firms say the double-duty arrangements let them become more familiar with clients' control procedures and that such arrangements are ethically permissible, as long as outside auditors don't make management decisions in handling the internal audits. Under the new SEC rules taking effect next year, an outside auditor impairs its independence if it performs more than 40% of a client's internal-audit work. The SEC said the restriction won't apply to clients with assets of $200 million or less. Previously, the SEC had imposed no such percentage limitation.

Write to Jonathan Weil at jonathan.weil@wsj.com <mailto:jonathan.weil@wsj.com>[4]

01300000000360

Nickoloff, Peter

From: Carleton, Norman
Sent: Tuesday, December 18, 2001 11:11 AM
To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: DJ: Enron Bankruptcy Seen Spurring India Power Plant Sale

December 18, 2001

Enron Bankruptcy Seen Spurring India Power Plant Sale

Dow Jones Newswires

(This article was originally published Monday)

By Campion Walsh
Of DOW JONES NEWSWIRES

WASHINGTON -- **Enron** Corp.'s (ENE) sudden plunge into bankruptcy may turn its exit from the $2.9 billion Dabhol Power Co. project in western India into a fire sale, industry analysts say.

The Indian power plant was a high-profile albatross for **Enron** well before the alleged financial mischief that sent the Houston-based company's share price and credit ratings into a free fall.

Work on the 2,184-megawatt plant near India's commercial capital of Bombay stopped this year after its sole customer, the Maharashtra State Electricity Board, balked at earlier-agreed power prices. Stymied by nonpayment, **Enron** said in August it would consider buyers for its controlling 65% interest in Dabhol Power.

With **Enron** now planning to unload foreign assets under its Chapter 11 bankruptcy reorganization, bidders on that stake may be move more quickly to take advantage of a distressed sale, analysts say.

"The Indian government's hand has been strengthened in terms of negotiating," said Krish Chettur, a South Asia power analyst for Massachusetts-based Cambridge Energy Research Associates. "The original shareholders are going to significantly lose out on their initial investments."

But **Enron** isn't the only one feeling a financial squeeze. Indian banks financed most of the project through direct lending and guarantees to foreign lenders, and some could go under without a speedy resolution, Chettur says.

The U.S. government also has a stake in the fate of Dabhol Power as it partially funded the project through the U.S. Export-Import Bank and Overseas Private Investment Corp.

"Now that **Enron** is going out of business, negotiations are going to happen faster rather than slower,

and it's probably going to be at a fire-sale price," said a Washington-based power industry analyst who asked not to be identified.

Shell, BG Seen Potential Buyers For LNG Assets

The process appears to have gained momentum from negotiations last Friday in Singapore, where lenders reportedly agreed to form a subcommittee to oversee the mothballed plant while they entertain bids for Dabhol Power's assets.

The project could require additional funding as its second stage - involving the import of LNG that would be regasifed to fuel-expanded, power-generating capacity - was only about 90% complete when work halted this year.

Two leading contenders to buy the power plant, Indian firms Tata Power Co. (P.TPW) and BSES Ltd. (P.BSX), are expected to sign confidentiality agreements later this month and then submit bids within 60 days.

But whether project lenders choose Tata, BSES or another bidder, Dabhol Power Co. likely won't remain a direct importer of liquefied natural gas, or LNG, Chettur of Cambridge Energy says. "The LNG plant is going to have to be sold to one strategic partner and the power plant to another," he says.

Two potential buyers for the company's LNG importing, regasification and storage facilities are Royal Dutch/Shell Group (RD) and BG Group Plc (BRG).

A London-based BG spokeswoman says the company is watching talks on Dabhol Power's future "with interest." But she adds BG's current priority in India is completing its proposed purchase of Enron's stakes in the Panna-Mukta and Tapti gas fields offshore western India.

Shell, which is developing another LNG import terminal in India, indicated last month it would also be interested in Dabhol Power's LNG facilities.

"We are primarily interested in the LNG facilities, but we would not exclude any interest in the power plant at this stage," said London-based Shell spokesman Justin Everard. Shell had had an agreement to supply Dabhol power with LNG shipped from Oman.

Enron itself is keeping relatively quiet about the Dabhol Power talks, suggesting selection of new investors may be up to the Indian government and project financiers. Houston-based **Enron** spokesman John Ambler said Monday the company is evaluating the results of meetings last week with project lenders.

A spokesman For General Electric Co. (GE), which holds a 10% stake in Dabhol Power, declined to comment on matter. Officials from privately held U.S. construction and engineering company Bechtel Corp. (X.BTL), which also holds 10%, couldn't be reached for comment.

A spokeswoman for the U.S. Ex-Im Bank, which is owed $202.5 million by Dabhol Power, says bank officials didn't take part in last week's negotiations in Singapore.

Officials from the project's other U.S. government financier, OPIC, and from private lenders Citigroup Inc. (C) and Bank of America (BAC) weren't available for comment.

-By Campion Walsh, Dow Jones Newswires; 202-862-9291; campion.walsh@dowjones.com

01300000000366

From: Carleton, Norman
Sent: Tuesday, December 18, 2001 12:12 PM
To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: Bloomberg: Enron Enriched Wall Street Firms, Analysts Ignored Warnings (long story)

12/18 02:43

Enron Enriched Wall Street Firms, Analysts Ignored Warnings

By Adam Levy

Houston, Dec. 18 (Bloomberg) -- On Tuesday, Oct. 16, Enron Corp. Chief Executive Kenneth Lay delivered a shocker. Late in a conference call that followed the release of the company's third-quarter results, Lay said Enron would terminate one of its several limited partnerships -- and thereby wipe out $1.2 billion of shareholder equity.

``I shuddered when I heard that," says Gregory Phelps, who invests $1.1 billion in energy and utility stocks at John Hancock Advisers Inc. and has long avoided Enron. ``But it didn't seem to make much of an impression on part of the investment community."

Over the next few days, reports began piling up on Phelps's desk from the Wall Street analysts who track Enron. Merrill Lynch & Co., UBS Warburg LLC, Credit Suisse First Boston and Goldman Sachs Group Inc. still rated Enron a ``buy."

Prudential Securities Inc. analyst Carol Coale wrote that she was ``dismayed" by management's ``disguise" of the $1.2 billion equity reduction, yet she kept intact her ``buy" rating and $55 price target on Enron stock, which was then trading at $33.17.

'Strong Buy'

Richard Gross of Lehman Brothers Holdings Inc. maintained his ``strong buy" rating. ``The end of the world is not at hand," Gross said. ``We think investors should rustle up a little courage and aggressively buy the stock."

Phelps and other investors say the analysts' reactions were just another sign of Wall Street's gullibility about Enron.

For more than a year, they say, analysts had ignored red flags ranging from inflated business valuations to large insider stock sales, to the abrupt resignation of Jeffrey Skilling in August 2001 -- just six months into his tenure as CEO.

As recently as September, Enron was the second most highly rated stock in the Standard & Poor's 500 Index, behind Tyco International Ltd., according to Thomson Financial/First Call.

``Enron is uniquely positioned to be the GE of the new economy," Donato Eassey, Merrill Lynch's energy stock analyst, told Bloomberg News in February 2001. ``This isn't a management team to bet against." Eassey resigned from Merrill in December.

Support is Obvious

One of the main reasons for all of the support is obvious, say investors: Until the week before its third- quarter earnings report in October, Enron was a deal machine that enriched dozens of Wall Street firms through lucrative underwriting contracts, mergers and acquisitions assignments and derivatives trades.

``You'd be hard-pressed to find a house on the Street that didn't do business with Enron," says Don Coxe, chairman and chief executive of Harris Investment Management Inc., which in early December held 78,000 Enron shares in the Harris Insight Equity Fund. ``They spread a ton of business around the Street, so it's no wonder these analysts were behind the stock."

Enron says it didn't have a quid pro quo relationship with anyone. ``At no time has Enron ever required any financial firm to

01300000000367

endorse our stock as a prerequisite for doing business with the firm," says spokesman Vance Meyer.

'Taps on Shoulders'

Some Wall Street veterans say they don't find that denial persuasive. ``Even if there were no spoken agreements, you can bet analysts often got taps on the shoulders from the investment bankers making sure that they were reminded to keep `buy' ratings intact," says Phelps. ``That's just the way Wall Street works."

Enron spread the wealth across many Wall Street firms. In May 2001, Enron used six banks -- A. G. Edwards & Sons Inc., Banc of America Securities, Dain Rauscher Wessels, First Union Securities Inc., Salomon Smith Barney Inc. and UBS Warburg -- to manage a $151 million unit offering for Northern Border Partners LP, one of scores of Enron-controlled partnerships.

Usually, no more than four underwriters are involved in deals that small, investment bankers say.

CSFB advised Enron on a pending $2.9 billion sale of Portland General Electric Co. in October -- one of 41 separate mergers and acquisitions transactions Enron initiated since January 1999, according to Bloomberg data.

Enron Activity Dwarfs Rivals

That dwarfs the number of deals over that span announced by rivals Dynegy Inc., which struck 15 corporate combinations, and Kinder Morgan Inc., which did a dozen deals.

Enron further cemented its relationship with Wall Street by borrowing from banks, obtaining letters of credit and trading in derivatives -- financial instruments such as futures and options whose value is based on other assets.

When Enron filed for bankruptcy in December, its list of creditors was 54 pages long and included Citigroup Inc., CSFB's London branch, J. P. Morgan Chase & Co. and UBS.

Goldman Sachs is a dealer for Enron's $4 billion commercial paper program and has arranged six of the company's 15 preferred share sales.

In June 1999, Merrill Lynch managed the $695 million initial public offering of Azurix Corp., Enron's water business. Run by Enron's former Vice Chairman Rebecca Mark, who resigned in August 2000, Azurix failed in its strategy to buy water companies and win large projects. It lost a bid to acquire a 49 percent stake in Berlin's water utility, for example.

Enron Buys Back Stock

Enron bought back the stock in 2001, after it had fallen more than 55 percent during the company's 18 months as a public entity.

In October, J. P. Morgan and Citigroup's Citibank unit provided Enron with $1 billion in credit lines to help it pay down debt and meet day-to-day costs. Those loans came just in time for the two firms to win the business of advising Enron on its planned acquisition by Dynegy.

J. P. Morgan and Citigroup's Salomon were set to charge $90 million -- $45 million each -- for that advice, according to people familiar with the arrangement.

Dynegy was set to pay $15 million in advisory fees to Lehman Brothers. That would have been Lehman's biggest such transaction in 2001.

Dynegy Deal Falls Through

In December, after the Dynegy deal fell through, Enron obtained as much as $1.5 billion in new financing from J. P. Morgan and Citigroup. On December 11, J. P. Morgan filed a lawsuit in Enron's bankruptcy case, seeking $2.1 billion -- funds the bank said aren't part of the energy trader's assets shielded from creditors by the Chapter 11 filing.

Enron traded derivatives in energy, broadband and weather with a host of investment firms, and at the time it filed for bankruptcy, it owed some of them hundreds of millions of dollars.

01300000000368

According to its bankruptcy filing, Enron owed $185 million to two offices of Chase Manhattan Bank, a subsidiary of J. P. Morgan Chase; $74 million to UBS; and $71 million to CSFB. Bear Stearns Cos. said it stood to lose $69 million from the collapse of the energy trader; Commerzbank AG said it would lose slightly less than $45 million.

Schmoozing Wall Street

Enron's multiple business dealings with Wall Street caused firms to look favorably on the company's new ventures, say investors.

In late January 2001, for example, Enron's senior management hosted a meeting for 170 analysts and investors. Skilling told the crowd that Enron's biggest immediate opportunity was its plan to trade broadband capacity: space on the fiber-optic networks that zip voices, data and images around the planet.

Skilling said that based on his analysis, Enron's broadband business was worth $36 billion, or $40 a share. Enron stock was then trading at $82. The business had lost $60 million on $408 million in revenue in 2000.

``The numbers never added up, but Wall Street didn't challenge them," says Harris Investment's Coxe.

Ronald Barone, an analyst at UBS Warburg, wrote after the January meeting that he was ``brain drained, having digested scores of detailed presentations." He also wrote that he was ``enamored" with Enron's broadband business, even though it wouldn't generate earnings for at least a year because it would take that long to generate enough trades.

$25 a Share

He estimated the business was worth $25 a share, or $22.5 billion. He kept his ``strong buy" rating on the stock and, in a January 25 report, raised his 12-month target on Enron stock to $102 from $100. The stock was trading at $82 at the time. Barone declines to comment on his recommendations.

Lehman's Gross raised his 12-month target price on Enron to $100 from $90 after the company's analysts' conference. He said he viewed Enron's foray into broadband as no different from any of its other endeavors.

``Given the track record that has been displayed over the past 36 months, we have no reason to doubt the success of their efforts," Gross wrote a week after the conference in a report dated Feb. 1. Enron stock was then trading at $78. ``We continue to recommend Enron as a core holding," he wrote. Gross declines to comment.

$180 Million Charge

Enron's fiber-optic business collapsed this past summer. In its third-quarter earnings release, Enron said it had taken a $180 million charge to restructure the business, including severance payments to 500 fired workers and a reduction in the value of its operations.

As Enron's stock was rising on Wall Street, analysts often said they were in the dark about the company: how it made money and booked sales and what was behind dozens of off-balance-sheet partnerships.

Their lack of knowledge didn't stop them from promoting Enron stock. Goldman Sachs analyst David Fleischer said in March that Enron's ``lack of disclosure and transparency is a long-standing hallmark."

Enron had been a fixture on Goldman's ``recommended list`` of a couple hundred favored stocks since 1993, when analyst Fleischer joined the firm.

'Extraordinary Franchises'

``Enron has built unique and, in our view, extraordinary franchises in several business units," Fleischer said in March.

On March 14, Commerzbank Capital Markets analyst Andre Meade raised his long-standing rating on Enron to ``accumulate" from ``hold" because the stock had dropped 30 percent in the previous three months -- even though, he said, he couldn't construct accurate earnings models. ``Enron keeps a lot of facts close to the vest," he said.

01300000000369

``Saying they don't understand it but still recommend it is a slap in the face to remind us how useless analysts are,'' says Robert Olstein, a 35-year Wall Street veteran who runs the $890 million Olstein Financial Alert Fund.

After the market closed for trading on Aug. 14, Skilling, 48, abruptly resigned, citing personal reasons and raising concerns among investors that dire financial news might be forthcoming.

Falling Stock

Enron stock dropped as much as $6, or 13 percent, the following day, ending the week at $36.67.

Analysts insisted nothing was awry. ``There is nothing wrong with the company,'' UBS's Barone said after meeting with Lay, who had once again become Enron's CEO. ``There is no other shoe to fall -- and no charges to be taken.'' He kept his ``buy'' rating on the stock.

Lehman's Gross also met with Lay and other senior managers on the night of Aug. 16. ``The Enron machine is in top shape and continues to roll along,'' Gross wrote to investors the next day.

He didn't see a short-term catalyst to boost the stock -- then trading at $36.85 a share -- yet he urged investors to get more shares, maintaining his ``strong buy'' recommendation and a 12-month price target of $72.

CSFB analyst Curt Launer wrote a brief note to clients after what he described as ``intensive meetings'' with management. He said there was ``no truth to any of the speculations'' and kept his 12-month target of $84 and his ``buy'' recommendation.

Enron a 'Buy'

Of the 22 analysts who covered Enron, 19 rated the stock a ``buy'' as of mid-October 2001. That's when, one after another, disclosures spilled out of the Houston-based company: Enron's partnerships had hidden billions of dollars in debt; years of profits had been exaggerated; and the U.S. Securities and Exchange Commission was investigating Enron's partnerships with affiliates.

The disclosures dashed Enron's credibility with lenders and drove it to bankruptcy.

On Nov. 21, with Enron stock at less than $7 -- down more than 90 percent from its high in August 2000 -- Goldman's Fleischer downgraded Enron to ``market perform,'' Wall Street parlance for ``hold.'' He didn't respond to several phone calls.

Easier Decision

Investors say Fleischer's decision to downgrade the stock was made easier by his firm's failure to win a role advising Enron on its planned sale to Dynegy. ``I wouldn't doubt at all that being dropped from the `recommended list' had something to do with not winning the advisory business,'' says Phelps.

Fleischer and Goldman spokespeople didn't return phone calls.

To many investors, there were signals that should have tipped off analysts that something was amiss. In December 2000 and January 2001, 10 top Enron executives sold more than $73 million in stock. Lay and Skilling together sold stock valued at more than $17.6 million, according to the Washington Service, which tracks insider stock sales and purchases.

Insider sales are often a strong sign to investors that something's wrong. Timothy Ghriskey, who at the time was a fund manager at Dreyfus Corp., sold about 1.55 million Enron shares in late 2000. ``It wasn't much of an endorsement that they were bailing out too,'' he says. ``I didn't see much upside in the stock and figured that with the valuation so high, there was a lot of downside if they failed to deliver.''

Wake-Up Call for Analysts

Coxe and other investors say Enron's failure should provide a wake-up call for analysts, who pay too little attention to company balance sheets. ``I pay the Street lots of commission dollars and expect that analysts are reading the footnotes and kicking tires,'' Coxe says.

01300000000370

Several Wall Street firms took steps last year to defuse criticism that conflicts of interest taint analysts' research. In July, Merrill Lynch announced that its analysts could no longer own shares in the companies they cover. CSFB soon followed with similar announcements.

As of Dec. 17, with Enron a penny stock, fetching 57 cents a share, 7 of 17 Wall Street analysts rated the stock a ``hold'' and 5 offered a ``sell'' recommendation.

Five other analysts advised their clients that the company at the center of the biggest bankruptcy filing in U.S. history was still a ``buy.''

01300000000371

Nickoloff, Peter

From: Carleton, Norman
Sent: Tuesday, December 18, 2001 5:20 PM
To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: DJ: Senators Aim To Prevent Future Enron-Type 401(k) Problems

December 18, 2001

Senators Aim To Prevent Future Enron-Type 401(k) Problems

Dow Jones Newswires

WASHINGTON -- Two Senate Democrats unveiled legislation Tuesday that would limit the amount of company stock employees can hold as part of their 401(k) retirement plans.

The legislation is a response to the financial collapse of **Enron** Corp. (ENE), whose employees lost millions because they had concentrated their 401(k) plan holdings in company stock.

The legislation was announced by senators Barbara Boxer of California and Jon Corzine of New Jersey.

Boxer described the legislation during a Senate Commerce Committee panel hearing Tuesday featuring testimony from a handful of **Enron** employees who lost hundreds of thousands of dollars because their 401(k) plans were primarily invested in **Enron** stock.

Enron entered into bankruptcy protection Dec. 2 after questionable accounting practices led to a historic crash in the company's equity value. Shares that sold a year ago for more than $80 are today worth less than a dollar.

Enron's shares had slid to the $20s in October, when the company's 401(k) plan administrator "locked down" the program, keeping employees from divesting their **Enron** holdings.

Witnesses at Tuesday's hearing described how the bulk of the remaining equity crash occurred during the monthlong lockdown, causing them to lose more money than they would have had their accounts been unfrozen and they'd been able to sell their holdings.

Sen. Ron Wyden, D-Ore., likened the events to the sinking of the Titanic. **Enron** "locked the workers in the boiler room" as the **Enron** ship sank, Wyden said.

Boxer said **Enron** may have violated a tax-law provision she authored in 1997 addressing diversification of 401(k) retirement funds.

The law prohibited companies from requiring employees to purchase company stock as part of 401 (k) plan participation.

Boxer acknowledged that **Enron** workers willingly concentrated their investments in Enron's previously high-flying stock, but suggested that, through the plan lock-down, employees in effect were forced to buy the company's stock because they couldn't sell their holdings.

Boxer called for the Internal Revenue Service to redirect the tax breaks **Enron** Corp. (ENE) obtained for its contributions to employee retirement accounts to partially reimburse employees who lost their retirement savings through the company's 401(k) program.

The legislation Boxer sponsored with Corzine would limit employee 401(k) investments in company stock to 20%, and it would limit to 90 days the period of time an employer can require its workers to hold a matching stock contribution before divesting it.

Further, the bill would reduce to 50% the tax deduction an employer can take for its matching stock contributions. Cash contributions would retain the 100% tax break, Boxer said.

Also, the bill would lower to 35 year of age, with at least five years of company service, the trigger allowing employees to diversify their investments in employee stock ownership plans.

-By Bryan Lee, Dow Jones Newswires; 202-862-6647; Bryan.Lee@dowjones.com

01300000000373

From: Carleton, Norman
Sent: Wednesday, December 19, 2001 11:42 AM
To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: WSJ: Enron Workers Face Losses On Pensions, Not Just 401(k)s

December 19, 2001

Money & Investing

Enron Workers Face Losses On Pensions, Not Just 401(k)s

By ELLEN E. SCHULTZ
Staff Reporter of THE WALL STREET JOURNAL

Many **Enron** Corp. employees will suffer even greater losses to their retirement income than was immediately apparent in the wake of the energy-trading company's sudden downfall.

It is well known that many **Enron** employees will take big hits in their 401(k) retirement-savings plans because much of their investments were in company stock. What has been largely overlooked is that the pensions of many employees also will be reduced as a result of complex, interrelated changes involving pension and retirement-savings plans.

The decline wasn't caused by investments in the pension plan, which by law cannot invest more than 10% of its assets in the company stock. Rather, it stems from ways that companies such as **Enron** have increasingly coordinated their pensions, 401(k)s and employee stock ownership plans (ESOPs) to reduce costs for the company and shift investment decisions to employees. **Enron** had no comment.

Lawmakers, reacting to the decimation of the savings of many employees in Enron's 401(k) have begun calling for legislation that would hold savings plans to the same standards as pensions. Employees suffered steep losses in their 401(k) plans because more than 60% of the assets were in Enron's stock at one point, and the stock has dropped to about 50 cents a share from a peak of $90 last year.

But Enron's situation reveals that employees' retirement benefits are exposed to company stock in more than their 401(k) plans.

Employees share some of the responsibility for this overexposure. That's because to some extent employees could have limited their retirement-related holdings of **Enron**, if they had taken the right

steps at the right time, though many didn't because the stock was long a highflier.

One of these is Kenneth Parrish, an electrician at Portland General Electric, an **Enron** subsidiary, who essentially has lost additional benefits related to his pension from Jan. 1, 1999. That was when the pension plan for unionized employees, including Mr. Parrish, was changed. The pension benefit they already had earned was frozen; instead of continuing to add to the pension, the company gave a cash contribution of 5% of employees' pay to their 401(k) plan, where they could put it into a variety of investments, including **Enron** stock.

Unfortunately, Mr. Parrish and many others elected to put the pension-related contribution into **Enron** stock, along with his own 401(k) savings. "It seemed like such a good investment," says Mr. Parrish, who is 43 years old. Moreover, the company's matching contribution to his 401(k) was in **Enron** stock that couldn't be sold till the employee turned 50. As a result, the value of his savings plan, including the pension amounts, fell from about $200,000 to a couple of thousand dollars.

Mr. Parrish, a single father of two daughters, who are 16 and 17, now isn't sure what he will do. "I got doubly slammed," he says. "Not only did I lose all my retirement savings, I lost the pension savings, too." He is selling his house and planning to buy a trailer. "This ruined me," he says.

Meanwhile, salaried workers at **Enron** had a different kind of pension arrangement that exposed them to fluctuations in **Enron** stock. The company coordinated their pension plan and their employee stock ownership plan, so that the value of their ESOP accounts permanently erased benefits in their pensions.

That is because **Enron** had a "floor-offset" arrangement, which has been used by many companies, including Hewlett-Packard Co. and Airborne Inc. These arrangements are intended to provide participants with the "better of" the two plans, the savings plan (either an ESOP or a profit-sharing plan) and the pension.

In a simple floor-offset arrangement, if an employee leaves the company and his ESOP account is worth, say, $60,000, the company figures out how much this would be worth if it were converted to an annual pension in retirement. In this case, the ESOP's equivalent value might be $6,000 a year in retirement. If the employee has already earned a pension worth $50,000 a year in retirement, the employee wouldn't get $56,000 a year -- the combination of the two -- but just $50,000. (The $6,000 annual ESOP value is subtracted from the pension, so the person ends up with an annual pension of $44,000, plus the $6,000 a year from his ESOP account of $60,000.)

If the ESOP performed really well, and was worth, say, $70,000 a year if converted to a pension, the employee would simply keep the ESOP, and not get the pension. If the ESOP didn't perform well, the pension would serve as the "floor" benefit. In other words, even if the ESOP fell to zero, the employee would still have his full pension of $50,000 a year.

But it didn't work this way at **Enron**, even though the ESOP accounts have become virtually worthless because of the decline in Enron's stock. In an unusual arrangement, **Enron** calculated the ESOP "offsets" based on the price of the stock from 1996 to 2000, when it was trading between $37.75 and $43.44. It then used the locked-in value of the ESOP accounts to permanently offset the value of pensions that employees had earned between January 1987 and January 1995.

In other words, **Enron** has reduced the amount of the pension by subtracting the former -- and far higher -- value of the ESOP, even though the ESOP today has virtually no value and thus can't make up for the difference.

Employees might have been all right if **Enron** stock had continued to rise, because gains in the accounts could eventually have made up for the permanent offset. (The increases would have depended completely on stock appreciation, because the company stopped contributing to the ESOP in 1995.)

"It was as if someone assumed the stock would never drop," says Stephen Bruce, a pension lawyer in Washington, D.C. "It was a bad deal if the stock dropped," he says, because this precluded employees from ever making up for the permanent offset.

Employees will still receive their pensions -- albeit at the reduced values. How much employees lost depends on the size of the pension they had earned, and the value of their ESOP accounts from 1996 to 2000.

Employees did have some opportunity to protect themselves from the subsequent exposure to **Enron** stock in their ESOP. One time each year from 1996 to 2000, employees could transfer one-fifth of the value of their ESOP accounts into a 401(k) or an Individual Retirement Account and diversify out of company stock.

Separately, Sens. Barbara Boxer (D., Calif.) and Jon Corzine (D., N.J.) said Tuesday they will propose limits on the amount of company stock employees can hold as part of their 401(k) retirement plans.

The proposed legislation would limit employee 401(k) investments in company stock to 20%, and it would limit to 90 days the period of time an employer can require its workers to hold a matching stock contribution before divesting themselves of it.

-- *Bryan Lee contributed to this article.*

Nickoloff, Peter

From: Carleton, Norman
Sent: Tuesday, December 18, 2001 5:22 PM
To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: DJ: Enron's Fall May Spur New Look At Auditor Independence

December 18, 2001

Enron's Fall May Spur New Look At Auditor Independence

By JUDITH BURNS

OF DOW JONES NEWSWIRES

WASHINGTON -- **Enron** Corp.'s stunning collapse may prompt Congress and regulators to revisit proposals to bar Big Five accounting firms from providing consulting work for audit clients, legal experts testified Tuesday.

Arthur Levitt, the former Securities and Exchange Commission chairman, failed in a push last year to ban auditors from acting as consultants for companies they audit. Levitt said he worried potential profits from consulting could create a conflict of interest that undermines auditors' independence. He also proposed restricting internal audit work for audit clients, a move he said might result in Big Five firms auditing their own work.

Faced with opposition from three Big Five firms, the SEC eventually adopted new rules that don't ban auditors from acting as consultants or providing internal audit work.

"The time has come to recognize that Chairman Levitt may have been right," John Coffee, a Columbia Law School professor testified Tuesday at a Senate Commerce Committee hearing on Enron's collapse.

Arthur Andersen LLP, which opposed Levitt's auditor independence proposal, defended its work for **Enron**. Most of the $52 million in annual fees from **Enron** was for audit work, including internal auditing, not consulting, Andersen managing director C.E. Andrews testified.

"We did not audit our own work," Andrews told the Senate panel.

While some lawmakers said they didn't think Andersen would risk its reputation and $10 billion annual business to protect **Enron**, Coffee said the Houston energy company was "a very big client" for Andersen and he urged Congress to revisit the issue of auditor independence.

SEC Chairman Harvey Pitt opposed Levitt's auditor-independence rules when he represented Big Five accounting firms in his private law practice, but Coffee thinks he may have a different view now, telling reporters Pitt is "very politically astute," and will respond if Congress pressures him on auditor

independence.

Coffee expects the **Enron** debacle also may result in stricter self-regulation for accountants and auditors, similar to what the National Association of Securities Dealers provides in overseeing U.S. broker-dealers. The American Institute of Certified Public Accountants currently leaves discipline up to states, which Coffee said has resulted in inadequate oversight and discipline.

Lawmakers promised to return to accounting and auditing issues in 2002.

"It seems to me there is a carload of conflicts here," said Sen. Byron Dorgan, D-N.D., who is chairman of the Senate Commerce subcommittee on consumer affairs.

-By Judith Burns, Dow Jones Newswires, 202-862-6692; judith.burns@dowjones.com

Nickoloff, Peter

From: Carleton, Norman
Sent: Wednesday, December 19, 2001 3:43 PM
To: Wiedman, Mark; Bair, Sheila; Bieger, Peter; Bitsberger, Timothy; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Gabilondo, Jose; Gross, Jared; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Nickoloff, Peter; Roseboro, Brian; Salladin, Anne; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary; Tishuk, Brian
Subject: Converation with Frank Hampton and ABI Website: House Leaders Continue to Push Netting Provisions

According to Frank Hampton of TBMA, Dick Armey is also pushing the netting legislation. However, Sensenbrenner hopes to acheive a compromise on the larger bankruptcy legislation by February and is opposed to passing the netting legislation separately. In the Senate, Grassley is also opposed to a separate netting bill and is reportedly avoiding a meeting with Greenspan to discuss this.

Norman Carleton

ABI Website news:

December 19, 2001

House Leaders Continue to Push Netting Provisions

House leaders are trying to nudge forward legislation that seeks to prevent systemic financial crises by allowing creditors to "net out" their derivatives losses with major counter parties that have filed for bankruptcy, The American Banker reported. It is still unclear, however, whether even they will be successful in overcoming the political obstacles that have stalled it for more than a year - especially considering that Congress is expected to adjourn for the year as early as this week. Majority Whip Tom DeLay (R-Texas) "believes that it's important to get the netting provisions done, either within the context of bankruptcy reform or elsewhere," a spokesman said.

Such highly technical bills rarely attract the attention of top House or Senate leaders, but the recent collapse of Enron Inc. has given the netting legislation newfound relevance. Federal Reserve Board Chairman Alan Greenspan and Treasury Secretary Paul O'Neill say markets are at risk until a law is enacted that allows contracts to be quickly and easily netted out without the approval of slow-moving bankruptcy courts. Holding it up, however, is House Judiciary Committee Chairman James Sensenbrenner (R-Wis.), who heads the House-Senate bankruptcy legislation conference committee. The netting legislation is a part of the bankruptcy reform legislation. Sensenbrenner and some Senate Judiciary Committee members, including bill sponsor Charles Grassley (R-Iowa), oppose passing the netting authority separately because they still hope that the relatively uncontroversial provisions will propel the bankruptcy package.

Though industry sources said they have received commitments from House leaders that netting will be enacted by year-end or soon thereafter, they are not expected to force a vote without the support of Sensenbrenner. Even after a meeting last week with Greenspan, Sensenbrenner maintained that he was "going to try to keep it in the bankruptcy package," his spokesman said.

Nickoloff, Peter

From: Carleton, Norman
Sent: Wednesday, December 19, 2001 3:48 PM
To: Cetina, Jill; Sharer, James; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: ABI Website: ENRON UPDATE

ENRON UPDATE

Hollings Pledges Investigation of Enron Collapse

Senate Commerce Chairman Ernest Hollings (D-S.C.) yesterday pledged that his panel would conduct an investigation into the circumstances surrounding the collapse of Enron Corp., which stripped thousands of employee stockholders of their retirement savings, *CongressDaily* reported. At an initial hearing convened by the Commerce Consumer Affairs, Foreign Commerce and Tourism Subcommittee, a number of employee stakeholders provided testimony, painting a picture of a company that persuaded them that Enron's future was bright, even as top officers sold off their own holdings. "We're going to get [Enron CEO Kenneth] Lay in here and… follow it on down as best we can," Hollings said. The House Financial Services Committee has embarked on a similar investigation.

Enron CEO to Testify Before Senate Panel Feb. 4

Kenneth Lay, chief executive of bankrupt Enron Corp., has agreed to testify before the Senate Commerce Committee next year, Sen. Byron Dorgan (D-N.D.) said yesterday, Reuters reported. Lay "has committed to appear before our committee and present testimony at a second hearing which will be held on Feb. 4," Dorgan said at the beginning of Tuesday's hearing examining the downfall of Enron. Lawmakers had invited Lay to testify at the hearing, but he declined. Enron filed for bankruptcy protection on Dec. 2 after its stock price and credit rating sank, undermined by a complex financial strategy that unraveled when investors and customers began raising questions. Dorgan also said the Senate Commerce Committee would invite former Enron CEO Jeffrey Skilling and Andrew Fastow, the company's former chief financial officer, to the second hearing.

Enron Contract Hearing Delayed Until Dec. 21

A federal bankruptcy court hearing regarding Enron's effort to negotiate, end or sell certain contracts has been rescheduled the second time for Friday, Dec. 21, Dow Jones reported. The hearing was originally scheduled for Dec. 14, but was postponed until Dec. 18, then pushed back to Dec. 20, because of objections. Enron is seeking the authority to negotiate and end certain contracts containing safe harbor provisions without having to get bankruptcy court approval for each deal. More than 10 entities-including the federal government, Cinergy Corp.'s Cinergy Services Inc. and American Electric Power Co.-have filed objections.

Nickoloff, Peter

From: Carleton, Norman
Sent: Wednesday, December 19, 2001 4:55 PM
To: Cetina, Jill; Sharer, James; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: Slate: Accounting and Accountability

moneybox
Accounting and Accountability
By Rob Walker
Posted Tuesday, December 18, 2001, at 2:21 PM PT

It's been a rough time for the accountants and auditors at Arthur Andersen. While it remains unclear who knew what and when at Enron, it's very clear that there's almost no scenario that won't reflect pretty poorly on Andersen. Last week the firm got beat up on by a congressional committee, and at a certain point, you have to wonder if some of its clients aren't thinking about maybe signing on with an auditor who isn't so closely associated with allegations of lax standards.

This got me thinking-after some prodding by one of my ***Slate*** colleagues-about the reputations of the other Big Five accounting firms. Let's say, for example, that you happen to run a major, publicly traded corporation, and you need an auditor. Let's say you want to pick one with a spotless record, one that hasn't signed off on the books of any big corporation that subsequently spiraled into financial turmoil amid nasty finger-pointing over accounting funny business. Or let's just say you're an investor who wants to make sure that the companies whose shares you've bought are being audited by a firm that has no association with stock-price collapses linked to questionable accounting. Following my usual procedure, I set out to conduct exhaustive due diligence. But it turned out that a simple Nexis search brought my quest to a rapid conclusion.

Andersen, obviously, was out. There's the Enron fiasco, of course, but that's not the only blemish on the firm's record. Mere months ago, the firm paid $110 million to settle a fraud lawsuit after being accused of signing off on assorted monkeying with the books at Sunbeam. Andersen paid millions more to settle charges that one of its then partners let slide recurring "accounting irregularities" in Waste Management Inc.'s financials. Investors with particularly long memories might recall way back in the 1990s-well before this sort of thing was fashionable-the remarkable trip from Nasdaq high flyer to Chapter 11 by the Boston Chicken fast-food chain. Andersen was the Chicken's accountant.

OK, then, how about Ernst & Young? Well, in February of 2000, Ernst & Young agreed to pay $335 million to settle a lawsuit filed by shareholders of Cendant who accused it of accounting negligence after shares in that company melted down. And a couple of years ago, Ernst & Young also coughed up about $23 million to settle charges relating to its allegedly sloppy auditing of a company called JWP Inc. According to the *Washington Post*, the federal judge presiding over that suit commented, "The 'watchdog' behaved more like a lapdog.' "

That doesn't sound very good; let's move on. How about Deloitte & Touche? According to a *Forbes* story from earlier this year, that firm was sued by erstwhile shareholders in Just for Feet, a shoe store chain that went bankrupt and has since been swallowed by a rival. The suit alleges-you'll never guess-that Just for Feet cooked its books and the auditors didn't stop them. Deloitte denied doing

any such thing, but, again, it seems better to keep looking. (After all, in pretty much every instance cited here, the relevant accounting firm admitted no wrongdoing, even if it paid a multimillion dollar settlement.)

Let's try KPMG. Actually, that firm was the outside auditor for Oxford Health Plans, whose stock blew up in spectacular fashion a few years back after accounting problems emerged that had apparently escaped KPMG's attention. That leaves the epic-named PricewaterhouseCoopers. Has it managed to avoid signing off on books that later proved less than perfect? Not quite. The same *Forbes* story cited above notes that Price Waterhouse (one of the mergees that formed the current company) was the auditor for First American, the U.S. subsidiary of BCCI. More recently, the post-merger firm was the auditor for Lucent during the period last year when it "misreported" $125 million in revenue, contributing to an SEC probe and the crumbling of Lucent's share price. Oh, well.

Admittedly, Andersen's recent record is far more embarrassing than those of its rivals. A new lawsuit accuses the firm of "knowingly participating in Enron's breaches of fiduciary duty." Its chief executive, Joseph Berardino, found himself last week being questioned by the House Committee on Financial Services, noting that he was on hand in part because "faith in our firm ... has been shaken."

On the other hand, just a few days earlier, Berardino contributed a lengthy op-ed to the *Wall Street Journal* titled "Enron: A Wake-Up Call." There he argued that "it's time to rethink" complex accounting rules, that "we need to fix" the "broken financial-reporting model" and "focus on ways to improve" regulation and "accountability." He concluded: "Enron reminds us that the system can and must be improved. We are prepared to do our part." Gosh. Maybe I should reconsider and go with Andersen after all, after this reassuring burst of candor on the part of its head honcho. Sure, the Enron debacle actually seems more like the third, or fifth, or maybe 10th "wake-up call" for auditors-but hey, who's counting?

From: Carleton, Norman
Sent: Thursday, December 20, 2001 10:46 AM
To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: WSJ: J.P. Morgan Says Exposure to Enron Is $1 Billion Above Earlier Estimates

December 20, 2001

J.P. Morgan Says Exposure to Enron Is $1 Billion Above Earlier Estimates

By JATHON SAPSFORD and KATHY CHU
Staff Reporters of THE WALL STREET JOURNAL

J.P. Morgan Chase & Co. said its exposure to Enron Corp. was nearly $1 billion more than the $900 million that it has already disclosed, which is likely to raise concerns among investors whether the bank has even more exposure to the energy trader lurking beneath the surface.

The bank said it has sued several insurance companies which are seeking to back out of commitments to assure $1.1 billion in payments related to crude-oil and gas contracts. Of that $1.1 billion, $965 million is owed to J.P. Morgan Chase. The bank's litigation seeks to force the insurers to make good on the payments.

The development underscores the extensive ties between the nation's banks and the energy trader. An official familiar with the matter said one of the several insurers seeking to back out of the agreement is a unit of Citigroup Inc., which along with J.P. Morgan Chase represented Enron in its failed attempt to merge with rival energy trader Dynegy Inc.

[Go]See full coverage of the rise and fall of Enron.

In a related development, a European financial institution has failed to make payment to J.P. Morgan Chase on a $165 million letter of credit linked to a swap contract, the bank said. The bank said it would seek legal enforcement of the letter of credit. The bank didn't disclose the name of the institution.

J.P. Morgan officials insisted that with this disclosure, the bank was coming clean about its total exposure to Enron. Yet it had made similar assurances when it made the earlier disclosure of overall exposure of $900 million around the time Enron filed for bankruptcy.

The bank said that as a result of Enron's failure, it would take a charge of $220 million in loans during the fourth quarter, and a further $235 million reduction in fourth-quarter trading revenue.

Separately, a New York federal bankruptcy judge granted Enron's motion to expedite the auction of a majority stake in its core energy-trading operations, setting a Jan. 7 deadline for bids.

Enron, which filed for Chapter 11 bankruptcy-law protection on Dec. 2, has said that the sale of its trading operations to a company with a stronger balance sheet is a vital part of its restructuring plan.

"We're worried that if we delay any longer, we won't have a trading company to sell," said Martin Bienenstock, of Weil Gotshal & Manges, which represents Enron. The auction is also "urgently" needed, he said, because Enron traders may leave if business doesn't pick up soon. All new trading activity has ceased because Enron doesn't have capital to finance the transactions.

Enron has been negotiating with both Citigroup and UBS AG to take control of the unit, according to people familiar with the matter, but it is unclear whether either company will emerge with a bid for others to top in the court auction.

Write to Jathon Sapsford at jathon.sapsford@wsj.com <mailto:jathon.sapsford@wsj.com> and Kathy Chu at kathy.chu@wsj.com <mailto:kathy.chu@wsj.com>

Nickoloff, Peter

From: Carleton, Norman
Sent: Thursday, December 20, 2001 10:49 AM
To: Schultheiss, Heidilynne; Nickoloff, Peter
Subject: A Chronology of Enron's Recent Woes

December 20, 2001

Major Business News

A Chronology of Enron's Recent Woes

Dec. 19: J.P. Morgan Chase & Co. said its exposure to **Enron** was nearly $1 billion more than the $900 million that it already has disclosed, raising concern that the bank has more exposure still lurking. Following in the footsteps of its energy-sector competitors, Williams Cos. will restructure to appease jittery debt-rating agencies in the wake of Enron's collapse. The credit rating of Mirant was downgraded to junk status by Moody's Investors Service Inc., making the power generator the latest in a growing list of energy companies to suffer from tightening credit standards following Enron's collapse. FleetBoston will take a $150 million pretax charge to write down troubled loans from customers, including **Enron**.

Dec. 18: Many **Enron** employees face greater losses to their retirement income than was immediately apparent, stemming not only from big hits in their 401(k) retirement-savings plans but also as a result of changes involving pension and retirement-savings plans. Credit agencies crack down on power companies, warning them to slash debt, after falling asleep when California's deregulated energy market imploded and acting slowly to Enron's demise.

Dec. 17: Dynegy announces a $1.25 billion capital-restructuring program to boost its cash holdings and trim debt. The company has been swept up in a crisis of confidence by investors in the energy trading market following Enron's collapse. The Royal Bank of Scotland is under fire from fund managers for its refusal to disclose its exposure to **Enron**. Volumes surge at several major online-trading firms amid heavy trading in **Enron** shares as the company lurches toward bankruptcy.

Dec. 14: Moody's Investors Service downgrades its credit ratings of Calpine and Dynegy unit Dynegy Holdings. Following Enron's collapse, Moody's stressed the risks posed by high leverage and reduced access to capital markets.

Dec. 13: A handful of congressional panels and regulators are investigating the causes of Enron's plunge into Chapter 11 bankruptcy protection, which may lead to new regulations spurring additional oversight of accounting firms. Questions are also rising about Enron's outside auditor, Arthur Andersen which did double-duty work for the company.

Dec. 12: **Enron** unveils a one-year plan to restructure its way out of trouble, including a reorganization around its core businesses. Chief Executive Officer Kenneth Lay declines to testify at

a joint hearing of two House panels as Congress begins a painstaking investigation into the company's financial troubles. The energy-trading giant had aggressively lobbied Congress in support of a little-noticed bill that allowed **Enron** to shape the industry without much government interference.

Dec. 11: The fallout continues to radiate, as Calpine, maybe the most aggressive power-plant builder in the U.S., defends its financial structure and says it doesn't deserve to be compared with **Enron**. The 4,500 employees let go by **Enron** are stunned by the quick trip from what they deemed corporate nirvana to the unemployment line.

Dec. 9: Citigroup and UBS work to finalize separate bids to take over Enron's trading operations, the first step toward a potential bankruptcy-court auction for the flagship business. Learning from the **Enron** experience, some rating agencies say they will try harder to tip off investors to potentially devastating credit downgrades.

Dec. 6: Job cuts continue at **Enron**, with 200 Houston workers laid off at the company's natural gas and electricity trading unit, **Enron** Americas. The bankruptcy court proceedings start to take shape; U.S. Bankruptcy Judge Arthur Gonzalez, who will hear the **Enron** case, is known as a stickler for detail.

Dec. 5: **Enron** pays $55 million to about 500 employees that it considers critical to its survival, as it seeks to emerge from bankruptcy-court protection as a slimmed down commodity trading outfit. Enron's bonds climb as "vulture" investors scooped up Enron's bonds and bank loans, sensing a bargain. Despite Enron's plight, deregulation of energy remains a priority across the globe. Meanwhile, Dynegy, seeking to reassure investors about its financial health, says its short-term borrowings of nearly $1 billion over the past week aren't related to its failed attempt to acquire **Enron**.

Dec. 4: Enron's highly questionable financial engineering, misstated earnings and persistent efforts to keep investors in the dark were behind its collapse. The Belfers, a wealthy New York oil family, could stand to lose as much as $2 billion due to the tailspin in Enron's stock, while the collapse of talks between **Enron** and Dynegy has raised a potential conflict in the negotiations involving Lehman Bros.

Dec. 3: **Enron** secures almost $1.5 billion in debtor-in-possession financing and presses negotiations for an additional lifeline for its energy-trading operations. The company also announces it has laid off 4,000 people in Houston.

Dec. 2: **Enron** files for protection from creditors in a New York bankruptcy court, the biggest such filing in U.S. history. Simultaneously, the Houston-based energy firm sued Dynegy for "not less than $10 billion," accusing it of wrongfully terminating their merger deal. **Enron** Europe cuts roughly 1,100 jobs in the United Kingdom just a day after its European energy-trading arm sought protection from creditors.

Nov. 30: The Wall Street Journal reports the SEC is investigating the actions of Arthur Andersen LLP, Enron's auditor, and federal prosecutors in New York and Texas want to monitor the SEC's investigation into possible accounting fraud at **Enron**.

Nov. 29: Enron's financial travails reverberate around the globe, roiling markets and manufacturers and threatening to derail deregulation of the U.S.'s energy markets. Large energy companies will fail to collect about $600 million owed them by **Enron** if the energy-trading firm winds up in bankruptcy court.

Nov. 28: **Enron** appeared near collapse after credit-ratings agencies downgraded its debt to junk status. Dynegy called off its planned merger with the rival energy concern following the

announcements.
Enron's woes could have widespread consequences for scores of companies across the economy.
The government is unlikely to bail out **Enron** if it goes under.
Energy trading is sent reeling as EnronOnline is shut down.
The merger was scuttled when Standard & Poor's lowered Enron's credit rating to "junk" status.
Enron CEO's political connections run silent during firm's crisis.
Mutual funds may get hit by Enron's meltdown.
Enron asks laid-off workers to waive legal claims against it in exchange for some of their severance payments.

Nov. 27: **Enron** and Dynegy work to save their deal amid the threat of a credit downgrade to Enron's debt. Bankers have a big stake in the merger succeeding.

Nov. 26: **Enron** has advanced talks to cut the price of the all-stock acquisition by Dynegy by more than 40% to about $5 billion.

Nov. 23: The Wall Street Journal reports that **Enron** is being sued by members of its employee-retirement plan, which has suffered losses because of its plunging stock price.

Nov. 20: **Enron** warned that continuing credit worries, a decline in the value of some of its assets and reduced trading activity could hurt its fourth-quarter earnings.

Nov. 9: Dynegy announces a deal to buy **Enron** for about $7 billion in stock. ChevronTexaco will inject $1.5 billion into the deal immediately, and an additional $1 billion upon closing.

Nov. 8: **Enron** reduces its previously reported net income dating back to 1997 by $586 million, or 20%, mostly due to improperly accounting for its dealings with the partnerships run by some company officers.

Nov. 1: **Enron** says it has secured commitments for $1 billion in financing from units of J.P. Morgan and Citigroup.

Oct. 31: The SEC elevates to a formal investigation its inquiry into Enron's financial dealings.

Oct. 29: Moody's lowers its ratings by one notch on the Enron's senior unsecured debt and kept the company under review for a possible further downgrade.

Oct. 25: The company draws down about $3 billion, the bulk of its available bank credit lines.

Oct. 24: **Enron** replaces Mr. Fastow as CFO with Jeffrey McMahon, the 40-year-old head of the company's industrial-markets division.

Oct. 22: **Enron** announces SEC will begin a probe of company's "related party transactions," including those with Fastow partnerships. **Enron** says it will fully cooperate.

Oct. 19: The Wall Street Journal discloses that general partners of Fastow partnership realized more than $7 million last year in management fees and about $4 million in capital increases on an investment of nearly $3 million in the partnership, set up principally to do business with **Enron**, according to an internal partnership document.

Oct. 16: **Enron** takes $1.01 billion charge related to write-downs of investments. Of this, $35 million is attributed to partnerships until recently run by CFO Andrew Fastow. **Enron** also discloses it shrank

01300000000387

shareholder equity by $1.2 billion, as a result of several transactions including ones undertaken with Mr. Fastow's investment vehicle.

Nickoloff, Peter

From: Carleton, Norman
Sent: Thursday, December 20, 2001 11:30 AM
To: Cetina, Jill; Sharer, James; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: Economist: Auditors -- Who Fiddled What?

Auditors

Who fiddled what?

Dec 20th 2001
From The Economist print edition

"Errors of judgment" are piling up at Andersen

Get article background

AUDITING is a dull business. But it is also dangerous, as Andersen, the world's fifth-largest firm of accountants, is finding out. Andersen audited Enron for all 16 years since the company's formation. On top of pure audit, it also sold internal-audit and consulting services. But despite this privileged insight, Andersen did not spot the fact that Enron was publishing incorrect financial statements. For failing to do its job, Andersen now faces the wrath and legal claims of thousands of staff, shareholders and creditors who will lose billions from Enron's collapse.

In November, Enron announced that it would restate all its annual financial statements from 1997 to 2000, resulting in a cumulative profit reduction of $591m and an increase in debt of $628m. The reason, it said, was that it should have added in three off-balance-sheet entities, vehicles used by some companies to acquire more capital without adding debt to their balance sheets.

How could Enron's auditor have missed all of this at the time? Joseph Berardino, Andersen's chief executive, admitted to Congress last week that his firm made an "error of judgment" over one of the vehicles. But most of Enron's restatement, he said, came from a bigger "special purpose" vehicle called Chewco: Enron's management did not provide the information about Chewco that would have led Andersen to insist on its consolidation. He said Andersen warned Enron's audit committee about "possible illegal acts".

Enron is fighting back. It says that it not only discovered and reported the relevant information on Chewco to Andersen, but that Andersen was involved in "real-time" audit procedures on all of its main structured-finance vehicles. If Andersen is found actually to have advised on the design of Enron's off-balance-sheet vehicles, as the company implies, it will find it hard to plead ignorance over their construction.

The Securities and Exchange Commission (SEC) is investigating Andersen's audit work on Enron, and lawsuits have been filed against the firm; doubtless more light will be shed on what happened. But already, some observers are questioning whether Andersen will survive in its present form. This year, the SEC imposed a $7m fine on Andersen for signing the accounts of Waste Management, another Texas firm, knowing that the accounting methods it had used were designed to mislead investors. In the spring, Andersen paid $110m to settle an accounting-fraud lawsuit over auditing work it did for Sunbeam, a Florida consumer-products company that filed for bankruptcy. Given all these cases, it is even possible that the SEC may bar Andersen from taking new audit clients for a time. If plaintiffs are successful, the firm may have to pay out many more millions in compensation.

Mr Berardino's defence, beyond accusing Enron of withholding information, is that the accountancy profession as a whole is at fault, and a few others as well, such as credit-rating agencies and investment bankers. The heads of the other "big-five" accountancy firms joined in: the standard setters are too slow, they said, and failed to produce adequate rules on off-balance-sheet vehicles: the financial reporting model is outdated and there should be firmer regulation and discipline, and improvements to audit effectiveness.

There is truth in this, but it remains to be seen how much change the American accounting profession will accept. At the moment, auditors are supposedly kept honest by a longstanding system of self-regulation, in which big firms conduct "peer reviews" of each others' audit practices. The Public Oversight Board, which monitors the process, lacks independence from the accounting profession, which funds and staffs it, and has little ability to punish miscreant auditors. Lynn Turner, a former chief accountant of the SEC who is now at Colorado State University, says that America would do well to adopt something like Britain's new, independent system for upholding audit standards.

The large part played by special purpose vehicles in Enron's collapse has spurred the Financial Accounting Standards Board (FASB) to revisit its rules on how to account for them. Up to now, the FASB has been chary of using the notion of control, rather than ownership, to decide on consolidation, because of its subjectiveness. That, some say, has led to a too-lenient standard. Andersen did not follow the existing rules anyway, says the FASB, which in the case of Enron's off-balance-sheet entities required consolidation.

Will auditors blow the whistle on future Enrons? The big firms argue that every recession throws up a number of corporate failures and tales of auditing mistakes: they simply pay up and wait for the next. The sheer scale of Enron's demise, though, is likely to demand some meaningful change. Last year, the oversight board's panel on audit effectiveness made some simple suggestions. It said that auditors should use forensic methods. Audit thoroughness, as well as fee generation, should feature in deciding pay and promotion. It should be the audit committee, not management, that decides whether an auditor should be allowed to carry out non-audit work over a certain value.

The worst outcome of the Enron affair, for accounting firms, would be that regulators ban them from selling consulting services to those they audit. Big firms worry that if they were left with audit alone, which for most people is a tedious task, their ability to recruit talented staff would evaporate-and they might as well hand the job to a government agency. Better audits would be the best way to assure regulators that such a ban is unnecessary.

Nickoloff, Peter

From: Carleton, Norman
Sent: Thursday, December 20, 2001 11:34 AM
To: Sharer, James; Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: Economist: Pensions in America -- The merits of diversity

Pensions in America

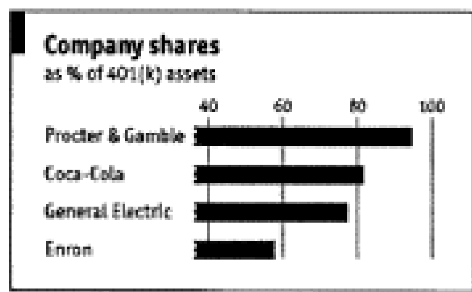
The merits of diversity

Dec 13th 2001
From The Economist print edition

A company pension plan should not be allowed to invest heavily in its own shares

Get article background

DIVERSIFICATION is one of the first rules of any investment strategy. Put too many eggs in one basket, goes the proverb, and you risk losing the lot if things go wrong. Enron's bankruptcy was bad for investors. But for Enron's employees, the bulk of whose retirement savings were in Enron shares, it was a disaster- and one that must be avoided in future.



What is most disturbing is how widespread the practice is in America. As pension funds based on employees' final salaries ("defined benefits") wither away, so-called 401(k) plans are becoming the most common company retirement vehicle. In such "defined-contribution" schemes, employees' ultimate pensions depend entirely on the investment performance of the plans. Yet such blue-chip companies as Coca-Cola, General Electric and McDonald's all have three-quarters or more of their 401(k) plans invested in their own equity. For Procter & Gamble, normally a paragon of best corporate practice, the proportion is almost 95%. Set against these examples, Enron's 58% looks almost reasonable (see article).

How has this come about? Part of the answer is that section 401(k) plans evolved out of previous schemes to encourage employee stock ownership. But there are two other, more questionable explanations. Many companies match employees' contributions to 401(k) plans in the form of company shares, not cash. In some plans (including Enron's), these come with the restriction that the shares cannot be sold until the employee is over 50. The second explanation is that companies offer their staff a relatively small menu of possible investments for their 401(k) plans, one of which is the company's own shares. Many select this option.

And why not? Nobody is being forced to put his money into a company's shares, after all. Employees of such firms as Microsoft and Wal-Mart have been able to benefit mightily from their growth through share ownership. In general, greater employee share ownership is a healthy way of giving staff more of a stake in their company's success. If lots of workers freely choose to invest their 401(k) plans in the company's shares, even if that offends against portfolio theory, should the government protect them against their own folly?

Yes, it should, for the choice is not as free as it looks. Quite apart from the company's contribution, many managers encourage staff, implicitly if not explicitly, to put their 401(k) money into the company's shares; and they discourage selling. The pressure may intensify if the company's finances are dodgy. The consequences can be severe. Many Enron workers have lost their jobs and their retirement savings in one blow. Worse, thanks to an administrative change that the company made in October, no 401(k) holders, even those over 50, were allowed to sell any Enron shares over a crucial four-week period during which the price fell by over two-thirds.

The simplest remedy would be to legislate that no more than, say, 10% of a 401(k) plan may be invested in a company's own shares. That would replicate the limit set for defined-benefit pension schemes. Several congressional bills to this effect are already being drawn up. The argument for early action is not just to avoid future Enrons, either. Most ideas for reforming Social Security involve its partial privatisation, with beneficiaries investing directly in the markets (see article). If these plans are not to be discredited before they are even tried, Congress should act now to limit the investment of workers' retirement money in their company's shares.

01300000000392

Nickoloff, Peter

From:	Carleton, Norman
Sent:	Thursday, December 20, 2001 5:26 PM
To:	Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject:	DJ: JP Morgan Chase Surety Bond Suit Names 9 Insurers

December 20, 2001

JP Morgan Chase Surety Bond Suit Names 9 Insurers

Dow Jones Newswires

WASHINGTON -- J.P. Morgan Chase & Co.'s (JPM) suit involving **Enron** Corp. (ENE) surety bonds names nine major insurance companies as defendants, ranging from Citigroup Inc.'s (C) Travelers unit to Kemper Insurance Co.'s Lumbermens Mutual Casualty Co.

Executives at J.P. Morgan Chase have refused in interviews to identify the insurers they are suing, and the suit itself is not yet publicly available in court files. But a person with knowledge of the case said it names Travelers Casualty Surety Co., Travelers Indemnity Co., Kemper's Lumbermens Co., Allianz AG's Fireman's Fund Insurance Co., Chubb Corp.'s (CB) Federal Insurance Co., St. Paul Cos.'s (SPC) Fire and Marine Insurance, CNA Surety Corp.'s (SUR) Continental Casualty Co., Safeco Corp's (SAFC) Safeco Insurance Co., Hartford Financial Services Group Inc. (HIG), and Liberty Mutual Insurance Co.

J.P. Morgan Chase said Wednesday that the insurers notified it that they don't plan to make a payment due Friday on Enron-related crude oil and gas derivative contracts. The insurers had made commitments in the form of surety bonds of about $1.1 billion, of which J.P. Morgan Chase's share is about $965 million.

-By Lynn Cowan, Dow Jones Newswires; 202-628-9783; Lynn.Cowan@dowjones.com

From: Carleton, Norman
Sent: Thursday, December 20, 2001 5:41 PM
To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: Bloomberg column: Michael Lewis ("Liar's Poker) on Enron and Drexel

Is Enron the New Drexel?

Michael Lewis Commentary. Michael Lewis, the author of ``Liar's Poker'' and ``The New New Thing,'' is a columnist for Bloomberg News. The opinions expressed are his own.

By Michael Lewis

Berkeley, California, Dec. 20 (Bloomberg) -- Enron Corp. is rapidly expanding the American business journalists' notion of what is possible: No story can ever again be said to be too outrageous to be true.

The boss, Kenneth Lay, was a friend of the current president of these United States, an adviser to his administration and one of his biggest financial backers. The company itself was rated ``strong buy'' by analysts at almost every Wall Street firm, considered a shining example of modern accounting by reputable accounting firms, and plugged endlessly by the business press. Six years running as Fortune's most innovative company! And all the while this same operation was, at the very top, a lie.

Understandably, people long for some analogy to help them grasp this situation, but really there isn't a good one.

Other than failed hedge fund Long-Term Capital Management, Michael Milken's junk bond department at Drexel Burnham Lambert offers the closest parallels on Wall Street, and several people have written to me over the past week to suggest it. But it really is unfair to Milken to compare him to Lay.

Alumni Will Flourish

True, in both cases profitable trading businesses collapsed because their creditors came to distrust the people who ran them. And in both cases the core business -- Drexel's junk bonds and Enron's energy trading -- remain viable in the hands of other companies that banks trust.

Just as the Drexel junk bond traders who didn't go to jail went to other Wall Street firms and created replicas of their former business, former Enron traders will soon be making lots of money for one-time rivals such as Dynegy Inc. and Duke Energy Corp. Well before Kenneth Lay emerges from his legal hell, the energy trading business will return to normal.

But the morality of the cases are entirely different. Whatever you think of Milken's junk bond department -- and I think its sins were minor beside its achievements -- you must admit the people in it exhibited a certain honor among thieves.

There was never a moment when Milken betrayed the broad interests of his traders for his own narrow ones. He paid himself huge sums of money, but he also made huge sums for his firm. He was careful to watch out for the little people who worked for him, and they loved him for it. The Enron bosses, by contrast, pillaged their firm and left the little people who worked for them holding the bag.

Different Motivations

Enron created the illusion that it was much more profitable than it actually was. Milken created an operation which was, if anything, much more profitable than it looked. What Milken hid was the thuggish manner in which he made his profits. What Enron hid was the sneaky way it made its losses.

(This is something I still don't understand, and would love for some enterprising reporter to explain, as Enron seems intent on explaining nothing. The off-the-books partnerships that brought Enron down appear to have been a mechanism for hiding bad investments in hard assets -- Turkish gas pipelines, Indian power plants and the like. Why did Enron, which made its money as an intermediary, invest in this stuff in the first place?)

The speed with which the markets have punished Enron reflects the differences between it and Drexel. In Drexel's case, it took a multiyear investigation by the U.S. government, together with a smear campaign in the press, to bring down the business. In Enron's case, all it took was a couple of articles in the Wall Street Journal pointing out, among other things, that senior executives were profiting at the company's expense.

In Drexel's case, the demise of the firm and the jailing of Milken was pretty much the end of the story. In Enron's, the fate of the company and its leaders may open up a much bigger scandal that reaches right up to the top. Anything is possible.

From: Carleton, Norman
Sent: Friday, December 21, 2001 9:52 AM
To: Schultheiss, Heidilynne; Nickoloff, Peter
Subject: Accounting Officials Picked for SEC

Accounting Officials Picked for SEC

By David S. Hilzenrath
Washington Post Staff Writer
Friday, December 21, 2001; Page E01

President Bush said yesterday that he plans to nominate two members of large accounting firms to fill vacancies on the Securities and Exchange Commission.

They would join Chairman Harvey L. Pitt, a Bush appointee who represented each of the Big Five accounting firms and their main lobbying group while he was a securities lawyer.

Bush said he plans to name Paul S. Atkins, a lawyer who is a partner at PricewaterhouseCoopers, and Cynthia A. Glassman, an economist who is a principal at Ernst & Young .

If confirmed by the Senate, Atkins and Glassman would share responsibility for regulating their former employers at a time when the industry is under scrutiny for failing to prevent disastrous accounting errors at corporations such as energy trader Enron Corp.

Congress should "thoroughly examine" the nominees' backgrounds "given that they are from an industry that is by its own admission saying it is going to have to make some changes," said Sen. Ron Wyden (D-Ore.), who sharply questioned the auditing of Enron at a Senate hearing this week. "You want to see their commitment to really protect the investing public and the consumer."

Atkins served as a lawyer at the SEC during the first Bush administration, under then-chairman Richard Breeden, and he remained at the agency for part of Arthur Levitt Jr.'s term as chairman during the Clinton administration. The White House said his titles included chief of staff.

Glassman previously worked at the Federal Reserve and at Furash & Co., a consulting firm serving the financial services industry. She has worked on issues such as risk management and regulation in banking.

"I'm very honored to be named by the president," Glassman said, adding, "I hope the Senate sees fit to confirm me."

Glassman said she would refrain from commenting on issues "until after the confirmation process."

Atkins did not return a call, and a spokesman for the SEC chairman referred questions to the White House.

Noting that Atkins and Glassman did not work in the accounting side of their firms, White House spokeswoman Claire Buchan said, "Individually and together, they will provide strong, balanced and effective regulation."

An SEC official said Atkins and Glassman would fill Republican slots on the commission. Their appointments would leave two Democratic vacancies on the five-seat commission.

One of those vacancies was created yesterday when the term of Commissioner Isaac C. Hunt Jr. expired with the end of the Congressional session. Hunt's term expired in 2000, but he stayed on when no one was appointed to replace him. Hunt has not left the agency because officials anticipate that he might be reappointed.

Bush's latest choices underscore a turnabout from the Clinton years, when Levitt battled the accounting industry over regulatory efforts. Since replacing Levitt, Pitt has promised to make the SEC a "kinder, gentler place" for accountants and others it regulates. He criticized the SEC for playing "gotcha" on accounting issues.

Rep. John D. Dingell (D-Mich.) recently said Pitt's statements made him sound "a little like the fox watching the hen roost."

Pitt appointed Ernst & Young vice chairman Robert K. Herdman to be the SEC's chief accountant. He recently said he sees a need for stronger oversight of the accounting profession, but he has not explained what type of change he favors. Leaders of the Big Five said generally that they "will work to make the right improvements in a timely way."

Members of Big Five firms were among Bush's most generous donors during last year's presidential campaign. Federal election records compiled by the Center for Responsive Politics show accountants gave more than $1.1 million to Bush, led by nearly $180,000 from Ernst & Young employees. PricewaterhouseCoopers workers gave about $128,000.

Individuals listing Ernst & Young as their employer also gave $135,000 to former vice president Al Gore's campaign, his largest single source of funds. Accountants donated about $400,000 to his campaign.

Atkins and Glassman both are recorded as giving maximum $1,000 donations to the Bush campaign.

Earlier, Bush named another Ernst & Young alumnus, Mark Weinberger, assistant secretary of the Treasury for tax policy.

01300000000397

From: Carleton, Norman
Sent: Friday, December 21, 2001 10:37 AM
To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark; Bieger, Peter; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Salladin, Anne; Smith, Amy; Sutton, Gary; Tishuk, Brian
Subject: DJ: US Congress Fails To Pass Contract Netting Bill

December 21, 2001

US Congress Fails To Pass Contract Netting Bill

Dow Jones Newswires

(This article was originally published Thursday.)

WASHINGTON -- Despite an eleventh-hour appeal from Federal Reserve Chairman Alan Greenspan and pressure from Wall Street, lawmakers again failed to enact legislation that clarifies corporate bankruptcy laws by allowing companies to quickly settle outstanding derivatives contracts in the event of an insolvency.

The once-obscure financial issue gained new prominence and urgency on Capitol Hill as lawmakers struggled to understand the high-finance finagling that lead to the recent Chapter 11 bankruptcy filing of energy giant Enron Corp. (ENE).

The measure allows institutions to quickly close outstanding derivatives contracts with bankrupt trading partners by **netting** all the losses and gains of individual contracts into one deal.

"Enron underscores the importance of it," said Peggy Peterson, spokeswoman for the House Financial Services Committee. "The other factor is the recessionary economic climate - the **netting** provisions would lower market risk."

Greenspan recently met with committee Chairman Michael Oxley, R-Ohio, and House Judiciary Chairman James Sensenbrenner, R-Wis., after Oxley held a bruising hearing on financial improprieties leading to Enron's demise.

Pressure to pass the measure was already building since the Sept. 11 terrorist attacks shut down U.S. financial markets and destroyed the Manhattan offices of many Wall Street brokerage houses.

"Congress should not fail to enact **netting** legislation this year," Greenspan and Treasury Secretary Paul O'Neill wrote House lawmakers a few weeks after the attacks. "Further delays would unnecessarily place the financial system at greater risk."

But Sensenbrenner rebuffed requests from Greenspan, Oxley and House leaders to pass the legislation apart from the larger bankruptcy bill it was attached.

Complicated, off-balance sheet transactions were Enron's undoing. Its stock collapsed after a Nov. 8 announcement that the firm had overstated its net income by $569 million over four years.

Creditors are now lining up to collect on the approximately $40 billion in debt owed by Enron.

Of that, roughly $22 billion is on the balance sheet in the form of bank debt, commodity-transaction financing, bonds and other public securities. The remainder is made up of roughly $7 billion in bonds and bank debt linked to other assets in special partnerships, as well as an additional $10.7 billion in "project finance," a term that typically refers to money lent to build power plants or oil refineries.

-By Dawn Kopecki, Dow Jones Newswires; 202-862-6637; Dawn.Kopecki@dowjones.com

Nickoloff, Peter

From: Carleton, Norman
Sent: Tuesday, January 08, 2002 4:56 PM
To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: FT Article on Wendy Gramm, the CFTC, and Enron

COMPANIES & FINANCE INTERNATIONAL: Appointment may be probed
Financial Times; Jan 7, 2002
By NANCY DUNNE

Republican Texas Senator Phil Gramm and his wife, Wendy, former chairman of the Commodity Futures Trading Commission, have both been strong proponents of deregulation.

Before leaving her CFTC office in 1992, Mrs Gramm kick-started a rule-making process at the behest of various energy companies and Wall Street banks, which exempted energy swaps from government oversight.

But it was not instituted until after she left the post and her subsequent appointment to a seat on Enron's board a few months later is expected to come under scrutiny from one or more of the Senate committees investigating Enron's downfall.

At the time of the CFTC rule-making, Enron was a strong financial backer of Mrs Gramm's husband. Between 1996 and 2002, the company's employees, officials and political action committees contributed Dollars 233,000 to the senator's campaign war chest, according to the Center for Responsive Politics.

This included Dollars 22,000 given during the current Congress, although the senator is not running for re-election.

William Albrecht, who became acting CFTC chairman after Mrs Gramm's departure, says it was he who ultimately instituted the rule. Now an economics professor in Iowa, Mr Albrecht said the Commission had been directed by Congress to exempt certain energy derivatives from regulation.

"Everyone was on board for this," he said. "We had dozens of meetings. If Enron is trading derivatives with Dynegy, they don't need us in there watching it."

Deregulation, however, had its opponents, and they flourished for a while during the Clinton years. Former Congressman Glen English was chairman of the subcommittee with jurisdiction over the CFTC. He saw no difference between derivatives and futures traded on regulated exchanges.

"Regulation is not just for the traders but for the impact (of not having regulation) on the economy," he said. "It was the responsibility of the CFTC to deal with derivatives."

Brooksley Born, ex-president Bill Clinton's first appointee as CFTC chairwoman, was opposed to deregulation. But her ideas were anathema to the Republican Congress of the time, which threatened to fold the agency into the Securities and Exchange Commission, according to a former CFTC official.

In 1993, Mrs Gramm was offered a position on the Enron board. She became a member of the company's audit committee. Mrs Gramm declined to return the FT's calls but it is common for retiring regulators to move over to industries they oversaw.

She was paid Dollars 22,000 a year for the first three years. Her annual salary grew to Dollars 50,000. Between 1993 and 2001, she earned Dollars 346,000 plus Dollars 176,000 for attendance fees, according to a recent report from Public Citizen, a liberal advocacy group.

She also received stocks and dividends worth between Dollars 915,317 and Dollars 1.85m over the period. Mr Gramm's tax returns last year listed his wife with assets of Dollars 250,001-Dollars 500,000 in an Enron Deferred Compensation

Fidelity Balanced fund.

Mr Gramm played a key role in getting the Commodity Futures Modernisation Act passed in December 2000. The act, which deregulated all financial derivatives and relaxed oversight of commodity exchanges, had been languishing in the Senate.

Copyright: The Financial Times Limited 1995-1998

01300000000402

Nickoloff, Peter

From: Carleton, Norman
Sent: Wednesday, January 09, 2002 1:45 PM
To: Schultheiss, Heidilynne; Nickoloff, Peter
Subject: FW: CFTC Daily Newsclips 01/09/02

Articles on retail swaps study, Enron, and Paul O'Neill.

-----Original Message-----
From: McCoy, Antoinette B. [mailto:amccoy@CFTC.gov]
Sent: Wednesday, January 09, 2002 10:45 AM
Subject: CFTC Daily Newsclips 01/09/02

nc010902.pdf

Prepared by Office of Public Affairs • Commodity Futures Trading Commission • (202) 418-5080

Selected From Current Issues and the Washington Wires of:

Wednesday, January 9, 2002

Futures World News
Reuters
The Financial Times
Bloomberg Business News
Investor's Business Daily
The New York Times
The Wall Street Journal
USA Today
The Washington Post
Washington Times
Chicago Tribune
Chicago Sun-Times

James Newsome, Former Mississippi Farming Activist, Now Heads CFTC, Clarion Ledger Reports, p2

Second Circuit Reviews Armstrong Civil Contempt Case, p4

Joint Regulators' Report Concludes Congress Should Refrain from Regulating Retail Swaps, p6

Senator Jon Corzine Calls for Probe of Enron Failure, p7

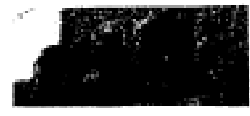
Following Enron's Trail, p12

Senator Lieberman Hopes to Channel Enron Inquiry into Electricity Policy Hearings, p15

Requiem for Enron, p17

Weather, Supply Talk Sink Crude; Beans Rise Again; Silver Cools Off, p 32

01300000000404



The Clarion-Ledger
clarionledger.com BUSINESS
Mississippi's News Source

January 8, 2002

Chief of panel has tie to Miss.

By Arnold Lindsay
Clarion-Ledger Staff Writer

A former Mississippi farming activist now heads the federal Commodity Futures Trading Commission.

James E. "Jim" Newsome, 41, was recently confirmed as chairman of the five-member commission charged with regulating commodity futures and opt-ion markets, in-cluding agricultural products, crude oil, natural gas and financial documents such as treasury bonds and securities.

In recent years, the commission has redirected its energies largely toward the financial market place, giving agriculture, which once took the majority of their efforts, less than 15 percent of their current focus, Newsome said.

Therefore, Newsome heads the agency through a period of refocusing that began in December 2000, with congressional passage of the Commodity Futures Modernization Act, which broadened the commission's responsibilities.

"What we're going to do is continue to build upon that same theme," Newsome said. "In addition to that, we're going to be involved in a restructuring of the commission itself."

Mississippi's Republican congressional delegation said Newsome's involvement has proven helpful.

"I am delighted with the elevation of Jim Newsome to the chairmanship of this important commission. He has been a steady influence for reasonable and practical supervision of commodity trading under the jurisdiction of the commission. And I am sure he will win high praise in this new role," said U.S. Sen. Thad Cochran, R-Mississippi.

Mississippi cattleman Fred Stokes of Poplarville, president of the Lincoln, Neb.-based, Organization for Competitive Markets, agreed Newsome's appointment spoke highly for the state. Stokes said he considers Newsome, a Plant City, Fla., native who spent three years in Mississippi, a friend.

"The futures market plays a major role on establishing cash prices for Mississippi farm commodities," Stokes said. "It is also used by many farmers and ranchers to hedge the price for their production and manage risk. There is always the danger that big traders will abuse the futures market to unduly enrich themselves or manipulate cash prices."

MORE →

(continue..)

U.S. Senate Minority Leader Trent Lott, agreed Newsome's background makes him perfect for the role.

Newsome's achievements include serving as former executive vice-president of the Mississippi Cattlemen's Association and Beef Council, former Chairman of the Mississippi Agribusiness Council, and a past president of the Association of Mississippi Agriculture Organizations, and past president of the Florida Future Farmers of America.

Newsome received his bachelor's degree in Food and Resource Economics from the University of Florida, and a master's degree and doctorate in Animal Science/Agricultural Economics from Mississippi State University. (end)

Securities Regulation & Law Report 01/07/02

Commodity Futures Trading Commission

Expedited Senate Vote Installs Newsome As Permanent CFTC Head; Hearing Bypassed

The Senate voted Dec. 20 to approve James Newsome as the new leader of the Commodity Futures Trading Commission, removing the "interim" label he has carried since taking over for his predecessor Jan. 19.

Newsome was nominated as chairman by President Bush Sept. 20 (33 SRLR 1379, 9/24/01). The Senate bypassed hearings on the confirmation, instead approving Newsome on the day it adjourned for the year.

The last-minute vote denied Newsome a trip to Capitol Hill to testify before the Senate Agriculture Committee, which has oversight of the CFTC. Newsome has testified publicly only once since taking over for former Chairman William Rainer, at which time he told the committee that pay parity for the CFTC staff and deregulation of the commission were top priorities for his administration (33 SRLR 457, 3/26/01).

Free Markets. Newsome, 42, a Republican appointed to the CFTC by President Clinton in July 1998, already has had a busy year as the commission worked to implement an ambitious futures modernization bill passed by Congress at the end of Rainer's tenure in December 2000.

Newsome, who was a key ally as Democratic Rainer shepherded the sweeping bill through Congress, is an unabashed champion of free markets who favored the dramatic deregulation that resulted from the 2000 Commodity Futures Modernization Act (32 SRLR 1757, 12/25/00). He was unavailable for comment following his confirmation.

As a result of the legislation, Newsome has overseen the formulation of three new tiers of regulation—the most liberal of which permits almost no oversight over the trading done by so-called "sophisticated" traders of futures and options.

His tenure as the interim chairman also has included almost unprecedented cooperation between the CFTC and the Securities and Exchange Commission as the two regulators tried to create rules for the introduction of single stock futures. That effort is ongoing, with a target date for rules to allow trading of the new instruments having passed Dec. 21.

Newsome and SEC Chairman Harvey Pitt, who also was named to his post this year, issued a statement Dec. 21 pledging promptly to resolve the rulemaking issues that are delaying the the onset of retail trading in the products [*See related report in this issue*].

A CFTC official said a date for Newsome's swearing in has not been scheduled.

By Richard Hill

01300000000406

NYLJ 01/07/02

2nd Circuit Reviews Armstrong Civil Contempt Case

By Mark Hamblett
New York Law Journal
January 7, 2002

The argument over the continued jailing of indicted financier Martin Armstrong for his failure to turn over gold bullion and other assets has come to resemble a merry-go-round that never stops.

For the second time in a year, the 2nd U.S. Circuit Court of Appeals pondered the limits of civil contempt, and debated at what point Mr. Armstrong's two-year incarceration for contempt turns into a criminal sanction. If the court finds his imprisonment is punitive in nature, it would order his immediate release.

"There is no doubt that, at some point, this morphs into [a criminal penalty]," Circuit Judge Dennis G. Jacobs said yesterday. He added that while the length of civil incarceration is one factor in the analysis, "We don't know what that point is."

The arguments before the Second Circuit came just shy of two years to the day that Southern District Judge Richard Owen sent Mr. Armstrong to the Metropolitan Correctional Center for refusing to disclose the whereabouts of $14 million in assets. The assets, which include ancient coins, are being sought by a receiver appointed to protect the interests of Japanese investors allegedly bilked by Mr. Armstrong and his companies, Princeton Economics International and Princeton Global Management Ltd.

The government, and lawyers for plaintiffs in the civil case, charge that Mr. Armstrong raised hundreds of millions of dollars from Japanese corporate investors through the issuance of "Princeton Notes," and then, instead of following through on his promise to invest the money in bonds, made high-risk bets on derivatives and currencies.

Mr. Armstrong claims he has no access to the assets in question, but Judge Owen refuses to believe him. While Judge Owen and the 2nd Circuit state that there is some limit to confinement for civil contempt, no one knows what that limit is - and Mr. Armstrong's lawyer said yesterday it is time to end his incarceration.

"Mr. Armstrong will never comply to the satisfaction of Judge Owen," Bernard V. Kleinman told Judges Jacobs, Fred I. Parker and Sonia Sotomayor. "Judge Owen can refer the case to the U.S. Attorney and the U.S. Attorney can prosecute for criminal contempt."

But Martin Glenn of O'Melveny & Myers, who represents receiver Alan Cohen, said the time had yet to arrive when the court can consider Mr. Armstrong's incarceration a criminal sanction. With the bounds of civil incarceration being tested in the case, Mr. Glenn said that Mr. Armstrong is hoping to wait out Judge Owen and use the $14 million for a comfortable retirement.

"Obviously, Mr. Armstrong has made an assumption that he is willing to sit in jail for a long time," Mr. Glenn said. "Hopefully the realities is

MORE →

01300000000407

starting to hit home."

But Judge Jacobs told Mr. Glenn, "Under your logic, he can be held until this matter is presented to judges still unborn."

Criminal Contempt

Judge Sotomayor asked how long Mr. Armstrong could serve in prison if he is successfully prosecuted for criminal contempt. She was told five years.

"If we keep this up, he's going to serve that much and more," Judge Sotomayor said.

One argument made by Mr. Kleinman was that the underlying rationale for Judge Owen's civil contempt order was that the assets were needed to compensate aggrieved investors. But that rationale became obsolete in December, Mr. Kleinman said, when Republic National Securities Corporation, which processed trades for Mr. Armstrong, pleaded guilty to commodities and securities fraud. As part of a plea agreement with the Southern District U.S. Attorney's Office, Republic's new owner agreed to pay $606 million in restitution to the Japanese investors.

But Mr. Glenn and Mr. Cohen said following oral arguments that there is a "significant shortfall" between the amount of money to be paid to investors under the plea deal and their actual losses, and that there remains amble reason to hold Mr. Armstrong's feet to the fire.

The Second Circuit panel took the matter under advisement and did not issue a ruling in the case.

Date Received: January 07, 2002

01300000000408

Futures Regulation

Derivatives

Joint Regulators' Report Concludes Congress Should Refrain From Regulating Retail Swaps

A joint report from federal financial regulators delivered to Congress Dec. 20 said there currently is no need for lawmakers to create a legal structure to regulate financial products known as "retail swaps"—swaps for ordinary-income investors.

The report cited participants in the derivatives markets—mostly commercial and investment banks—as saying there is no interest in either selling or buying the products in the retail sector, and therefore no need to delve into creating regulation.

However, one member of the Commodity Futures Trading Commission—which participated in developing the report—dissented. He warned that if a regulatory system is not developed for retail swaps, retail investors will be left unprotected. Currently, retail swaps, like swaps traded by institutions, are unregulated.

The report, released by the Treasury Department Dec. 28, took its conclusions from interviews done in August with five commercial and investment banks as well as a derivatives trading system, a derivatives trade association, and a Fortune 500 company. "The Joint Report on Retail Swaps," which was mandated by the 2000 Commodity Futures Modernization Act and received by Congress the day it adjourned, was prepared by Treasury, the CFTC, the Securities and Exchange Commission, and the Federal Reserve Board of Governors.

Lack of Demand. "Lack of demand," said the report, "is apparently sufficient to preclude any desire on the part of these institutions to explore issuance of these instruments, thus obviating the need to analyze legal issues." Not only were the institutions nearly unanimous in the view that retail investors are not well positioned to benefit from the sophisticated swaps contracts, they also questioned the cost and efficacy of offering such products should interest in them rise.

Among its conclusions, the report stated that so-called retail customers—investors with total assets of less than $10 million—generally are well-served by existing financial products and may be ill-suited for swaps. Investors that currently invest in swaps, which are unregulated contracts traded privately between two parties, often do so for the purposes of hedging and "synthetic exposure" to securities, the report noted, tactics that may not similarly benefit the smaller investor.

Using swaps to hedge, the report noted as an example, could trigger negative tax consequences, while using them for synthetic exposure would not be cost-effective or convenient for ordinary investors, it said. Because of these drawbacks, retail investors have not clamored for the product, the report said, and likewise there has been no effort to sell customers on them.

Worries on Costs. At the same time, those interviewed, according to the report, also noted potential cost concerns in offering the products to traditional investors. "These (costs) include, for example, administrative issues associated with negotiating retail swaps, the potential credit risks of offering retail swaps to (non-sophisticated investors), and the need to implement sales practices for the offering of swap agreements to (non-sophisticated investors)," said the report.

Another issue raised by the participants was the potential for such swap agreements, which currently are individually tailored, to become more standardized if there is a big increase in demand for the instruments. "It appears that one challenge for firms in determining the feasibility of offering retail swaps," the report said, "is the potential tension between the desire to mitigate infrastructure costs by standardizing terms of retail swaps and the need to offer products that would meet the financial objectives of specific retail customers."

> **"Lack of demand is apparently sufficient to preclude any desire on the part of these institutions to explore issuance of these instruments, thus obviating the need to analyze legal issues."**
>
> JOINT REPORT ON RETAIL SWAPS

The report used as its sources Bank of America and JP Morgan Chase & Co. from the commercial banking sector; Goldman Sachs Inc., Lehman Brothers Inc., and Morgan Stanley Dean Witter from the investment banking sector; as well as derivatives trading system Blackbird Holdings, Inc., the International Swaps and Derivatives Association, and Enron Energy Services Inc.

Dissent. Thomas Erickson, a member of the CFTC, dissented from the recommendations of the report, saying he "cannot in good conscience agree to leave a legacy of legal uncertainty to the Commodity Futures Trading Commission."

Erickson termed it incumbent on the CFTC, as well as the other relevant agencies, to develop an oversight regime for the products. "To do anything less," he said, "would leave retail customers without recourse, for no federal financial regulator would have any measure of authority over this market."

He also criticized the scope and execution of the report, saying it does not live up to the standards requested by Congress. "This study neither identifies nor

more →

01300000000409

(continue..)

discusses any interest in these instruments on the part of the retail public; it simply surveys select entities interested in offering them to the public."

end)

The Hill January 9, 2002 Wednesday

Copyright 2002 Capitol Hill Publishing Corp.
The Hill

January 9, 2002 Wednesday

SECTION: Pg. 1

HEADLINE: Corzine calls for probe of Enron failure

BYLINE: By Alexander Bolton

BODY:
Sen. Jon Corzine (D-N.J) said Monday he will urge the chairman of the Senate Banking Committee to launch hearings on the collapse of the Enron Corp., and warned that failure to do so would amount to a dereliction of the panel's oversight responsibility.

Even though five other congressional committees are investigating the bankrupt Houston-based energy-trading giant, the Banking Committee so far has declined to take action.

Meanwhile, the Banking Committee's counterpart in the House, the Financial Services Committee, has already heard testimony from Enron's auditor, Arthur Andersen LLP, and has asked Enron CEO Kenneth Lay to appear before it. The Senate committee, which has primary jurisdiction over the Securities and Exchange Commission (SEC) and accounting practices - the two areas that are at the center of the controversial case - would have more justification than other Senate panels in conducting an investigation of the largest corporate bankruptcy in American history.

Senate sources suggested that Chairman Paul Sarbanes (D-Md.) is holding back because his panel's ranking member, Phil Gramm (R-Texas), is married to Wendy Lee Gramm, who sits on Enron's board of directors and is chairwoman of the board's audit committee.

Also, any investigation of Enron and the SEC oversight of its trading activities could quickly turn to focus on the role Sen. Gramm allegedly played to shield Enron from government regulation.

However, Corzine, a former co-chairman and co-CEO of Wall Street investment company Goldman Sachs who is well acquainted with the intricacies of corporate finance, says Gramm's connections to Enron should not deter the Banking Committee from taking action.

"I have complete confidence in the ability of Phil Gramm to arrive at his own views independent of his wife's position on the board," Corzine, who is a member of the committee, told The Hill.

But he added, "I think it would be a conflict if we didn't [look into this] because of that situation. Not to perform oversight function on a legitimate issue strikes me as stretched logic."

more →

01300000000410

Continue..)

While acknowledging that Sarbanes must decide whether to hold hearings, Corzine said he will push for action by the panel.

"Our jurisdiction and oversight of the SEC gives us a real reason to be with regard to exploring accounting issues that surround the role of the auditors," he said.

"We'd be remiss if we didn't pursue that for the protection of the markets so that investors have basic information to make sound investment decisions ... I don't understand how with the Banking Committee having primary oversight of the SEC and oversight of accounting we could afford not to be involved."

Congress curtailed oversight of Enron's trading practices by the **Commodity Futures Trading Commission (CFTC)** and SEC in December of 2000 when it passed the Commodity Futures Modernization Act as a legislative rider to the year-end catch-all spending bill, thanks in large part to Gramm.

According to a former **CFTC** official, Gramm helped exempt Enron trading practices from SEC oversight in the closing days of the 106th Congress, action hardly noticed at the time but now the subject of growing scrutiny in the wake of Enron's catastrophic collapse.

Michael Greenberger the one time director of **CFTC's** Trading and Markets Division, said the legislation had passed the House but became bogged down in the Senate after numerous lawmakers voiced their objections to what they considered sweeping changes in the bill.

"Suddenly we discovered that it was going to be added as a rider to the omnibus," said Greenberger. "It contained what came to be known as the Enron provision. That bill was 200 pages long. I doubt that it was read through beginning to end before it was passed."

Greenberger, who is now a professor at the University of Maryland School of Law, said the is highly confusing and was written by "private parties who had a special interest in having that legislation passed."

He added, "My understanding is that Gramm was very instrumental. It had to be cleared by the committees of jurisdiction. Many parts of the bill dealt with the SEC."

However, Gramm's spokesman Larry Neal asserted in a written statement that his boss "took no role, had no say, and did not vote on the energy futures provisions of the Commodity Futures Modernization Act."

William Rainer, who was head of the **CFTC** at the time, said that scrutiny of Gramm is unwarranted and allegations of his work on behalf of Enron have been overblown.

Rainer told The Hill that his discussions with Gramm did not broach the subject of energy and were "confined and restricted to financial instruments." The bill codified internal regulations at the **CFTC** that exempted Enron from the agency's oversight.

However, one Senate source said Gramm was in fact concerned that the SEC would fill the regulatory void left by the **CFTC** and worked to make sure that the exchange commission did not extend its jurisdiction to include the type of hybrid securities that Enron traded actively.

As Enron's trading activity grew more complex, it began to delve more and more into such instruments as credit derivatives, instruments normally handled by banks.

"Some of what Enron was doing could have been in the gray area of being a security and not being a security," said Allen W. Williams Jr., an attorney specializing in regulatory practice.

MORE→

01300000000411

(Continue...)

By confining the purview of the **CFTC** and the SEC, the Commodity Futures Modernization Act allowed much of Enron's trading activity to remain unmolested by government oversight. However, whether oversight could have prevented the company's collapse is unknown.

If the Banking Committee chooses not to examine the role of the SEC and Congress in the collapse of Enron, the task may fall to someone like Sen. Byron Dorgan (D-N.D.), who is conducting an investigation on behalf of the Commerce Committee.

"Enron was very active politically here on Capitol Hill to try to prevent legislation from occurring that would have resulted in the oversight by **CFTC** and others," Dorgan said in a television interview last month. "They helped create the circumstance in which they operated off the books with secret partnerships. We intend to get to the bottom of all that and see where it leads us."

Alexander Bolton can be reached at alexb@thehill.com.

WSJ 01/09/01

Enron Met Six Times With Bush Energy Task Force

By Tom Hamburger
Staff Reporter of The Wall Street Journal

WASHINGTON—Enron Corp. executives met six times last year with officials of the Bush administration's energy task force, though they did not talk about the energy company's finances, Vice President Dick Cheney's office said in a letter to Capitol Hill.

One of the meetings included a 30-minute session between the vice president and Enron Chief Executive Kenneth Lay that had been previously disclosed. In addition, Enron officials met in large and small group meetings with the task-force staff. Two of the meetings occurred after the staff completed writing its report, including one as late as Oct. 10—days before Enron began its rapid slide into bankruptcy court.

"None of these meetings included a discussion of the financial position of the Enron Corporation," David Addington, the vice president's legal counsel, wrote in a letter Thursday to Rep. Henry Waxman of California, ranking Democrat on the House Government Reform Committee.

Mr. Addington, who was responding to a request from Mr. Waxman for information on Enron's contacts with members of the energy task force, provided few details. He suggested all of the meetings were consistent with the Energy Policy Development Group's plan to conduct "meetings with a broad representation of people potentially affected by the Group's work."

Nonetheless, these newly disclosed contacts are likely to become grist for further congressional inquiry as half a dozen committees plan oversight hearings into the failure of the giant energy-trading company. Next month, the Senate Government Affairs Committee expects to open hearings on Enron. Committee Chairman Joseph Lieberman (D., Conn.) said at a news conference last week that he wanted to explore, among other things, whether Enron influenced administration energy policy.

The letter produced a swift response from Mr. Waxman, who wrote the vice president yesterday asking for more detail. The first response, he said, "raises additional questions about the extent to which Enron may have influenced the administration's energy policies or provided information about its own operation." For example, Mr. Waxman noted that the day after Mr. Cheney met privately with Mr. Lay, the vice president stated his opposition to electricity price caps in California, a position that Enron had espoused previously.

Mr. Waxman said the response did not provide names of participants other than the vice president, nor did it mention the subject of the meetings, any requests for policy changes and copies of any documents or e-mail communications between Enron and the administration.

White House spokeswoman Claire Buchan said task force members conducted the meetings to learn as much as possible about energy issues. The meetings, she said, were held by the staff with "many, many groups across a broad range of interests to insure they had a thorough understanding" of the topic. She said that the White House was committed to cooperating with members of Congress reviewing the Enron situation "provided they are not pursuing open-ended investigations or fishing expeditions."

Enron, the nation's biggest marketer of electricity and natural gas, filed for bankruptcy-court protection following a crisis of confidence among its investors. The problems have resulted largely from Enron's dealings with private partnerships, run by some of its own executives. The company saw its market value plunge recently to about $540 million from more than $77 billion last year.

(End)

0130000000412

FT 01/09/02

Call to order: a guard outside the Spanish consulate in Buenos Aires asks applicants to form a line as hundreds of Argentines try to get visas to emigrate to Europe. Banks look bankruptcy in the face, Page 6 AP

Cheney staff held series of meetings with Enron

By Peter Spiegel in Washington

Vice-president Dick Cheney and the staff of his energy taskforce met Enron representatives six times over a seven-month period last year but never discussed the energy giant's precarious financial position, according to a senior White House aide.

The most recent meeting occurred on October 10, just a week before Enron revealed a $1.2bn reduction in shareholder equity, the event precipitating its collapse into bankruptcy, according to a letter from David Addington, the vice-president's counsel, to Democrat Henry Waxman, a congressional critic.

The January 3 letter is the first time the vice-president or his staff have acknowledged any contacts with Enron other than a half-hour meeting on April 17 between Mr Cheney – formerly chief executive of Halliburton, another Houston-based energy company – and Kenneth Lay, Enron chief executive.

The vice-president disclosed that meeting last summer and the two discussed energy policy, including the California crisis, but Mr Addington said they did not discuss Enron's finances.

Similarly, Mr Addington said the October 10 meeting between "Enron representatives" and a member of the vice-president's staff did not cover any internal Enron financial problems. The aide, who had been a senior staff member on the disbanded energy taskforce, only discussed "energy policy matters" with Enron, the letter said.

Mr Cheney's interaction with Enron has been the subject of much scrutiny, including two civil lawsuits, because he has previously refused to disclose who met the taskforce he chaired when it formulated the Bush administration's energy legislation – currently before Congress. Environmental groups have said they were not allowed to meet Mr Cheney.

"Access provided to Enron far exceeded the access provided by the White House to other parties interested in energy policy," Mr Waxman wrote yesterday in response to the vice-president. Enron and its employees donated $113,800 to the Bush campaign during the 2000 election, according to the Centre for Responsive Politics, a watchdog group.

The General Accounting Office, Congress's influential auditing agency, is also contemplating a lawsuit against the vice-president to compel him to reveal the taskforce's inner workings. A GAO spokesman would not comment on Mr Addington's letter to Mr Waxman, a senior member of the House energy and commerce committee, which is investigating the company's collapse.

Mr Addington said that other than the Cheney-Lay meeting, three of the contacts occurred during the taskforce's routine duties, and one of those came during a meeting of several utility officials that included an Enron representative. The other two meetings occurred after the president issued his energy policy report last summer.

He said the Enron sessions with taskforce staff were part of a series of meetings with "a broad representation of people potentially affected by the group's work".

(end)

01300000000413

NYT 01/09/02

Enron and Cheney Aides Met 4 Times

By JEFF GERTH

WASHINGTON, Jan. 8 — Officials of the Enron Corporation met four times last year with the staff of Vice President Dick Cheney's energy task force to discuss energy policy matters, but they never talked about the company's finances, according to David S. Addington, Mr. Cheney's counsel.

Mr. Addington disclosed the private contacts with Enron, the Houston-based energy services company, in a letter last week. He was responding to a request by Representative Henry A. Waxman, Democrat of California, who is seeking to find out more about the workings of the energy group.

Mr. Waxman has said that Enron and other energy companies had too much access to the task force. Today, in a letter to Mr. Cheney, he applauded "your decision to release for the first time some details" about the Enron contacts. But he urged the vice president to go further and "provide a full accounting of the contacts between Enron and the White House energy task force and other White House officials."

Two of the four meetings occurred early last year, before the task force issued its report in May and well before Enron began to disclose its accounting problems. The last meeting, on Oct. 10, came a week before Enron made the first in a series of disclosures about accounting errors, representing a $1.2 billion reduction in shareholder value. Last month, Enron sought protection under federal bankruptcy law.

In addition to the four staff meetings, Mr. Addington said that Mr. Cheney met for 30 minutes on April 17 to discuss energy policy with Enron executives, including Kenneth L. Lay, the company's chairman and chief executive. The meeting with the vice president had previously been disclosed by Enron officials and Mr. Cheney.

In an interview last year, Mr. Cheney said his task force would "make decisions based on what we think makes sound public policy," not what "Enron thinks."

Enron's collapse has prompted both President Bush, a friend of Mr. Lay, and many Democrats to call for a thorough investigation. It has also given Mr. Waxman an opportunity to rekindle his effort to find out more about the operations of the energy task force.

The attacks of Sept. 11 put in abeyance a possible lawsuit by the General Accounting Office, the Congressional auditing arm, which has been seeking access to energy task force records at the request of Mr. Waxman and Representative John D. Dingell, the Michigan Democrat.

The task force's final recommendations on electricity deregulation resembled much of what Enron officials had advocated in their meeting with Mr. Cheney. They were also in accord with policies advocated by Mr. Bush during the 2000 campaign.

As president, Mr. Bush has sometimes taken positions contrary to those of Enron. For example, he backed away from curbs on carbon dioxide emissions, an idea supported by Enron, which was looking to trade emission credits as part of its energy business.

Early in the administration, Mr. Lay played an unusual role in advising the White House on candidates for seats on the Federal Energy Regulatory Commission, the agency that oversees many of the markets Enron once dominated. But last spring the energy commission limited prices in California's chaotic wholesale electricity market, a move Enron and other merchant energy companies opposed.

(end)

01300000000414

The Hill January 9, 2002 Wednesday

Copyright 2002 Capitol Hill Publishing Corp.
The Hill

January 9, 2002 Wednesday

SECTION: EDITORIAL; Pg. 14

HEADLINE: Following Enron's trail

BODY:
We're quite aware of how much national politics has changed in the wake of last September's terrorist attacks on America's financial and military nerve centers. Yet, judging by the keen interest shown by some Democratic senators in probing the sudden collapse of Enron Corp., with its close ties to the Bush administration, we could be on our way back to a semblance of normality.

The forthcoming congressional investigation, announced last week by Sens. Joseph Lieberman, (D-Conn.), chairman of the Governmental Affairs Committee, and Carl Levin (D-Mich.), head of the panel's Investigations Subcommittee, produced few front-page headlines. But press interest is likely to soar if the committee subpoenas several key Bush administration officials with long-standing ties to the failed Texas-based energy giant - as is likely - and if the White House subsequently refuses to cooperate by invoking the shopworn excuse of "executive privilege."

The links, if any, between these officials and the loosely regulated Houston-based company need to be thoroughly vetted. Any effort by the administration to stonewall the committee's inquiry is likely to backfire.

Veteran observers of the Washington scene will recall the Nixon administration's 1971 decision to drop an antitrust action aimed at blocking International Telephone and Telegraph Corp. from acquiring three companies. Around the time, ITT made a $400,000 donation to help bring the Republican National Convention to San Diego, where then-President Richard Nixon wanted it held, because it was conveniently just down the road from the Western White House in San Clemente. ITT and the Republican White House insisted that there were no links between the two events.

uuu

But then an ITT lobbyist named Dita Beard wrote a memo that was leaked to the press seemingly acknowledging a quid pro quo. An embarrassed GOP was forced to move the convention to Miami. Subsequently, the infamous White House tapes confirmed Nixon's advance knowledge of and involvement in the ITT matter.

In due course we shall see whether the tawdry Enron affair will mushroom into a full-blown government scandal. But it's already evident that the Enron saga will rank in corporate annals as a scandal of the first magnitude, which has also raised serious questions about the

MORE →

01300000000415

integrity of the accounting profession.

In launching the probe, Levin blasted what he said "appears to be a massive shell game with multiple layers of conflict of interest." The irregularities seemingly include massive insider trading of Enron stock, which has fallen in value from $90 a share last January to less than $1 today. Among the losers are thousands of rank-and-file Enron employees from whom the warning bells never sounded. As a result, they saw their retirement nest eggs plummet in value. Many of them are now out of work.

Given Levin's preliminary charges, a key witness at the hearings could be Army Secretary Thomas White. As a former top Enron executive, White fortuitously sold millions of dollars in the company's stock before assuming his current post.

Top White House political adviser Karl Rove also held about $250,000 in Enron stock, which he disposed of when conflict-of-interest allegations arose early in the Bush presidency. Bush

"Knowing that Mr. Lay, at least, and others [close to President Bush] played an active role in the formulation of energy policy by the Bush administration, we've got to ask whether the advice rendered was at all self-serving," Lieberman noted.

Whatever our other pressing concerns at home and abroad, these are vital questions that the Congress and the nation need to have answered.

LOAD-DATE: January 8, 2002

WP 01/09/02

Cheney, Aides Met With Enron 6 Times in 2001

Counsel: Energy Policy Was Topic

By Mike Allen
Washington Post Staff Writer

The White House told Congress in a letter released yesterday that Vice President Cheney or his aides met six times with Enron Corp. representatives last year, including a session two months before the energy trading company made the largest corporate bankruptcy filing in American history.

The meetings continued after President Bush released the energy policy that Cheney's staff had developed, according to the letter. Five of the meetings were with Cheney aides, and one was with the vice president. One of the staff meetings occurred six days before Enron announced actions that reduced its shareholder equity by $1.2 billion.

Cheney met for half an hour on April 17 with Kenneth L. Lay, Enron's chairman, according to a Jan. 3 letter by David S. Addington, the vice president's counsel. The letter was written in response to a Dec. 4 request by Rep. Henry A. Waxman (D-Calif.), ranking minority member of the House Committee on Government Reform, who released the correspondence.

Addington wrote that Cheney and Lay "discussed energy policy matters, including the energy crisis in California, and did not discuss information concerning the financial position of the Enron Corporation."

Cheney's office has resisted inquiries into the operations of his energy policy task force by the General Accounting Office, the investigative arm of Congress, and by Senate Democrats who are hoping to measure Enron's influence on policy.

The Houston-based company has longtime personal and financial ties to Bush. Waxman said the letter "shows that the access provided to Enron far exceeded the access provided by the White House to other parties interested in energy policy."

Bush released his energy plan on May 17, and Enron filed for bankruptcy protection on Dec. 2. Addington's letter said Cheney's National Energy Policy Development Group existed from Jan. 29 through Sept. 30, 2001.

Addington said the group's staff met with Enron representatives on Feb. 22 and March 7. On April 9, the staff met with about two-dozen representatives of various utilities, including one from Enron. Cheney aides met with officials of a German subsidiary of Enron on Aug. 7 and with Enron representatives on Oct. 10. Enron announced huge losses on Oct. 16.

"Enron did not communicate information about its financial position in any of the meetings with the Vice President or with the National Energy Policy Development Group's support staff," Addington wrote.

He noted that Cheney and Lay served on a panel at the American Enterprise Institute World Forum on June 24. "The panel was widely attended and addressed energy matters," the counsel wrote. "There was no discussion of information concerning the financial position of Enron Corporation."

A White House official said the meetings reflected the "open and inclusive" approach of Cheney's energy task force.

Bush told reporters on Dec. 28 that he is "deeply concerned about the citizens of Houston who worked for Enron who lost life savings" when its stock value collapsed. He said he supports moves by Congress and the Securities and Exchange Commission to look into that issue. "I have had no contact with Enron officials in the last six weeks," Bush said.

Cont'd

01300000000417

Greenwire January 8, 2002

Copyright 2002 E & E Publishing, LLC
Greenwire

January 8, 2002

SECTION: ENERGY POLICY & MARKETS; Vol. 10, No. 9

HEADLINE: ENERGY MARKETS: LIEBERMAN HOPES TO CHANNEL ENRON INQUIRY INTO; ELECTRICITY POLICY HEARINGS

BODY:
Colin Sullivan, Greenwire staff writer

A building Senate inquiry into fallen energy trader Enron Corp. will likely culminate in directed electricity restructuring policy hearings this winter or spring to assess the implications of the company's collapse, an aide to Senate Governmental Affairs Committee Chairman Joe Lieberman (D-Conn.) said Monday.

"It's our plan to hold hearings on the policy side of this issue," the aide said. "But not before we complete an extensive document investigation" led by Sen. Carl Levin (D-Mich.), chairman of a Governmental Affairs subcommittee on investigations. Such policy proceedings could hinder the progress of energy legislation drafted by Senate Majority Leader Tom Daschle (D-S.D.) [illegible] Hill sources said. Daschle

(Continue..)

"Top Enron executives and directors apparently reaped almost $1 billion in stock sales in 2000 and 2001, [and] 500 high-level executives walked out with over $55 million days before Enron declared bankruptcy," Levin said last week. "Investors, employees and creditors are left holding the bag."

The announcement came amid press reports linking Lay and former President Jeffrey Skilling to partnerships that may have disguised the company's fuzzy accounting methods. A Jan. 2 Wall Street Journal article reported that Lay and Skilling, despite earlier denials, may have been well aware of false partnerships leading up to Enron's collapse and unprecedented bankruptcy court filing on Dec. 2 (see the 1/3 Greenwire.

Levin cited the article indirectly, describing the partnerships as "a massive shell game with multiple layers of conflict of interest." Debt may have been transferred to "paper partnerships" in which Enron officials had personal financial interests, he said.

As for political connections, Lieberman told reporters his committee would look into the close ties between Lay and the Bush administration, but cautioned against characterizing hearings to come as partisan.

"This is a search for the truth, not a witch hunt," he said.

Also under the microscope is whether the Federal Energy Regulatory Commission, Securities and Exchange Commission, **Commodity Futures Trading Commission** and Labor Department lived up to their oversight duties in the months prior to Enron's swoon.

Beyond this, the policy implications of the Enron freefall have been fuzzy, at best. On the House side, Democrats raised red flags during December hearings and successfully forced Republican leaders to punt consideration of electricity legislation to early in the second session -- but Energy and Commerce Committee Chairman Billy Tauzin (R-La.) has nevertheless pledged to proceed with Rep. Joe Barton's (R-Texas) electricity bill when Congress resumes (see the 12/17 Environment and Energy Daily).

Tauzin may hold investigative hearings of his own, bringing the Hill committee count with an eye on Enron to five. In addition to Tauzin and Lieberman's committees, House Financial Services, House Education and Workforce and Senate Commerce have held or plan to hold oversight hearings on Enron.

LOAD-DATE: January 8, 2002

2002 WL 8338016
Insight on the News
Copyright (c) 2002 ProQuest Information and Learning; All Rights Reserved.
Copyright Washington Times Corporation Jan 7, 2002

Monday, January 7, 2002

Volume 18, Issue 1; ISSN: 1051-4880

Requiem for Enron

Jamie Dettmer; John Berlau

There's enough blame to go around for the collapse of the energy giant: from executives to auditors to financial analysts to Congress.

Lawsuits, class actions and congressional and federal probes now are under way to try to ascertain how much of Enron Corps collapse was due to corruption and how much was the result of bad investment

decisions and the recession. As far as those who lost on the energy trader are concerned, the main question is: Who knew what and when about the financial shenanigans used to obscure Enron's $40 billion-plus debt.

There were few naysayers around when Enron Chief Executive Officer (CEO) Jeffrey Skilling bragged last summer that the Houston-based energy trader would "become the biggest corporation in the world." Everyone loved Enron back then: Business analysts, banks and economists were lauding the company for its radical new ways of doing business; politicians, too, Republicans and Democrats alike. President George W. Bush was lent a corporate jet for the election campaign by Enron's founder, Kenneth Lay.

Bush enjoyed being associated with a Texas company that epitomized the soaring, risk-taking New Economy of the 1990s. Other politicians looked at Enron and salivated about all that money. At a time when it was praised by management gurus as a hotbed of entrepreneurial innovation and a model for companies in the 21 st century, what politician wouldn't want to be mentioned in the same breath as Enron?

Only a few months later, however, the boast of Skilling - Lay's handpicked successor as CEO - is being recalled with embarrassment by Washington politicians and with great bitterness by aggrieved Enron employees, many of whom likely will suffer the Christmas double whammy of losing both their jobs and 401(k) balances, while their bosses took care of themselves.

Along with investors and an army of creditors desperate to claw back billions of dollars in losses, they are asking why the alarm wasn't raised earlier on a company whose share price plunged from a summer high of $90 to a December penny stock. Fair-weather politicians also are eager to identify the reasons for Enron's crash, although doubts remain that Congress will admit to its own indirect contribution - namely, the weakening of securities-fraud legislation in the 1990s that some lawyers say has encouraged auditors and investment banks to be negligent.

"We have been warning for years about weaknesses in the watchdog system," says New York attorney Mel Weiss, who helped investors recover $680 million in the investigation of junk-bond king Michael

Milken. "We have warned about conflicts of interest with the big auditing firms who use auditing as a loss-leader to attract more-lucrative consulting contracts, and we have warned that the Securities and Exchange Commission [SEC] is not able to keep pace with the explosion in capital formation. Congress removed a useful deterrent when it made it harder for plaintiffs to sue for fraud" (See sidebar below.)

Enron, which reported almost $65 billion in assets, has gone from ruling the world to being the world's biggest corporate bankruptcy,

01300000000420

(continue..)

dwarfing the previous record, Texaco's $35.9 billion bankruptcy case filed in 1987. The unraveling came quickly amid disclosures of inflated Enron earnings - to the tune of $600 million over five years - and massive hidden debt. Was Skilling inviting nemesis when he boasted in the summer of Enron's golden future or advancing cynically the effort to disguise what Gary Hindes of Deltec Asset Management has dubbed a "corporate black hole"? "Until the forensic accountants can get in there and sort things out you just don't know what Enron's worth," said Hindes. Even if the company is auctioned off following its Dec. 2 filing for Chapter 11 bankruptcy, the ramifications - economic, political and legal- will be long--

lasting. About the only silver lining from Enron's crash is the timing. Analysts say that if it had come earlier or later, when the economy was not flooded with liquidity by the Federal Reserve, the firm's collapse could have posed a serious threat to the financial markets.

Enron insiders believe the firm's thunderous fall was due both to corruption and commercial stupidity A senior Enron executive tells INSIGHT: "Skilling was out of control: we didn't know half that was going on. My impression is that his cover-up was an effort to buy time. He was the Micawber of the New Economy," certain that something would turn up.

But, as Enron employees point out, he was not a poor Micawber. During the year Skilling, a former McKinsey & Co. consultant who was recruited by Lay to become the nuts-and-bolts man at Enron, quietly was unloading stock, making 37 trades to sell $62 million worth of Enron shares.

While Skilling was waiting for something to turn up for Enron, where was Arthur Andersen LLP, Enron's auditor? It failed to ask

probing questions about the byzantine off-the-balance-sheet partnerships with innocuous-sounding names such as Osprey, Marlin and Whitewing that Skilling and his sidekick, former chief financial officer Andrew Fastow, used to disguise the parlous state of the company. Fastow personally made $30 million on the partnership - a conflict of interest, say Enron employees.

And where, too, was the company's independent auditing committee that appears to have been asleep at the switch? Nervous federal regulators say there is plenty of blame to be spread. They concede that the US. financial and political establishments have much to answer for, either as direct players or negligent observers.

Skeptical voices were few and far between. A Fortune magazine article in 1996 that was loudly positive about the company did note some doubts about Enron's methods of 'managing' its earnings and cast doubt on Enron's use of 'marking-to-market' accounting, which counted proceeds from longterm gas contracts as present income. The magazine said: "according to several former employees, this practice simultaneously inflates current earnings and creates a 'feeding frenzy' as executives scramble to make new deals to prop up future

profits."

With so many culprits available for criticism in Enron's crash, the focus is becoming blurred. But at the center of America's largest ever corporate bankruptcy stand Lay and Skilling. Together they had guided the company into becoming a natural-gas and electricity--trading powerhouse boasting a market capitalization of one time of $80 billion. Not bad for a business started in 1985 from the merger of two pipeline companies. Enron became the dominant trader in the newly deregulated market for energy, buying and selling contracts on gas and electricity among other things, and establishing markets in financial derivatives related to energy. Increasingly, though, it traded purely financial products, including credit derivatives, and under the direction of Skilling moved further away from its core energy business, buying a water plant in Britain and a power distributor in Brazil.

Awful investment decisions followed in quick succession, say Enron insiders, as the company branched out and acted as a hedge trader in multiple commodities, services and products, including broadband capacity.

MORE ->

All looked rosy as Enron's revenue soared from $14 billion in 1991 to $100 billion in 2001, and its average annual profit growth for the decade was a startling 29 percent. That attracted an "A" from Wall Street rating agencies such as Standard & Poor's and Moody's Investor Service. But behind the scenes the books were being cooked and the earnings figures inflated as competitors started to bite into Enron's profit margins and international investments failed to perform well.

The first public signs to break through Enron's secretive corporate culture came in August when Lay nonchalantly dismissed questions about a $1.2 billion reduction in shareholder equity related, he said, to accounting errors involving an Enron partnership run by Fastow. Furthermore, he denied all knowledge of the Enron partnerships involving Fastow and Skilling. Belatedly that has earned Lay condemnation - if he didn't know, he, too, was failing in responsibility, and for many his claim is unbelievable.

"First, founders of companies don't tend to ignore what's going on with their babies and, second, he knows all about accounting practices," says a Wall Street banker who spoke on condition of anonymity. In fact, the 59-year-old Enron chairman studied economics at the University of Missouri, earned a doctorate in the subject and, as a naval officer serving in the Pentagon worked to develop more efficient accounting systems. Lay also served as an aide to a federal-government regulator for the natural-gas industry.

SEC sources tell INSIGHT that they also find it unlikely that Lay didn't know Enron was slipping rapidly into trouble; along with Skilling, Lay steadily dumped personal Enron stock throughout the year, selling in 457 trades $74 million worth of shares.

Lay and Skilling were not alone in dumping shares. Other senior executives also bailed out, including Lou Pai, director of Enron's energy-services operation, who sold shares totaling $353.7 million; Rebecca Mark-Jusbasche, head of Enron's Indian power plant and its water company, who walked away with $79.5 million; Ken Harrison, head of Enron's Portland General Electric subsidiary, who took home $75 million; and Kenneth Rice, head of Enron Broadband Services, who sold shares worth $72.8 million. Speaking on the Don Imus Show, Sen. John McCain (R-Ariz.) said it's going to be difficult to "explain how executives of the company were unloading stock right and left while the employees were not able to do so."

The dumping of stock by Lay - and Skilling for that matter - sticks in the craw of Enron employees. They were blocked by the company from selling their stock options as the crunch loomed following the formal disclosures by Enron that it had shifted billions of dollars in debt off its balance sheet and into an array of complex partnerships.

Those disclosures sank desperate buyout negotiations Enron was having with its smaller rival, Dynegy Inc., which pulled out from purchasing Enron on Nov. 8, precipitating the final collapse of the company.

Questions remain, though, not only about the mishandling of Enron by its corporate officials and their cooking of the books but the laggardly reaction of the rating agencies and the auditors.

In June, Standard & Poor's warned Enron that it was concerned about the firm's underperforming international assets. But the agency didn't alter its credit rating of the company, being satisfied apparently with the assurances Enron executives gave about the future. Skilling's abrupt departure as CEO in August didn't trigger alarms on Wall Street or among the business press. As summer came and went there was no way for ordinary investors to know a hurricane was brewing.

The rating agencies now say they were worried about Enron, but felt that downgrading the company's investment rating sooner would only have brought on bankruptcy quicker. According to Standard & Poor Director Todd Shipman, the core energy business still looked good and no one at the agency knew the scale of the off-the-books debt.

MORE →

01300000000422

(continue..)

The agencies were aware that a downgrading of Enron would result in a credit squeeze for the company and, along with a plunge in shares, would lead to trading partners losing confidence that the company would have the cash to pay bills.

Mutual-fund analysts and investment banks, including Citibank and J.P. Morgan Stanley, continued to talk up the company and to give it a "buy" rating, all in a bid, say Wall Street analysts, to shore up the energy trader and their large investment in and loans to Enron.

Enron's woes are sure to shake up the accounting and auditing industries. Arthur Andersen has egg on its face for not catching Enron's overstated earnings and for failing to scrutinize the company's off-the-books partnerships, which showed the company to be much more in debt than was stated on its balance sheets.

"I think it's obviously time for a very thorough review of the state of auditing in not only the Enron case but generally speaking" House Energy and Commerce Committee Chairman Billy Tauzin (R-La.) told the Washington Post.

Concerns have been voiced for years about possible conflicts of interest arising from accounting firms performing consulting services for the companies they audit. Critics charge that this leads them to go easy on the companies they work for and to turn a blind eye to problems. Others say that technology has overtaken accounting standards, making it hard to scrutinize 21st-century financial deals.

Whatever the case, the industries are going to have to do a lot to

win back public confidence, experts say. "Arthur Andersen was paid $25 million to do audits for Enron," Dale Oesterle, a professor at the University of Colorado School of Law who specializes in securities law, tells INSIGHT. "It's hard for Arthur Andersen to be an independent certifier of Enron when such a huge percentage of Arthur Andersen's revenues are coming from Enron. And it was not only getting money for auditing. It was also doing other work for Enron -- very lucrative consulting services worth $27 million."

Lynne Kiesling, director of economic policy for the Reason Public Policy Institute and a senior lecturer in economics at Northwestern University, thinks the issue is more about outdated practices than conflicts of interest. A former international-taxation consultant at the Chicago office of the accounting firm PricewaterhouseCoopers, she says firms usually have good firewalls between their accounting and consulting services. Nevertheless, Kiesling says, there is going to be greater scrutiny of business practices that were overlooked, such as "off the balance-sheet partnerships" that allowed Enron to be much more leveraged than investors realized. "Enron executives structured their debt in a way that didn't show how leveraged they were," Kiesling tells INSIGHT.

Fred Smith, president of the free-market Competitive Enterprise Institute, says the accounting practice hasn't caught up with complex financial transactions such as derivatives that Enron used. "New technologies and new economic instruments often aren't accounted for very well, and derivatives are one of those areas," Smith says. "The accounting profession does have to get better at understanding how to put those kinds of thing into a record."

Lawmakers have put on their best we're-gonna-get-to-the-bottom-of-this -- financial-fiasco face, promising to expose the culprits. But Washington insiders remain doubtful about how fierce congressional inquiry will be in the coming weeks as many on Capitol Hill and in the White House have been recipients of Enron's financial benevolence. Both the right and left pushed away from the Enron table fat and happy.

MORE ->

01300000000423

(continue..!

According to the Center for Public Integrity, a Washington based nonprofit government watchdog organization, the Democrats in 1996 received a little more than $100,000 from Enron, while the Republicans tucked away nearly $1 million from the company's

political action committee and individual employees. In the 2000

named Pentagon ... to the ...
was vice chairman of Enron Energy Services in charge of commodity
and capital management, among other things, and a member of Enron's
executive committee and CEO for Enron Operations Corp. Sen. Phil
Gramm (R-Texas), former chairman of the Senate Banking Committee,
can claim Enron as his 14th-largest contributor during the same time
that his wife, Wendy, who has been nicknamed "the Margaret Thatcher

of financial deregulation," sat on Enron's board. She also was on
Enron's independent audit committee.

Although Enron politics leaned to the right, it was during the
Clinton administration that the Export Import Bank (which is
supported by taxpayer funds) subsidized Enron to the tune of nearly

$639 million. To date, just $5 million has been returned to the
taxpayers and, given the company's Chapter 11 filing, it remains
doubtful if additional payments will be made on the loans. And the
company had plenty of Democrat friends, including former Treasury
secretary Robert Rubin, a fellow Harvard Endowment board member with
Herbert "Pug" Winokur, the chairman of Enron's finance committee as
well as a member of the company's executive committee, and former
Texas governor Ann Richards.

In some ways those political friendships and connections may have
deterred pertinent questions from being raised sooner about the
health and management of a company that has become America's biggest
corporate bankruptcy. Worse, in the minds of some, they constituted
seals of approval.

JAMIE DETTMER IS A SENIOR EDITOR AND JOHN BERLAU IS A WRITER FOR
Insight.

Nobody Is Watching Financial Watchdogs

"All the safeguards failed," says New York attorney Mel Weiss. The
doyen of class-action lawsuits, he sees auditor Arthur Andersen LLP as
having more than egg on its face with the Enron Corp. collapse,
maintaining there was negligence involved.

"The auditing profession is a grotesque failure," Weiss says. "There
are only five major auditing firms now, and do you imagine you can
audit any big company without having a conflict of interest?" he asks.

Already a half dozen lawsuits have been filed against what was until
recently the seventh-largest corporation in the United States. Nearly
as many federal agencies and congressional committees have announced
investigations of the company that was the dominant dealmaker in the
gas and oil industries. Weiss already is preparing a class action

lawsuit against Enron.

MORE →

01300000000424

(continue..)

Weiss sees the fall of Enron as yet another example of a financial watchdog system that is not working. He blames Congress for the problem, arguing that it undermined a legal deterrent in the 1990s by making it harder for plaintiffs to sue those who "aid and abet" financial fraud. His bugbear is the Private Securi

ties Litigation Reform Act, passed by Congress in 1995 after strenuous lobbying by the Big-Five auditing firms.

"They teamed up with the high-tech industries. That was a powerful alliance and well-funded with booming stocks in a booming economy. They were able to pull off one of the most scandalous frauds on Congress by selling the argument there was a litigation explosion," says Weiss.

He adds: "We came in with charts showing that the numbers of cases hadn't risen that much at a time that capital formation had increased by a multiple of thousands. The number of public companies was hugely greater. The opportunities to commit fraud had increased and, if

anything, it was surprising that so few cases were brought," he argues.

The changes in the law were detrimental, Weiss contends, by making it harder for plaintiffs to sue and by neglecting a provision enabling auditors and investment banks to be sued for aiding and abetting fraud. "Two years later they added fuel to the fire by passing a law that took away the ability to file such securities-fraud cases in state courts."

Weiss argues that the Securities and Exchange Commission [SEC] never will be in a position to know exactly what is

going on inside large companies and that the threat of massive lawsuits would assist in keeping auditors and securities firms on the straight and narrow.

Critics of Weiss maintain that class-- action lawsuits can have a disastrous effect on the financial markets, paralyzing companies and deterring risk. They also fear vexatious lawsuits that companies in the end decide to settle because it is much cheaper to give in than to

fight.

Dale Oesterle, who has written papers for the free-market Cato Institute, argues against a post-Enron increase in regulation and litigation, saying the SEC has contributed to the problem with audits by insisting on a one-size-fits-all rule for auditing. "What I find problematic is that it's an all-or-nothing audit," he says. "You either get a clean bill of health or you get an audit with reservations. It seems to me that if you had the market controlling this rather than the [SEC] rules, you'd have a lot of different kinds of audits that people could choose from."

Oesterle explains: "You could envision where you get an 'A' or a 'B' or a 'C' audit, and you tell everybody which one you paid for. A 'C' audit is a lighter audit, and an 'A' audit is a real strict audit. You could choose which one you wanted, and it would be priced in the markets accordingly. The SEC doesn't allow that."

— [illegible] and [illegible]

Who Is Kenneth Lay?

Recipient of the Horatio Alger Award in 1998, Ken Lay's story is a classic rags-to-riches tale. Raised in a farm family in Tyrone, Mo., a small town in the Ozarks, Lay worked as a field hand when he was 12 and put himself through the University of Missouri by working at construction jobs, according to Mosaic, a magazine for alumni of the university's College of Arts and Sciences. After earning a master's in economics, Lay followed his mentor, Professor Pinkney Walker, to the Federal Energy Regulatory Commission in Washington. There, Lay learned about the energy industry and political lobbying, knowledge he adroitly put to use while chief executive officer of Enron Corp. Later he would earn a doctorate at the University of Houston.

more ->

01300000000425

"Lay plays the role of the classic 'Mr. Outside,' jetting around the world opening doors for the company and schmoozing his mostly Republican contacts in Washington," said Fortune magazine in 1996. But Lay courted Democrats, too. He served on an advisory commission for Ann Richards, George W. Bush's predecessor as governor of Texas. A place was found on the Enron board for former Commodity Futures Trading Commission chairman Wendy Gramm, wife of Sen. Phil Gramm (R-Texas).

Lay owned one of the first beach houses in the fancy Galveston, Texas, resort community of Kahala Beach Estates, called the "Hamptons of the Gulf Coast." At a typical party in the neighborhood, "the brunch menu includ

ed Bloody Marys garnished with grilled jumbo shrimp, mushroom frittatas with peppered bacon, mesquite grilled salmon on a bed of black beans, and, for dessert, iced cappuccino and chocolate-covered frozen bananas," according to the populist Texas Monthly.

Lay gave generously to his alma mater, in 2000 bestowing on Mizzou a $1.1 million chair in economics. "Endowing a chair in economics is at least one way I can partially repay the school for all it has given me," Lay told Mizzou last year. "Business is primarily a matter of knowing how to think logically, solve problems and be creative, all of which we learn, at least in part, in the pursuit of a liberal arts and science education."

JB

Enron's Collapse Takes Employees With It

LINDA ROBERTS

Linda Roberts has been in the oil and gas business for 30 years. She has just walked away from a 23-year career with Enron with nothing to show for her two decades of work for the energy trader. "I started with Northern Natural Gas Company and was there when it was merged with Houston Natural Gas and then again when it became Enron. The demise of Enron is the most incredible thing I've ever witnessed."

Roberts tells INSIGHT, "The company gave 4,000 people about an hour-and-a-- half to pack their personal belongings and get out of the building. There was no dignity afforded to these people who have given so much of themselves to this company. I lost 23 years of stock and all of my retirement. Just in my 401(k) this year, alone, I invested $50,000 and I've lost 97 percent of that. The difference between us and the Jim Jones cult is that they walked down the path, drank the poison and died. We walked down the path, drank the poison and lived."

GEORGI LANDAU

Like Roberts, Georgi Landau also was with Enron from the company's founding. She was a "specialist senior global manager." Although the title is flowery, Landau says, she "processed legal contracts - financial agreements worth millions of dollars."

After 23 years with Enron and its predecessors, once given her walking papers Landau says with deep sadness that she wasn't even allowed to wait inside the building to wait for a ride home.

Landau tells INSIGHT, "I went to lunch and came back to find people leaving the building in droves carrying boxes. I was told I was being laid off, but they haven't given us any information about severance benefits, pay or pension benefits. Everything I've learned about the bankruptcy I've learned from the media. Everything I had in retirement is gone. I'm not old enough to retire so, like so many others, I have to try to find another job and start over. I'm in shock. I can't believe this has happened."

01300000000426

FT 01/09/02

AEP takes over Enron offices in Scandinavia

By Matthew Jones

American Electric Power, the US utility group, yesterday extended its European energy trading operations into the Nordic region by assuming control of Enron's offices in Oslo and Stockholm.

AEP, which last month bought Enron's international coal trading operations in a deal worth up to $85m, said it had hired 36 of Enron's former traders as well as middle and back-office equipment. The deal does not include Enron's Nordic trading book, but the company said it might consider buying this in the future.

The Nordic power market is one of the most mature deregulated markets in Europe but is one from which AEP has been absent to date. The group has instead focused on Germany and the UK market where last year it bought two of the country's largest power stations for £640m ($935m) from Edison Mission Energy of the US.

As well as trading energy in Norway, Sweden, Denmark, Finland and Germany, the Nordic operations will continue to trade weather derivatives, as they did under Enron's ownership.

The value of the deal was not disclosed but is thought to be structured in a similar way to the acquisition of Enron's coal activities, which included a lucrative "golden handcuffs" deal offered to 22 former Enron traders in addition to the $10m purchase price for the international coal trading book.

In a separate development, it emerged that Sempra Energy of the US was set to buy Enron's London-based metals trading business.

Sempra emerged as the favourite bidder last week but last-minute complications in unravelling the group's structure mean it is now likely to take a few more days.

Enron bought the metals trading business 18 months ago from MG, the trader, for £300m. The deal with Sempra is expected to fetch less than this because it will not include the international metals warehousing business.

(end)

FT 01/09/02

Group says 'multiple bids received' for trading arm

By Andrew Hill and Julie Earle in New York

Enron, the bankrupt energy trader, said yesterday it had received "multiple bids" for its trading operations.

Two banks – Citigroup and UBS – have mounted bids, according to people close the process. Neither company has commented, and Enron refused to name the bidders. The banks are understood, however, to have bid for a majority stake in New Energy Trading Company (Netco), the new joint venture for the trading business.

BP, the oil company, said yesterday it had offered $25m for a small part of Enron's trading business, but the London-based group has not bid for a majority in the core operations.

The main bidders are unlikely to have offered large upfront cash payments. Instead, Enron's aim is to find a creditworthy backer that will allow it to revive the trading business. Until Enron collapsed into bankruptcy last month, the trading operations were the largest contributor to the group's revenues.

Either UBS or Citigroup, which have strong balance sheets, would fit the bill as creditworthy partners, which could help to restore confidence in Enron's trading counterparties.

BP said its $25m bid was mainly for information technology systems, including software and licence rights for middle and back-office systems. Enron would be able to continue using those systems itself, but BP, if its bid was successful, could adopt the same technology for its own trading operations. BP said it might negotiate for other parts of the business if its bid was unsuccessful.

The auction of the assets is due to take place tomorrow in the New York bankruptcy court. The court has scheduled a hearing on Friday to approve a buyer.

A successful auction will be important in Enron's attempt to restructure and emerge from bankruptcy.

Additional reporting by Sheila McNulty in Houston and Matthew Jones in London

(end)

01300000000427

WSJ 01/09/02

BP Makes Bid for Part, Not All of Enron Unit

By a WALL STREET JOURNAL Staff Reporter

LONDON—BP PLC said it submitted a $25 million bid for the computer settlement support systems of Enron Corp.'s energy-trading subsidiary, but isn't currently bidding for control of the whole unit.

BP, a global petroleum concern based in London, was one of several companies that met a Monday deadline for bids in advance of tomorrow's scheduled bankruptcy court "auction" for Enron's trading division. Enron's advisers are currently sorting through the sealed bids, which also include offers from New York-based Citigroup Inc. and Switzerland's UBS AG, people familiar with the matter say. Enron hopes to play the bids off against one another tomorrow before making a final decision.

Enron has expressed interest in finding a joint-venture partner to take a majority stake in the entire trading arm, called Enron Online, so that it can resume trading with backing from a credit-worthy partner. BP's bid, it appears, wouldn't fulfill that objective.

The Wall Street Journal, citing people familiar with the matter, incorrectly reported yesterday that one of the offers that Enron had received for a majority interest in the energy-trading business was from BP.

The Enron computer support systems that BP has bid on are used for the settlement and administration of natural-gas and electricity contracts. BP is a major marketer of natural gas in the U.S. "We are interested in the technology," said BP spokesman Roddy Kennedy. "It would improve our marketing capacity."

Mr. Kennedy added that if the auction process scheduled for tomorrow didn't yield a deal, "we'd be happy to enter into discussions on other aspects of Enron's business." He declined to specify which ones.

(end)

01300000000428

THE NEW YORK TIMES, WEDNESDAY, JANUARY 9, 2002

Big Banks Seeking Enron's Energy-Trading Business

By JONATHAN D. GLATER

Several financial institutions and companies, including Citibank, UBS and BP, have indicated a serious interest in buying the energy-trading

Added value from employees who know how and when the

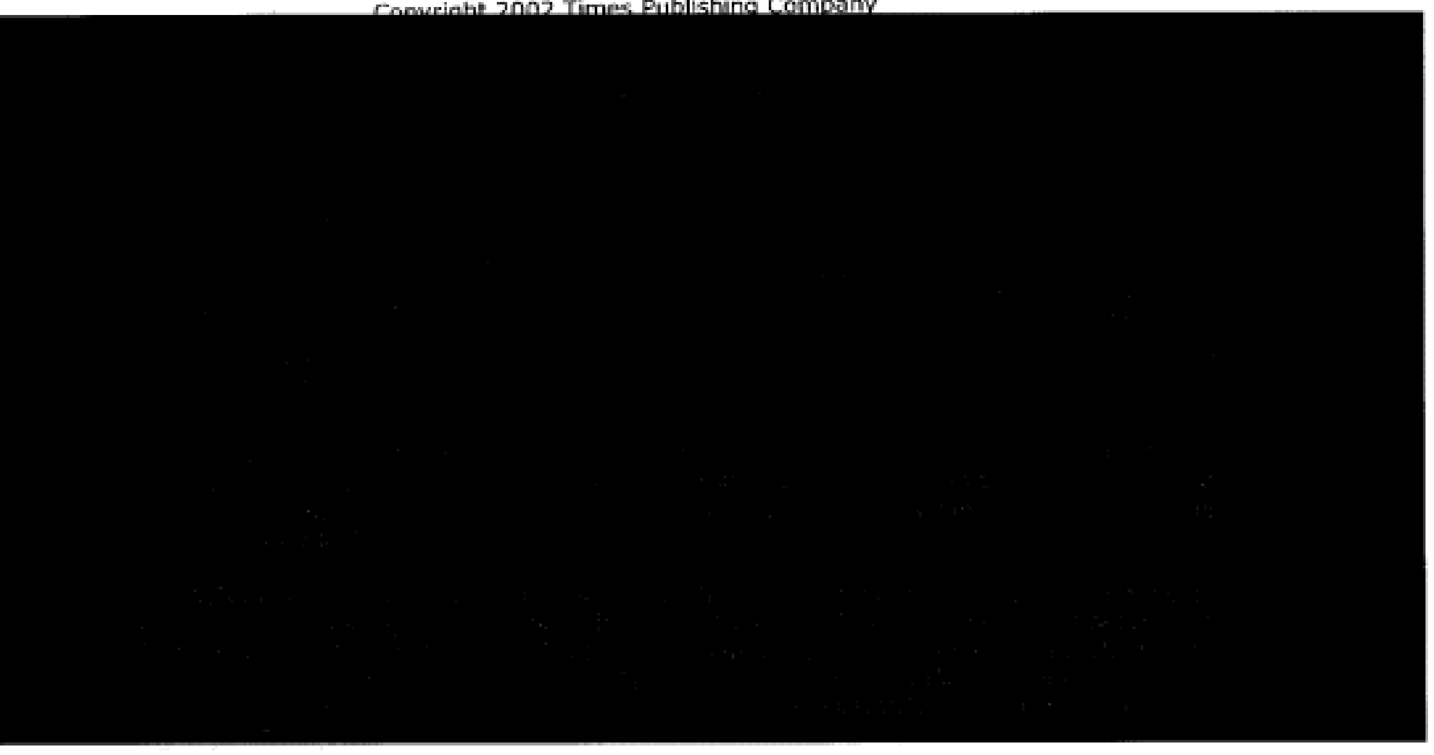
that allow companies, utilities or other entities to protect themselves from fluctuations in the prices of energy products. Some traders might watch the weather in different parts of the country to anticipate energy needs, for example.

Where the experience becomes

01300000000429

St. Petersburg Times, January 08, 2002

Copyright 2002 Times Publishing Company



Single-stock futures are hybrids of stocks and futures, and were subject to a long-term jurisdictional dispute between the Securities and Exchange Commission and the **Commodity Futures Trading Commission**. Sen. Gramm certainly did exercise his Banking Committee's jurisdiction on these matters, but he took no part in any portion of the bill outside of assuring participation by SEC in the regulation of **single-stock futures** and providing legal authority for over-the-counter "swaps," which are banking contracts.

The final agreement on these two Banking Committee issues was supported by all parties to the negotiations, specifically including Federal Reserve Board Chairman Alan Greenspan and three Clinton administration officials, SEC Commissioner Arthur Levitt, CFTC Chairman William Rainer and Treasury Secretary Larry Summers.

In sum, the Senate Banking Committee has no jurisdiction over energy futures, and Sen. Gramm did not "engineer" anything related to them. He took no role, had no say and did not vote on the energy futures provisions of the Commodity Futures Modernization Act, or even on the act itself.

Larry Neal, deputy chief of staff, office of Sen. Phil Gramm

U.S. Senate, Washington, D.C.

Tuesday, January 08, 2002 -- ODJ CBT Renews Contract With Dow Jones Indexes

Chicago, Jan. 8 (OsterDowJones) - The Chicago Board of Trade has renewed its contract with Dow Jones Indexes, allowing the CBT to continue trading its equity products until the end of 2007, the CBT said on Tuesday.

The CBT declined to detail terms of the licensing agreement, which it initially inked in June of 1997 and was set to expire on Sept. 30, 2002.

However, according to documents filed by the CBT with the U.S. Securities and Exchange Commission, the initial pact required the CBT to pay Dow Jones annual royalties based on trading volumes, with a minimum annual payment of $2 million.

Potentially offsetting the cost of the new agreement, which takes effect in October, is a new, $200 monthly fee that the exchange this month began accessing Index Debt Energy Market, or IDEM, members. The fee - which represents as much as $1.5 million in annual revenue - was touted as a means of helping fund its equity complex.

Nearly 650 IDEM seat holders are being billed the new monthly fee, which could be viewed as helping fund the licensing agreement with Dow Jones, given an IDEM membership only allows for the trading of index products, all of which are Dow.

Amid renegotiating its accord with Dow Jones and implementing its revenue-generating fee on IDEM members, the CBT in December also announced a plan to add a second Dow Jones futures mini-contract to trade exclusively on the all-electronic a/c/e platform.

While the CBT has enjoyed a significant boost in volume for its Dow contracts, they still represent a small piece of the exchange's overall business. From January through November 2001, total volume for Dow Jones products came to nearly 4.6 million, compared to overall exchange volume of 240.5 million for the same time slot.

Kate Gibson, OsterDowJones, (312) 977-1673
kgibson@osterdowjones.com

01300000000431

1/8/02 Reuters Eng. News Serv. 15:57:00
Reuters English News Service
C) Reuters Limited 2002.

Tuesday, January 8, 2002

USA: OneChicago taps CBOEdirect for its trading platform.

CHICAGO, Jan 8 (Reuters) - OneChicago LLC, a joint venture of Chicago's three derivatives exchanges to trade single-stock futures, **said on Tuesday it has** selected the screen-based system CBOEdirect as its single trading platform.

In May 2000, the Chicago Mercantile Exchange Inc., the Chicago Board Options Exchange and the Chicago Board of Trade banded together to develop electronic trading of single-stock futures, but no trading platform was named at that time.

OneChicago has said it expects to begin trading in the products this spring with some 50 to 75 issues.

OneChicago picked CBOEdirect, the electronic options trading system for the CBOE, because of its huge capacity to handle and execute orders, the CBOE said.

Orders can be entered through either the CBOEdirect electronic platform or via connections to CBOEdirect through access points to CME's Globex, the electronic trading platform for CME's futures products, according to the joint release by the three exchanges.

"CBOEdirect will provide our members with the most efficient arena for trading single-stock futures, because it was designed to work with a Lead Market Maker system and is scalable to accommodate our future needs," William Rainer, chairman and chief executive officer of OneChicago, said in the press release.

U.S. Congress two years ago lifted the 1982 prohibition on the trading of single-stock futures, to allow U.S. futures exchanges to compete on an even footing with foreign rivals.

CBOEdirect, built in-house by the CBOE and launched in October 2001, currently operates from 7 a.m. CST (1300 GMT) to 8:15 a.m. CST (1415 GMT), before regular trading begins at 8:30 a.m CST (1430 GMT) on the CBOE.

(end)

01300000000432

1/8/02 Reuters Eng. News Serv. 20:20:00
Reuters English News Service
C) Reuters Limited 2002.

Tuesday, January 8, 2002

USA: CORRECTED - KCBT vote amends No. 3 wheat for deliverable stocks.

In KANSAS CITY story headlined "KCBT votes to drop No. 3 wheat for deliverable stocks," please read in first paragraph ... "Kansas City Board of Trade members on Tuesday voted to make adjustments in the composition standards of lower-quality number three grade hard red winter wheat..." instead of ... "Kansas City Board of Trade members on Tuesday voted to remove lower-quality number three grade hard red winter wheat from approved standards...." ... correcting to make clear KCBT vote amended, rather than dropped, No. 3 wheat for deliveries.

A corrected version follows.

KANSAS CITY, Jan. 8 (Reuters) - Kansas City Board of Trade members on Tuesday voted to make adjustments in the composition standards of lower-quality number three grade hard red winter wheat for mixing to meet delivery requirements against KCBT wheat contracts.

The exchange said in a statement that, effective with the July 2003 wheat futures contract, any number three hard red winter wheat warehouse receipts delivered against KCBT futures will be limited to contain no more than 5 percent wheat of other classes, reduced from 10 percent.

Also, the discount for delivery of number three wheat will be increased to 5 cents per bushel, from 3 cents, the exchange said. But the discount for deliveries of number three wheat to the KCBT's Hutchinson, Kansas, delivery point will be nine cents per bushel, compared to 12 cents previously, it added.

KCBT chairman Greg Edelblute told Reuters that the 101-to-14 vote backed the work of the exchange's contract committee, which had sought to "give more balance between the makers and takers of deliveries."

The new standards are pending approval from the Commodity Futures Trading Commission, he said.

Tuesday's vote was the second attempt to adjust the content of deliverable stocks. An earlier vote in August 2001 failed to garner the necessary two thirds majority.

Arguments to eliminate number three wheat from the acceptable mix for deliveries had stirred up controversy at the KCBT. There were members who believed that number three wheat is becoming increasing hard to broker or sell for feed or export, and those who wanted flexibility to blend low-quality wheat to deliverable standards in case there is a poor wheat crop.

Number three wheat has lower standards for minimum test weight and other grading factors like damaged or broken kernels and allowable foreign material.

Edelblute said the "potential is still there" for a poor crop producing more than its share of number three or poorer wheat, but the vast majority of members felt comfortable voting for the new rule.

With the changes to the composition standards for number three wheat in deliverable stocks, it is likely that "people will handle it, merchandise it and discount it as they always have," Edelblute said. "It's just considerably less likely to be delivered."

Most of the Kansas wheat crop grades out as number two wheat, he added. (end)

01300000000433

WSJ 01/09/01

Cotton Posts Third Straight Day of Strong Gains

COMMODITIES

By Enna Tedesco
Dow Jones Commodity News

NEW YORK—For the third consecutive day, cotton futures on the New York Cotton Exchange registered strong gains, with traders citing technical factors unrelated to basic supply and demand factors.

But while cotton's recent behavior might perplex fundamental analysts—who are constantly reminding market players of the excess cotton supplies world-wide, poor consumption in the U.S. and copious global inventories—some are approaching the market with a fresh eye in 2002 in anticipation of an economic recovery that could boost consumption and reduce production in the coming season.

After hitting a high of 38.50 cents a pound, the leading March contract settled at a 23-session high of 38.45 cents, 0.59 cent higher on the day. That gives March an 9% gain since the beginning of the year.

Ron Lawson, senior vice president of investments with Prudential Securities Inc. in Napa Valley, Calif., questions whether farmers will plant as much cotton next season because they might find themselves with no credits and no crop insurance. He maintains that because of past fraudulent episodes, banks are tightening their lending.

"Because [banks] got burned in the past, they are now very reluctant to give any credit without any real strong balance sheet," Mr. Lawson explained. "Logic alone dictates that banks are not going to lend any money to someone to produce a product with a selling price 40% below last year's, especially because they didn't make money last year."

In addition, with the insurance companies also hesitant to continue writing checks to farmers with failed cotton crops, as they have in the past three years, farmers will be faced with not enough resources to even buy their seeds.

Based on that, Mr. Lawson said he expects a sharp reduction in the planted acreage for the 2002-03 season. While he said that trade players might be finally turning their backs on the bear task and joining the buyers, others believe the recent upward moves continue to be strictly driven by speculative participants.

Alan Feild, a cotton broker with STA Trading Services, a Memphis, Tenn., brokerage, attributed the gains purely to formations on price charts, or "technicals," and said they can't be justified by the supply demand picture. "All of this is pure speculation in a market that is overpriced right now," Mr. Feild said. "Funds are already too long; they're forcing a technical issue and at some point the market will fall apart as fundamentals are out of line."

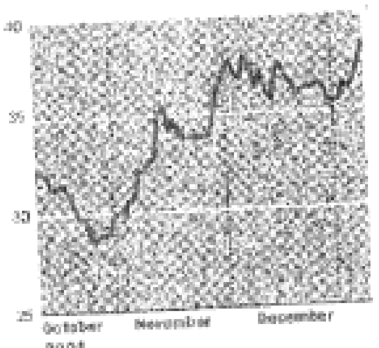
In other commodity markets:

SUGAR: World sugar futures rose to a one-month high as speculators and local traders bought, amid tight supplies from Brazil and of European white sugar. The March contract increased 0.09 cent to 7.90 cents a pound.

LUMBER: Futures touched their daily limit at the Chicago Mercantile Exchange, as spread trading helped lift the market through buy stops, or preplaced purchase orders. The most active March contract rose $6.50 to $259.70 a thousand board feet, having earlier been up by $10.

Cotton Futures

Continuous front-month contract, in cents per pound



Source: Thomson Financial/Datastream

COMMODITY INDEXES

Tuesday, January 8, 2002

	CLOSE		NET CHG.	YR. AGO
Dow Jones-AIG Futures	92.074	–	0.308	115.088
Dow Jones Spot	90.94	–	0.26	111.13
Reuter U.S.	[illegible]	+	[illegible]	[illegible]
C R B Bridge Futures	195.03	+	0.14	229.90

Carroll

FUTURES

Weather, Supply Talk Sink Crude; Beans Rise Again; Silver Cools Off

BY REUTERS

Oil prices closed lower on Tuesday with mild weather forecasts for the Northeast and large stockpiles of oil products such as heating oil weighing on sentiment ahead of weekly reports of petroleum usage.

In other featured commodity trading, soybean prices continued to firm up after last week's life-of-contract lows. Silver prices eased in line with softer lease rates.

February crude oil fell 23 cents to $21.25 a barrel. Heating oil fell 0.37 cent to 56.82 cents a gallon. Gasoline lost 1.35 cents to 60.99 cents.

With weather forecasts showing a short-term warming trend, traders saw little prospect of a sustained rally. Swollen stocks of distillate fuels like diesel and heating oil, built up but yet to be used during the mild winter, remained bearish.

"We still have a difficult time seeing this market advance for any prolonged period of time unless we can draw down distillate inventories," said Peter Beutel, president of Cameron Hanover, a Connecticut oil trading consultancy.

Oil traders and analysts said that Tuesday night's weekly American Petroleum Institute estimate of U.S. distillate stocks inventories was expected to show a modest reduction of 1.05 million barrels last week.

Crude oil stocks were forecast to show a decline of 1.3 million barrels, and gasoline stocks were forecast to have risen 1.25 million barrels.

Weather Services Corp. said it expects temperatures in the Northeast, the key heating oil-consuming region, and the mid-Atlantic to rise 4 to 8 degrees Fahrenheit above normal on Wednesday and 6-15 degrees above normal Thursday, then to cool to 4-10 degrees above Friday and 2-6 degrees above Saturday.

At the Chicago Board of Trade, the recent financial and political turmoil in Argentina continued to hang over grain markets. The disruption has included a nearly 30% peso devaluation to cheapen exports, but also has paralyzed grain trading due to confusion in farming, banking and financing circles.

Argentina is among the top five grain exporters. U.S. prices have climbed from the turmoil on hopes that some worried importers would turn to the U.S. for supplies.

So far, no big switching of export sales has been confirmed by exporters or the U.S. Agriculture Department. But this week the soy markets gained strength on such talk after wheat prices were boosted in a similar way last week. Lack of rain in some Brazilian soybean fields also helped.

March soybeans rose 4 1/4 cents to $4.35 a bushel, and March soybean oil rose 0.12 cent a pound to 16.47 cents. Rumors circulated late that Egypt might be seeking U.S. soybean oil, a switch from Argentina.

COMEX silver closed lower as borrowing or lease rates for the physical metal subsided from Monday's spike. But with silver forward rates still at their tightest levels in years, the market was loath to sell until lending scarcity abates.

March silver fell 2.7 cents to $4.64 an ounce after trading as high as $4.69, its highest level since Oct. 8.

"It came in a bit tighter, but the market seemed to be somewhat capped," said James Pogoda, a vice president of precious metals at Mitsubishi International Corp. "When some lending showed up, that knocked the lease rates down maybe 700-800 basis points and the markets looked (lower)."

One-month silver lease rates eased to about 25%, down from Monday's 30%. Monday's rate was the tightest in four years.

Candl

01300000000435

FT 01/09/02

LME puts silver contract on hold

By Ruchira Singh

Despite a history of more than 100 years, the London Metal Exchange's silver contract has failed to catch on. On Monday, the exchange notified its members that it would suspend the contract – for the fourth time since its initial launch in 1897.

Bullion traders said that they were not surprised. The contract had been languishing, with minuscule trading volumes, since its reintroduction in May 1999. It has not been traded since January 24, 2000.

In a notice to its members, the LME said it had decided to suspend its silver contract with effect from the close of business on March 1.

"With immediate effect, no trades in this contract will be permitted if they have a prompt date beyond March 1, 2002," the notice, dated January 7, said.

John Reade, precious metals analyst at UBS Warburg, said in reaction to LME's notice: "This move shouldn't be a surprise to anyone in the market.

"It is not reflective of a lack of interest in silver, which has rallied by 15 per cent in the last six weeks, but more of a lack of success [of the LME contract]."

The main focus of silver trading in London remains the over-the-counter bullion market, with silver futures trading centred on New York's Comex.

According to Mr Reade, it is difficult to say exactly why the contract couldn't attract liquidity.

"Liquidity has always been a chicken-and-egg situation. Attracting it is difficult," he added.

Ross Norman, director of TheBullionDesk.Com, said the idea of having a silver contract alongside base metals had failed.

"The concept [of having a silver contract] was based on the premise that a lot of base metals traders trade in silver as well," Mr Norman said. "But that proved to be wrong, as they couldn't have any critical mass to trade in it."

Mr Norman said the contract stood a chance of surviving if it was repackaged "in another new medium, perhaps online".

The LME notice said the exchange would continue to keep the silver contract under review, either in its current form or in a modified form.

(end)

01300000000436

WSJ 01/09/02

U.S. Delays for Year Rule About Poultry Products

WASHINGTON (AP)—The government is giving poultry processors another year to start disclosing the water content of raw chicken sold in supermarkets.

Processors were supposed to comply by today but had asked the Agriculture Department to delay the rules for two years. "We felt that giving them a one-year postponement would give them sufficient time to prepare for implementation of the rule," said Caryn Long, a spokeswoman for the Agriculture Department's Food Safety and Inspection Service.

Under the rules, processors will be required to show that any added water is a consequence of antibacterial treatment. Slaughtered chickens are routinely chilled in cold water to stop bacteria growth.

The cattle and hog industries, struggling to regain market share lost to chicken products, have argued that it is unfair for poultry to be sold with up to 8% added water weight when beef and pork can't have any. Cattle and hog carcasses are chilled in freezers.

A federal judge ruled in 1997 that those standards were unfair and ordered the Agriculture Department to come up with the new rules.

(end)

WSJ 01/09/02

Fed Sees Later Recovery Than Analysts

Officials Say Contraction Could Last Longer; Rates May Fall Further

By Greg Ip
Staff Reporter of The Wall Street Journal

WASHINGTON—Federal Reserve officials appear to be less optimistic about economic recovery than many private analysts, and that suggests interest rates could remain low for a while or even fall again.

"I believe recovery will occur around mid-2002—a few months later than the median forecast predicts," Anthony Santomero, president of the Federal Reserve Bank of Philadelphia, said in a speech. He was one of five Fed officials to speak so far this week. Their comments, while more upbeat than they have been for months, suggest they are less impressed with the run of positive economic reports, ranging from capital-goods orders to home sales, than private forecasters and investors.

Mr. Santomero, for example, said it may take longer than expected for companies to rebuild inventories, something optimistic analysts are counting on to generate higher production and an imminent recovery. He said consumer spending, though resilient so far, could retrench if big layoffs persist.

A Wall Street Journal poll of 54 forecasters found that two-thirds expect the economy to grow in the current quarter, and almost all expect growth in the next quarter.

But Fed officials see more risks. Richmond Fed President Alfred Broaddus said in a speech that while the consensus forecast is "the most probable outcome ... I think there's a good chance that the economy may be at least a little softer than the consensus over the next year or so." He cited the risk that continued weak profits will hold back business investment. On Monday, Atlanta Fed President Jack Guynn said the economy would probably contract "for another quarter or two." While he cited several positive forces for "significant" recovery, including low energy prices and interest rates, he projected second-half growth of "around" 3%, less than the 3.6% consensus, at an annual rate.

The comments have prompted investors in the futures markets to raise the odds that the Fed will cut rates again at its Jan. 29-30 meeting. But investors still put the chances at only 30%—meaning most investors still think the Fed has finished easing. The Fed's federal-funds target rate now stands at 1.75%. The markets also see the Fed starting to raise rates by June. Fed officials steered clear of what they expected to do with interest rates.

The most important voice on monetary policy belongs to Chairman Alan Greenspan, who has speeches scheduled both tomorrow and Friday. His speech on the economy in San Francisco on Friday likely will make up investors' minds about the near-term direction of rates.

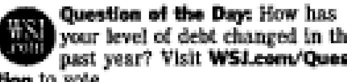
Two other officials who invariably vote with Mr. Greenspan on rate decisions gave their most upbeat remarks in a while, but tempered those remarks with warnings that it is too soon to say if the economy has hit bottom. "Economic data have changed from mostly negative to more mixed recently," Fed Vice Chairman Roger Ferguson told reporters after a speech in Geneva, but "it is too early to say what the contours of the turnaround in the U.S. are likely to be." New York Fed President William McDonough, also speaking in Europe, said economic data are mixed, which is "typical when you're getting near to the bottom, or are at the bottom," but it isn't clear the worst of the downturn has passed. more→

01300000000437

(continue..)

The cautious outlooks of Mr. Broaddus and Mr. Santomero are noteworthy because both have tended to be on the more hawkish wing of the Fed's policy-making committee, that is, seeing more risk of inflation than their colleagues. Still, caution on the economy doesn't necessarily translate into support for lower rates. Interest rates are now at an exceptionally low level and some Fed officials worry that leaving them there too long could fuel inflation. Mr. Santomero warned that during "transition" periods such as the present, Fed officials had to be especially mindful of the long lags between rate cuts and the impact on the economy, "so caution must be the watchword in the months ahead."

At this January's Fed meeting, the annual rotation among regional Fed presidents will give Mr. Santomero, Cleveland Fed President Jerry Jordan, Dallas Fed President Robert McTeer and Minnesota Fed President Gary Stern a vote on rate decisions. Boston Fed President Cathy Minehan, Kansas City Fed President Thomas Hoenig, St. Louis Fed President William Poole and Chicago Fed President Michael Moskow will lose their votes. However, all presidents participate in the discussion on rate decisions.



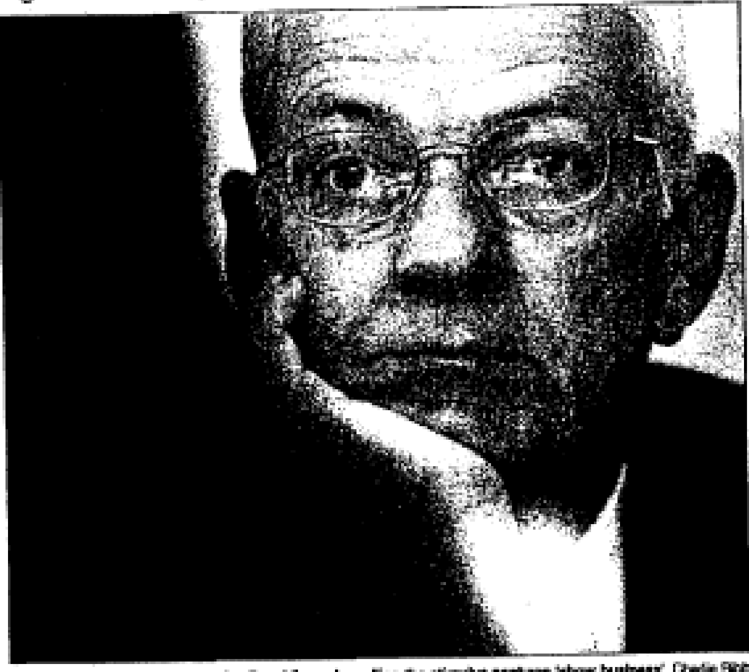
Question of the Day: How has your level of debt changed in the past year? Visit **WSJ.com/Question** to vote.

01300000000438

FT 01/09/02

Washington whispers leave O'Neill looking vulnerable

Speculation is mounting over Treasury secretary's future, writes **Gerard Baker**



Paul O'Neill outraged conservative Republicans by calling the stimulus package 'show business' Charlie Bibby

In Washington, whispers don't stay whispers for long, especially when they involve someone's career. Sotto voce assertions that someone is on the way up, down, or out, can quickly build to a deafening pitch.

The man in the echo-chamber at the start of the second year of the administration of George W. Bush is Paul O'Neill, Treasury secretary.

Throughout the holiday break, Washington was abuzz with speculation – not of a positive sort – about Mr O'Neill's future. He has powerful critics in Washington – in Congress and even in the administration.

His habit of speaking his mind on what was driving the dollar, the efficacy of international financial co-operation and the folly of fiscal demand management roiled financial markets, troubled his G7 counterparts and raised hackles among his Republican colleagues.

Mr O'Neill was not helped either by a lack of clarity within the administration about who held the reins of economic policymaking.

Lawrence Lindsey, Mr Bush's economic adviser, seemed closer to the president politically and personally. Several times last year, the Treasury was forced to insist that it, rather than the White House, was in charge of policy on international economics. Unfortunately, the clarifications helped only to muddy the situation.

But none of this seemed to worry the ever-cheerful former chief executive of Alcoa, the aluminium producer.

As the year wore on, he toned down some of his more quotable remarks. After the tragedy of September 11, he gained considerable praise from colleagues in the US and abroad for his handling of the complex issue of enforcing tougher financial action against terrorists.

But in the last month the political context of Mr O'Neill's apparent shortcomings has changed. When his critics were mostly currency economists and finance ministers of emerging market economies, it did not seem to matter much. But recently he has committed the cardinal sin of alienating the conservative base of the Republican party.

In October, when the House of Representatives passed a highly partisan post-September 11 economic stimulus package of tax cuts for business and higher-income Americans, Mr O'Neill dismissed it as "show business".

Republicans were outraged. The Treasury secretary had already irritated some within his own party with his cool support for Mr Bush's $1,350bn tax cut in June. There were reports of delegations of Republican congressmen preparing to march up to the White House and request Mr O'Neill's removal.

Middle-ranking White House officials have been critical in private about what they see as Mr O'Neill's deficiencies. A month ago, some were speculating that his successors were already being lined up.

To conservatives, the dysfunction at Treasury goes beyond the secretary. There is also criticism of Peter Fisher, a Democrat and former New York Federal Reserve official, who was appointed by Mr Bush to take charge of domestic financial policy. John Taylor, the respected monetary economist who heads international policy, has been hammered for his handling of the financial crisis in Argentina.

The Free Congress Foundation, a conservative think-tank, consulted its members just before Christmas and offered a grading of Mr Bush's cabinet in its first year. There were As for Donald Rumsfeld, the defence secretary, and Dick Cheney, the vice-president; a B for John Ashcroft at the Justice department; a C for the suspiciously multilateralist Colin Powell at the State department and a straight D for Mr O'Neill.

Mr O'Neill attracts criticism from non-conservatives too. The suspicion that Treasury may have been overruled more than once by the White House is damaging and some believe it has contributed to, and been magnified by, a lack of engagement on the part of Treasury in some big international issues – such as Argentina.

Mr O'Neill has remained above the fray, apparently reluctant to be drawn into the fighting around him. But there are signs that the Treasury might be starting to speak up politely in its own defence.

Before Christmas, when a favourable article about Mr O'Neill appeared in the editorial pages of the Washington Post, a Treasury official quickly drew it to the attention of economics reporters.

And it should not be forgotten that Mr O'Neill has powerful allies. His biggest sponsor is Mr Cheney, the *eminence grise* of the Bush White House, who worked with Mr O'Neill in the Ford administration.

One of his admirers is Alan Greenspan, chairman of the Federal Reserve. "Paul O'Neill says what he believes," Mr Greenspan said yesterday. "He doesn't generally consider it worthwhile sifting statements so that they fall within the politically correct arena."

And Mr O'Neill himself pointed this week to the source of his good humour. "Well, you know, I have a couple of clients. The most important client is the president of the United States," he said on NBC's *Meet the Press* last Sunday. "As long as they continue to tell me that they're happy with what I'm doing ... I'm going to be here to help them and be part of their team."

01300000000439

Reuters English News Service
(C) Reuters Limited 2002.

Tuesday, January 8, 2002

USA: KCBT votes to drop No. 3 wheat for deliverable stocks.

KANSAS CITY, Jan. 8 (Reuters) - Kansas City Board of Trade members on Tuesday voted to remove lower-quality number three grade hard red winter wheat from approved standards for mixing to meet delivery requirements against KCBT wheat contracts.

KCBT chairman Greg Edelblute told Reuters that the 101-to-14 vote backed the work of the exchange's contract committee, which had sought to "give more balance between the makers and takers of deliveries."

The new standards will begin with the July, 2003, contract and are pending approval from the Commodity Futures Trading Commission, he said.

Tuesday's vote was the second attempt to adjust the content of deliverable stocks. An earlier vote in August, 2001, failed to garner the necessary two-thirds majority.

The arguments to eliminate number three wheat from the acceptable mix for deliveries had stirred up controversy at the KCBT. There were members who believed that number three wheat is becoming increasing hard to broker or sell for feed or export and who wanted flexibility to blend low-quality wheat to deliverable standards in case there is a poor wheat crop.

Number three wheat has lower standards for minimum test weight and other grading factors like damaged or broken kernels and allowable foreign material.

Edelblute said the "potential is still there" for a poor crop producing more than its share of number three or poorer wheat, but the vast majority of members felt comfortable voting for the new rule.

With number three wheat ineligible for inclusion in deliverable stocks, it is likely that "people will handle it, merchandise it and discount it as they always have," Edelblute said. "It's just considerably less likely to be delivered."

Most of the Kansas wheat crop grades out as number two wheat, he added.

(end)

01300000000440

Bloomberg 01/08/02

BN SEC Names Carter Legislative Chief, Harlan Chief Spokeswoman
Jan 8 2002 15:22

SEC Names Carter Legislative Chief, Harlan Chief Spokeswoman

Washington, Jan. 8 (Bloomberg) -- The Securities and Exchange Commission's acting legislative chief, Casey Carter, was named to the post on a permanent basis today, and former Senate Banking Committee aide Christi Harlan was appointed chief SEC spokeswoman.

They will work with SEC Chairman Harvey Pitt, whose immediate tasks including facing questions from Congress and the news media about possible changes in U.S. accounting policies following Enron Corp.'s collapse.

Carter, 38, and Harlan, 44, will report to Brian Gross, the SEC's communications director. Harlan and Gross worked for Senator Phil Gramm, a Texas Republican, when he was Senate Banking Committee chairman.

Carter, who has been with the SEC since 1999, worked in legislative affairs for the Comptroller of the Currency and the Resolution Trust Corp.

Harlan most recently was in charge of external affairs at the Federal Emergency Management Agency. She also has worked as a reporter for several newspapers, including the Wall Street Journal.

The SEC is investigating Enron and its auditor, Arthur Andersen LLC, after the energy trader filed the largest Chapter 11 bankruptcy ever and admitted to overstating earnings by $600 million.

--Neil Roland in Washington (202) 624-1868 or nroland@bloomberg.net /ba

01300000000441

From: Carleton, Norman
Sent: Thursday, January 10, 2002 11:55 AM
To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: DJ: Bush: Worried By Lost Pensions In Bankruptcies

January 10, 2002

Bush: Worried By Lost Pensions In Bankruptcies

WASHINGTON -- President George W. Bush said Thursday that he wants to see a thorough investigation into the sudden collapse of Enron (ENE) and has ordered a review of the U.S. laws governing pensions.

On other matters, Bush also warned Iran not to thwart U.S. efforts in the war on terrorism and he specifically warned Tehran not to harbor "al-Qaida murderers."

Speaking in a hastily arranged event in the Oval Office, the president made his comments as the political heat mounted over Enron's collapse. The company and its head, Kenneth Lay, have a record of making large political contributions to Bush. Bush acknowledged this by calling Lay "a supporter"

Enron has also backed Democratic candidates.

Flanked by some of his top economic advisers, Bush said, "One of the things that we are deeply concerned about is that there has been a wave of bankruptcies that have caused workers to lose their pensions and that is deeply troubling to me."

"So I have asked the secretary of treasury, secretary of labor, secretary of commerce to convene a working group to analyze pension rules and regulations to look into the effects of the current law on hard-working Americans," Bush said.

Specifically, Bush said the group will look at ways to prevent workers from losing their life savings if their companies go belly up.

On top of this, Bush said he was asking the **Treasury**, the Federal Reserve, the Securities and Exchange Commission and the Commodities Futures and Trading Commission to convene a working group look at corporate disclosure rules and regulations.

Bush said he was ordering these actions "in light of the most recent bankruptcy, Enron."

"There needs to be a full review" of the events at Enron, Bush added.

Bush said he was particulary disturbed by reports that workers at Enron who held Enron stock in their 401K plans were prevented from selling their shares as the company collapsed.

White House spokesman Ari Fleischer called the collapse of Enron a "wake-up call."

Bush said the two working groups would complement the criminal investigation into Enron's dealings that have been started by the Justice Department.

Bush said he hadn't met with Enron's Lay personally but Lay did come to the White House early in Bush's term as part of a delegation of businessmen who discussed the economy. Bush said former Texas Governor Ann Richards, a Democrat, named Lay the head of Texas's Governor's Business Council and Bush allowed him to stay on in that position.

Despite the political backing Lay gave to Bush, the president said he wanted to see the government "fully investigate issues such as the Enron bankruptcy."

On Iran, Bush reacted to reports that Iran may be sheltering small groups of al-Qaida fighters in Afghanistan's lawless western provinces with a warning.

"First of all, Iran must be a contributor in the war on terror," Bush said.

He vowed once again to uphold his doctrine "either you are with us or against us."

"Any nation that thwarts our ability to fight terror will be held to account one way or another. We had some positive signals early in our war on terror. We would hope that they would continue to be a positive force in helping us bring people to justice. We would hope, for example, they wouldn't allow al-Qaida murderers to hide in their country. We would hope that if that would be the case, if someone tries to flee into Iran, they would hand them over to us," Bush said.

Bush also warned Iran against trying to undermine the authority of the newly formed Afghan government in Kabul and urged Tehran to cooperate with Kabul.

"If they try in any way shape or form, try to destabilize the government, the coalition will deal with them, you know, in diplomatic ways, initially," Bush said.

Bush expressed the view that a stable Afghanistan was in Tehran's interests in any case.

On a related issue, Bush said that he suspected a shipload of weapons that was intercepted by Israeli commandos likely had been bound for the Palestinian Authority. Bush said it was time for Palestinian leader Yasser Arafat to prove he is a man of peace and to renounce terrorism once and for all.

-By Alex Keto, Dow Jones Newswires; 202-862-9256; Alex.Keto@dowjones.com

Nickoloff, Peter

From: Carleton, Norman
Sent: Thursday, January 10, 2002 11:57 AM
To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: AP: Bush Orders Treasury To Eye Pension, 401K Rules - Sources

January 10, 2002

Bush Orders Treasury To Eye Pension, 401K Rules - Sources

WASHINGTON (AP)--U.S. President George W. Bush, in a follow-up to the criminal investigation of Enron Corp. (ENE), has ordered the **Treasury** Department to review rules regulating company pension and 401(k) plans, The Associated Press has learned.

Administration sources, speaking on condition of anonymity, said Bush would announce the action Thursday in the Oval Office, in part to inoculate himself politically from the bankruptcy of the Texas-based energy company that has ties to Bush and administration officials.

The Justice Department announced Wednesday it has begun a criminal investigation of the bankrupt energy company, whose collapse caused many employees to lose their life's savings.

The Justice Department is forming a national task force to look into the company's dealings. The group will be headed by lawyers at the department's criminal division and include prosecutors in Houston, San Francisco, New York and several other cities, said a Justice Department official, speaking on condition of anonymity.

As a follow-up, **Treasury** Secretary Paul O'Neill will head a review of laws and regulations to determine if they can be tightened to protect worker pension plans. A senior official involved in discussions on the issue said the Justice Department will determine whether Enron broke any laws and the **Treasury** Department will study whether Enron's conduct, although potentially legal, exposed loopholes in the system.

Enron's chairman and chief executive, Kenneth L. Lay, is a political ally of Bush's. He and other Enron officials met six times with Vice President Dick Cheney or his aides last year, before and after the release of the administration's energy plan.

Lay and his company have been leading contributors to Bush as well as to a long list of Democratic and Republican candidates.

The Center for Public Integrity, a nonpartisan watchdog agency in Washington, says Enron's executives contributed nearly $800,000 to Bush, members of Congress and the two national political parties from 1999 to 2001.

A senior Bush adviser said the president wants to protect workers' pensions. His political team, the adviser said, is worried that the administration could face intense criticism for its association with Lay and Enron as hearings heat up on Capitol Hill.

01300000000444

Nickoloff, Peter

From: Carleton, Norman
Sent: Thursday, January 10, 2002 12:07 PM
To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: Bloomberg: Bush Task Force to Study Disclosure Rules After Enron

01/10 11:16

Bush Task Force to Study Disclosure Rules After Enron (Update2)

By David Morris

Washington, Jan. 10 (Bloomberg) -- President George W. Bush said he ordered Treasury Secretary Paul O'Neill and other officials to review the adequacy of corporate disclosure rules after Enron Corp.'s bankruptcy.

``In light of the most recent bankruptcy, Enron, there needs to be a full review of disclosure rules to make sure the American stockholder, or any stockholder, is protected," Bush said.

The review marks Bush's first official public act in response to Enron's financial collapse. Multiple investigations of Houston- based Enron, including a criminal probe by the Justice Department, carry political risks for the president who was close to Enron Chairman Kenneth Lay, a large contributor to Bush's political campaigns.

The White House released a letter Tuesday saying Enron representatives met with Vice President Dick Cheney's energy task force six times in seven months last year to talk about energy policy.

Bush, the former Texas governor, said he hasn't talked with Lay about Enron's financial troubles and most recently saw the Enron chief last spring at a literacy fundraiser held by the president's mother, former First Lady Barbara Bush.

Nest Eggs

The disclosure-rule task force, including O'Neill and Commerce Secretary Donald Evans, should look into ways to protect pensioners from losing their nest eggs if their employer goes out of business, Bush said.

Enron, which was the biggest energy trader, said on Nov. 8 that profits had been inflated by $585 million since 1997 because of accounting errors. After the restatement, Enron shares plunged about 99 percent, to as little as 25 cents, before the company on Dec. 2 filed the biggest U.S. bankruptcy case ever.

Enron's restatement involved transactions with partnerships and affiliates, some of which were set up by Enron officials. The Securities and Exchange Commission is investigating whether Enron adequately disclosed information about partnerships and affiliates, and whether its auditor, Arthur Andersen, acted properly in its reviews of Enron's books.

The Justice Department yesterday said it had established a task force of prosecutors to conduct a criminal investigation of the events surrounding Enron's collapse. Six congressional committees are conducting investigations of Enron's fall and the impact on 401(k) retirement accounts, which held much of employees' retirement savings in Enron stock.

Former CEO

Some of the investigative focus is on what former Enron Chief Executive Officer Jeffrey Skilling knew about partnerships that allowed Enron to shift debt off the company books. Skilling has denied having detailed knowledge of the partnerships.

Skilling's spokeswoman Judy Leon said today the former Enron CEO would cooperate fully with the Justice Department probe and ``welcomes any inquiry aimed at clearing the air and finding out what really happened at Enron."

Leon said Skilling already had cooperated with inquiries by the SEC and Congress. ``When the facts are in, we expect he will be vindicated," Leon said.

SEC Chairman Harvey Pitt, who has been in office about five months, already has promised a comprehensive review of rules about corporate disclosures of financial information. Pitt has said he wants to establish a system where companies make more-frequent disclosures to investors and describe more clearly important factors for their business prospects.

Enron stock, which traded for as much $90.75 in August 2000, fell 10 cents to 69 cents in late morning trading.

From: Carleton, Norman
Sent: Thursday, January 10, 2002 12:14 PM
To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: Bloomberg Column: Enron Broadband Trading Losses Grew as Company Touted Success

01/10 10:31
Enron Broadband Trading Losses Grew as Company Touted Success
By Loren Steffy

Houston, Jan. 10 (Bloomberg) -- Dixie Yeck landed Enron Corp.'s first contract to trade space on high-speed phone lines, a milestone in the company's plan to turn fiber-optic bandwidth into a commodity to be bought and sold like electricity and natural gas.

Her bosses told Yeck her December 1999 agreement with Global Crossing Ltd. was a step toward realizing Enron's goal of dominating a market that company executives projected would grow to $500 billion in 2005 because of the explosion of the Internet.

``Enron wanted to be the biggest buyer and seller of bandwidth,'' said Yeck, 36, who was in charge of finding telecommunications companies in the midwestern U.S. that wanted to sell network capacity and businesses that wanted to buy it. ``They got you so pumped up, you just had to believe them.''

Yeck's dream faded in less than a year as Internet companies went out of business and those that remained had more fiber-optic network space than they needed. Yeck said many of her 1,500 co- workers at Enron Broadband Services had so little to do that they spent hours each day surfing the Internet.

``The whole market had started to dry up,'' Yeck said. ``I knew EBS was going under.''

Yeck said she listened in disbelief in January 2001 to an Internet broadcast in which Enron executives told investors the company's broadband business was booming. Chairman Kenneth Lay said the division had reached the ``critical mass'' it needed. Then-President Jeffrey Skilling touted ``enormous growth prospects'' for the business. The broadband division, he said in an interview two months later, was worth $36 billion, or $40 a share, at a time when Enron's stock traded at $70.

``My experience did not match what was being presented,'' said Yeck, who quit her job in October, less than two months before Enron filed the largest Chapter 11 bankruptcy in U.S. history.

Suspect Profits

Even as market prices for bandwidth tumbled in 2000, Enron Broadband recorded gains on its income statement from equity investments in other companies, derivative instruments and sales of fiber-optic cable among Enron-affiliated partnerships. Gains from those sales accounted for 20 percent of the division's pretax profit last year.

``There's something not right about that,'' said Ron Banaszek, director of bandwidth trading for Tradition Financial Services, an over-the-counter commodities broker in Stamford, Connecticut. ``Prices have been eroding. If there was that kind of money to be made, I think other (broadband) companies would be making a lot of money right now.''

Surge of Losses

When Enron restated earnings for the past four and a half years in November, the extent of the financial distortions became clear. The broadband division's $60 million year-end loss ballooned to $357 million by the third quarter of 2001, and restructuring a derivative investment resulted in negative revenue of $125 million, according to statements filed with the U.S. Securities and Exchange Commission.

``The broadband deal was the beginning of the end,'' said Ogan Kose, a crude-oil trader who was one of 4,500 Houston employees Enron fired in December. ``Instead of writing it off, they continued to carry it.''

Enron entered the 1990s as a Houston-based pipeline operator and transformed itself into the dominant trader of natural gas futures, controlling as much as 30 percent of the gas futures contracts traded on the New York Mercantile Exchange. The company repeated that success in markets for trading electricity and weather derivatives.

Skilling promised investors, including those at the meeting last January, that Enron would deliver 20 percent to 30 percent profit growth annually by applying the same strategy to new markets. Enron began trading in metals, lumber and broadband and set up companies such as New Power Holdings Corp. and Azurix Corp. to tap deregulated electricity markets and buy and sell water.

Toll of Failures

None of the ventures generated the profits that flowed from Enron's early trading businesses. By the third quarter of 2001, gas, power and weather trading generated $717 million in pretax profit. Losses from other operations topped $1.4 billion.

``We made millions, and they just kept putting it into the next business hoping it would be the next big thing," said Tom Donohoe, an Enron natural gas trader who was fired in December. ``Azurix was a flop. Broadband was a flop. Any one of them we probably could've absorbed, but it was just one after the other."

For a while, Enron endured the losses by shifting debt and assets off its books using partnerships capitalized by the company's shares, which rose 87 percent last year. Many of the partnerships were set up by former Chief Financial Officer Andrew Fastow, who made $30 million running them, according to SEC filings.

Chain Reaction

When Enron's shares began falling, the company became liable for off-balance-sheet debt. That set off a chain reaction that cut the company's credit rating, scared off customers and drove Enron's shares as low as 26 cents. The stock's decline wiped out the savings of thousands of employees who'd loaded their 401(k) retirement plans with Enron shares. The SEC, the Justice Department and Congress are investigating.

Lay, Skilling and Fastow declined interview requests. They are named as defendants in more than 40 lawsuits filed by shareholders and employees and are among Enron insiders who sold more than $1 billion of company stock during the past three years.

Broadband Strategy

Enron set up its broadband unit as Internet growth was peaking and thousands of companies were creating retail Web sites, electronic exchanges and inventory management systems that needed to move data over high-speed lines. Enron planned to make a market in access to the lines, serving as a middleman between companies that wanted to sell transmission capacity and those that wanted to buy it.

Enron also began building a fiber-optic network, spending $436 million in 2000 alone on 18,000 miles of cable that it planned to connect to transmission equipment and lease to users.

In its first contract, the one Yeck signed with Global Crossing, a telephone and data network operator, Enron agreed to buy bandwidth capable of moving data and streaming video between New York and Los Angeles. Enron planned to resell the bandwidth at a profit.

``This is `Day One' of a potentially enormous market," Skilling said in a news release on Dec. 2, 1999. ``The market structure for bandwidth is currently inefficient and expensive. We are demonstrating that bandwidth can be traded under flexible, market-based contract structures."

Enron began transferring hundreds of employees from other divisions, eventually assigning 1,500 to its broadband trading unit. That was more than three times the number of employees Williams Communications Group Inc. hired for its broadband business, which had 33,000 miles of fiber, almost twice as much as Enron.

Spending Plans

At a Houston investor conference in September 2000, Lay said Enron had completed 90 bandwidth trades. He announced a plan to spend as much as $1.95 billion to beef up Enron's fiber network and trading operations in two to three years.

``When tech was in favor, all of Wall Street was pushing them to increase their exposure in broadband,'' said Tim Ghriskey, manager of Ghriskey Capital Partners. As a fund manager for Dreyfus Corp. in late 2000, Ghriskey sold 1.55 million Enron shares.

Trading bandwidth proved more difficult than trading natural gas. For starters, Enron faced stiffer competition. When the company began trading gas futures in 1991, it took years for rivals to follow its lead.

Action by Rivals

Two months after Enron completed its first bandwidth trade, Williams Communications announced it was forming a unit to trade broadband. By the end of 2000, rivals such as Koch Industries Inc. and Dynegy Inc. had set up units to trade bandwidth.

``When Enron revolutionized the gas industry, they were ahead of the game and they made a lot of money,'' said Kyle Vann, chief executive of Entergy-Koch LP, a joint venture between Koch and New Orleans utility Entergy Corp. ``Then they took it to the power industry, and they made a lot of money. With bandwidth, once Enron went that way, there were a lot of other people who did, too.''

Even as more companies began selling bandwidth, consumers and businesses began ordering fewer telecommunications services. Industry experts estimate that about 20 percent of the world's fiber is being used.

``You have such an incredible surplus of capacity, that there's really not a lot of trading leverage there,'' Vann said. ``It's just a big old huge excess.''

In March, Enron lost one of its biggest customers. Blockbuster Inc., the world's largest video-store chain, canceled a 20-year contract to deliver movies-on-demand over Enron's network. Blockbuster spokeswoman Karen Raskopf said at the time that the company ``decided there were plenty of other carriers out there that were more sophisticated technically.''

New Counting Method

With contracts drying up, Enron developed a new method for measuring trading volume. At the January investor conference, Lay said Enron completed 300 ``intermediation transactions'' the previous year. He never defined the term, and Yeck had never heard it before. It was a measure that broke broadband contracts down to their smallest components to create a larger number, Yeck said.

``It made it look like a lot more was happening than there was,'' she said. ``It's like a personal computer maker saying `we sold a million bytes.' That's not much, but it sounds like it -- `a million, wow.'''

Banaszek of Traditional Financial Services and other broadband traders and consultants said they aren't familiar with the term, either.

``It was always very difficult with these guys to get any specifics in terms of their businesses,'' said Ghriskey, the former Dreyfus fund manager. ``That's one of the reasons we sold all our stock.''

Few Broadband Trades

At a Houston court hearing on Dec. 7, William Lerach, an attorney for Amalgamated Bank, an Enron shareholder that wants to freeze profits Enron executives made from stock sales, said his investigation found Enron's broadband unit never did more than 20 ``legitimate'' transactions.

Most of Enron's broadband trades were so-called daisy chain deals, with related affiliates, Lerach said.

Enron spokesman Mark Palmer said he has no way to find out how many contracts the broadband division had. He said he thinks intermediation transactions represented ``deals where we were either the buyer or seller of some type of bandwidth commitment in the future.''

Yeck and Kose said they knew of Enron buying and selling broadband contracts at no profit to increase trading volume. Palmer dismissed such claims as the ``talk of disgruntled former employees.''

01300000000449

Sales to Partnerships

Enron's financial statements show the division was in decline since late 2000. Revenue of $162 million in the third quarter of that year slipped to $83 million by the first quarter of 2001 and $16 million by the second quarter. At the same time, pretax losses rose from $20 million in the third quarter of 2000 to $102 million by the second quarter of 2001.

Much of the revenue came from sources other than trading. Enron derived some of it from investments in companies such as Rhythms Netconnections Inc., a provider of local high-speed networks whose shares rose more than fourfold in the month after it went public in April 1999. The company filed for bankruptcy in August.

Enron generated about 20 percent of the $318 million gross profit reported for 2000 from selling a block of fiber to partnerships controlled by Fastow, the former CFO.

Recording a Gain

In June 2000, the partnership, known as LJM2, paid $100 million -- $30 million in cash and $70 million in an interest-bearing note -- for some of Enron's fiber, according to SEC filings. Enron booked a $67 million pretax profit from the sale and received $20 million for operating, maintaining and marketing the fiber.

Enron's profit from the transaction depended on LJM2's ability to find a buyer willing to pay a higher price for the fiber. In December 2000, it found two. LJM2 sold part of the fiber to unnamed ``industry participants'' for $40 million and set up a ``special purpose entity'' that bought the rest of the fiber for $113 million, according to SEC filings.

In six months' time, the value of the fiber, based on Enron's accounting, rose by $53 million. Banaszek said even the initial $67 million profit seems unlikely because fiber prices fell during most of 2000.

Yeck decided to quit in October, after being transferred to the trading desk. She said ``there was nothing to do'' and the staff battled over trades in the hope of winning performance bonuses that made up most of their compensation.

``It was like a piece of meat in a pack of wolves,'' Yeck said. ``They would claw and scratch and do whatever it took to get it.''

Broadband Fails

Many of Enron's competitors had already given up on broadband. Koch, which set up a bandwidth trading business in September 2000 under its Koch Investment Group unit, had three employees devoted to broadband. After signing one contract, Koch stopped trading in the market because of lack of demand.

The amount that broadband cost Enron became clear in November, after the company restated earnings to reduce them by $586 million over the past 4 1/2 years.

The unit took $277 million in charges for restructuring, soured equity investments, writing down excess network equipment and adjusting the value of a derivative investment. Enron didn't provide details on the derivative, which resulted in negative revenue of $125 million for the quarter, according to statements filed with the SEC.

With bankruptcy looming, Enron said it would sell its broadband operation, along with other assets. During a conference call on Nov. 14 to discuss the sale, Skilling's replacement, Greg Whalley, told analysts what Dixie Yeck had suspected a year earlier: ``The return for these investments and businesses is dismal.''

01300000000450

Nickoloff, Peter

From: Carleton, Norman
Sent: Thursday, January 10, 2002 12:22 PM
To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: FT: Enron's collapse sparks government review

Enron's collapse sparks government review
By FT.com staff in New York, Peter Spiegel in Washington and Sheila McNulty in Houston
Published: January 10 2002 02:15 | Last Updated: January 10 2002 17:00

gavel

President George W. Bush on Thursday called for a government review into the adequacy of current regulations governing corporate pension funds and disclosure in the wake of Enron's collapse, the largest corporate bankruptcy in US history.

Mr Bush also created a task force in which the treasury secretary and commerce secretary will analyse pension rules and recommend reforms so that employee savings will be better shielded from employer bankruptcies.

The Treasury department, Securities and Exchange Commission, Federal Reserve and the Commodity Futures Trading Commission will carry out the review of corporate disclosure rules in order to protect stockholders.

Mr Bush's move follows the US government's launch of a criminal probe into the bankruptcy of the energy trading giant. Enron's bankruptcy in December led to thousands of lay-offs and wiped out investors and the life savings of some of its employees, as a large part of employee retirement plans were invested in the company's own stock.

The criminal probe was welcomed by Enron's new Washington lawyer, who said it will help consolidate the various investigations currently under way.

The criminal inquiry, which will be headed by the Justice Department's Washington-based criminal division, will be run by a new task force being set up by the agency, which will include prosecutors in New York, San Francisco and Houston, where Enron is based.

Robert Bennett, the prominent Washington attorney who was recently retained by Enron to handle the sundry investigations into the company's collapse, said on Wednesday the new task force will centralise requests made of the company.

"It makes it a much more rational process to be dealing with a primary leader in the investigation," Mr Bennett said in an interview. "I wish there were no investigation, but if there were an investigation, this is the way to do it."

The Labor Department and the SEC have launched separate civil inquiries into the company's dealings, and the decision by the Justice Department to launch a full criminal inquiry comes after it has been debated within the agency for weeks.

01300000000451

Mr Bennett said Enron has set up its own independent investigation committee, headed by a former head of the SEC's enforcement division, and cautioned that the launch of a criminal investigation does not necessarily signal any wrongdoing.

"People should keep their powder dry and not rush to judgment here," he said. "Enron wants to get to the bottom of this as soon as possible."

Enron is also subject to four major congressional inquiries, and Mr Bennett said he hoped congressional leaders would consolidate their investigations as the Justice Department has.

In addition to the causes of Enron's collapse, a number of the congressional committees have indicated they will also examine the company's ties to the Bush administration. Kenneth Lay, Enron chief executive, is close to Mr Bush, and Enron and its executives donated $114,000 to Mr Bush's presidential campaign.

Earlier this week, the White House disclosed that vice president Dick Cheney and his staff had met with Enron representatives six times last year, but never discussed the company's financial condition. Ari Fleischer, White House spokesman, said on Wednesday he was not aware of any other White House staffers discussing the matter with Enron.

Nickoloff, Peter

From: Carleton, Norman
Sent: Thursday, January 10, 2002 12:24 PM
To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: FT: Cheney under fresh pressure over Enron

Cheney under fresh pressure over Enron
By Peter Spiegel in Washington
Published: January 9 2002 19:31 | Last Updated: January 10 2002 08:14

Critics of the Bush administration's handling of its energy policy continued to push on Wednesday for more information on its contacts with Enron, the failed energy company. They say that Vice-President Dick Cheney's disclosure of meetings between his office and company officials did not sufficiently explain the breadth of the administration's activities.

The push for further disclosures is coming from both ends of the political spectrum, including the left-leaning Natural Resources Defence Fund (NRDF) and the conservative watchdog group Judicial Watch, both of which have filed suit against the administration seeking documents related to the White House's energy task force, which Mr Cheney chaired.

"The fact the vice-president can say what wasn't discussed is not sufficient, it's not the way the government works," said Tom Fitton, president of Judicial Watch, which was one of the most aggressive critics of the Clinton administration. "Enron's intent may have been other than policy. It may have been something to do with their finances."

In a January 3 letter to the Democrat Henry Waxman, a senior member of the House energy and commerce committee, Mr Cheney's counsel said the vice-president and his staff had six meetings with Enron representatives last year. The letter said Enron's financial difficulties were not raised in the sessions, but did not give any other specifics, other than to say "energy policy matters" were discussed.

In his own letter to the vice-president, Mr Waxman said the disclosure raised "additional questions" about Enron's influence over White House energy policies and potential revelations it may have made to the administration about its internal operations.

He asked the vice-president to provide additional information, including documents used during the meetings and the names of those attending the sessions. He also asked for information on contacts with any other White House officials not part of the Cheney task force.

"We're being stonewalled to the point they're ready to go to court," said John Walke, an attorney with the NRDF. "The letter raises the obvious question of, what are they afraid of?"

The White House on Wednesday did not rule out providing additional information, but remained circumspect, saying only that the vice-president's office had received Mr Waxman's letter and was reviewing it.

Additional pressure may soon come from the influential General Accounting Office, Congress's auditing agency, which is also seeking records from the Cheney task force. After backing off the threat of a lawsuit in the wake of the September 11 terrorist attacks, David Walker, the GAO chief, said last month he was reconsidering his options in light of "several recent developments."

Although Mr Walker did not detail what developments have prompted his new review, they are believed to include Enron's collapse and US success in the Afghan campaign.

01300000000454

From:	Carleton, Norman
Sent:	Thursday, January 10, 2002 12:33 PM
To:	Cetina, Jill; Sharer, James; Corfield, Anna; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject:	Economist: Rites of passage -- With Enron and Argentina, credit derivatives pass an important test

Credit derivatives

Rites of passage

Jan 10th 2002
From The Economist print edition

With Enron and Argentina, credit derivatives pass an important test

ARGENTINA'S debt default and the collapse of Enron, America's biggest bankruptcy, are together offering the greatest test yet faced by dealers in the still young market for credit derivatives. These are instruments that allow lenders to pass on to others the risk that borrowers will default-in return for a fee. Billions of dollars of credit-default swaps, one class of such derivatives, were written on Enron and on Argentina. Here is a chance, people who deal in credit derivatives think, to prove their products' worth.

In the early days, just a few years ago, the joke among traders at investment banks was that the busiest person on a credit-derivatives desk was the lawyer. In all too many cases, buyers of credit-derivative protection found that their interpretation of a contract differed vitally from that of the firm which had sold it. Legal wrangles ensued, harming the young product's reputation. Yet so far, to the relief of the six or so investment banks that dominate the market, there is no sign of trouble over the settlement of credit-default swaps written on Enron.

Argentina might be more of a problem. In November, the government announced a restructuring of its local debt on terms more favourable to itself. Some buyers of default protection on foreign-held debt believe that, although the restructuring was described as voluntary, it met their contracts' definition of a "credit event", meaning that they should receive the debt's full face value. One hedge fund in New York, whose default swap expired soon after the restructuring, plans to sue J.P. Morgan Chase, one of the banks most active in the market for credit derivatives, for rejecting their interpretation. But most owners of credit-default swaps are now clearly entitled to their money, after Adolfo Rodriguez Saa, briefly president of Argentina, announced in December that the country would stop paying interest on its foreign debt.

Even so, dealers and hedge funds are quarrelling over whether two particular government bonds, maturing in 2018 and 2031, are covered by the default protection. The argument springs from the fact that these bonds were issued as part of a debt exchange by the Argentine government last June. Some sellers of protection fear that, because of this, the bonds may be treated less favourably than other government debt in any future workout. Goldman Sachs and other credit-derivative dealers would prefer not to accept these bonds-although they are reluctantly doing so. Ron Tanemura, the firm's head of credit derivatives, says that there is a grey area, but that Goldman will fall into line with market consensus, once there is one.

Disputes are thus still breaking out in the market. But dealers in credit derivatives have lately been keen to make their products more reliable. When lawyers were called in by buyers and sellers of protection on Railtrack, the owner of Britain's rail network that was forced into administration last year, they quickly

brought in the industry trade body, the International Swaps and Derivatives Association, to sort things out.

At issue was whether Railtrack's convertible bonds were covered by default protection. The association opined, in favour of protection buyers, that they were. It did much last year to improve its rules on contracts for credit derivatives. Its new "modified restructuring" rule clarifies the issue, keenly debated over the past two years, of whether debt restructuring, as opposed to actual default or bankruptcy, should count as a credit event. The trade body has also offered guidelines for what should happen to default swaps on companies that demerge or spin off units.

With these improvements, growth in the market for credit derivatives is likely to continue apace. It has almost doubled each year since 1998, to a total of nearly $700 billion in value, according to the Bank for International Settlements. Credit protection has particular appeal at a time of high corporate default rates.

Commercial banks are continuing to shed corporate-credit risk using default swaps. But new entrants-insurance companies and fund managers-are coming into the market to assume risk, as sellers of protection. Last year, investors seeking attractive yields were eager to gain exposure to corporate credit through "synthetic" collateralised debt obligations (CDOs), structured-finance vehicles made up using credit-default swaps. Investors may not be quite so gung-ho in future. Enron, for example, was one of the credits contained in many synthetic CDOs, and its collapse will have led to losses for investors. In the world of credit derivatives, *caveat emptor* still applies.

01300000000456

From: Carleton, Norman
Sent: Thursday, January 10, 2002 12:44 PM
To: Whaley, Jean; Cetina, Jill; Pietrangeli, Fred; Novey, Michael; Hammer, Viva; Gross, Jared; Wiedman, Mark; Pietrangeli, Fred; Sharer, James; Schultheiss, Heidilynne; Nickoloff, Peter
Subject: FT: A kerfuffle, indeed (Paul O'Neill, Enronism, excerpts)

A kerfuffle, indeed
Published: January 9 2002 23:17 | Last Updated: January 10 2002 00:12

Despite continued whispers around Washington that Paul O'Neill's job is in jeopardy, the White House on Wednesday stood by its man, saying rumours of the outspoken Treasury secretary's imminent downfall were nothing but "kerfuffle" and "nonsense".

Asked whether President George W. Bush's confidence extended to O'Neill's handling of the Argentine crisis - while some critics have accused the Treasury of failing to give Buenos Aires more support, others have slammed O'Neill for not cutting the strapped government loose earlier - White House spokesman Ari Fleischer insisted it did.

"O'Neill has done an excellent job," he told a gathering of reporters.

When the irascible Helen Thomas, a columnist for Hearst newspapers and the dean of the White House press corps, reminded Fleischer that the riots and government collapse in Argentina have not generally been viewed as successes where policymakers have done "excellent" jobs, a nonplussed Fleischer said the blame did not fall at O'Neill's feet: "Not everything in the world is in the control of the United States, or even the Treasury secretary."

Enronism

Financiers have heard more than once the old joke explaining the differences between capitalism, communism and many other isms:

"Capitalism - You have two cows. You sell one and buy a bull. Your herd multiplies, and the economy grows. You sell them and retire on the income. Communism - You have two cows. Your neighbours help take care of them and you all share the milk."

The latest version of the joke doing the rounds on Wall Street adds an "Enronism" to the list:

"You have two cows. You sell three of them to your publicly listed company, using letters of credit opened by your brother-in-law at the bank, then execute a debt/equity swap with an associated general offer so you get all four cows back, with a tax exemption for five cows. The milk rights of the six cows are transferred via an intermediary to a Cayman Island company secretly owned by the majority shareholder who sells the rights to all seven cows back to your listed company. The annual report says the company owns eight cows, with an option on one more."

Enron's shareholders will be hard-pressed to see the funny side.

01300000000457

From: Carleton, Norman
Sent: Thursday, January 10, 2002 1:27 PM
To: Cetina, Jill; Sharer, James; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: AP: Enron Chairman Gave Warning to Bush Officials on Company's Collapse

January 10, 2002

Enron Chairman Gave Warning to Bush Officials on Company's Collapse

By THE ASSOCIATED PRESS

Filed at 12:57 p.m. ET

WASHINGTON (AP) -- Enron Chairman Kenneth L. Lay reached out to two of President Bush's Cabinet officers when the energy company was collapsing, the White House disclosed Thursday as the Justice Department opened a criminal investigation of Enron's bankruptcy.

Bush, who received significant campaign contributions from Lay and other Enron executives, said he himself has never discussed Enron's financial problems with its embattled corporate chairman. The president said he last saw Lay in Texas at spring fund-raiser for former first lady Barbara Bush's literacy foundation.

Lay also was among a group of some 20 business leaders who came to the White House early in the Bush administration to discuss the state of the economy, Bush said.

Many Enron employees lost their life savings when the company filed for bankruptcy Dec. 2.

``What anybody's going to find out is that this administration will fully investigate issues such as the Enron bankruptcy, to make sure we can learn from the past and make sure workers are protected,'' Bush said.

But Lay did seek the ear of other top-level administration officials last fall.

According to White House press secretary Ari Fleischer, Lay telephoned Treasury Secretary Paul O'Neill amid Enron's collapse ``to advise him about his concern about the obligations of Enron and whether they would be able to meet those obligations.''

Lay also told O'Neill that Enron ``was heading to bankruptcy,'' Fleischer said.

O'Neill received calls from Lay on Oct. 28 and Nov. 8, said Treasury spokeswoman Michele Davis. It was on Oct. 16 that Enron made its stunning disclosure of a $638 million third-quarter loss.

In a separate phone call to Commerce Secretary Don Evans, Lay similarly worried that the company might have to default on its obligations. He brought to the secretary's attention ``that he was having problems with his bond rating and he was worried about its impact on the energy sector," Fleischer said.

After that conversation, Evans spoke to O'Neill ``and they both agreed no action should be taken to intervene with their bond holders," Fleischer said.

The spokesman had said Wednesday he did not know of anyone in the White House who discussed Enron's financial situation.

Fleischer also brushed aside talk of any conflict in the Justice Department investigation and said there was no reason to turn the probe over to a special counsel.

Lay gave $25,000 to a leadership committee headed by then-senator and now Attorney General John Ashcroft, according to the Center for Public Integrity.

An attorney for Enron welcomed Ashcroft's inquiry, the latest in a series of governmental probes into the company's demise, saying the investigation would ``bring light to the facts."

``We want to get to the bottom of this too," said Robert Bennett, a Washington attorney representing the Houston-based company. ``A lot of decent and honorable people work at Enron and we should wait until the facts are out."

Bush ordered a separate review Thursday of pension and corporate disclosure rules that could jeopardize workers' savings. ``There has been a wave of bankruptcies that have caused many workers to lose their pensions and that is deeply troubling to me," Bush said.

The Justice Department is forming a national task force to look into the company's dealings. The group will be headed by lawyers at the department's criminal division and include prosecutors in Houston, San Francisco, New York and several other cities, said a Justice Department official, speaking on condition of anonymity.

The official declined to say when the investigation began. Enron faces civil investigations by the Labor Department and the Securities and Exchange Commission and subpoenas from congressional committees.

All are looking into the energy trading company's collapse, the largest bankruptcy filing in U.S. history.

The failure hit employees and investors hard. Workers were prohibited from selling company stock from their Enron-heavy 401(k) retirement accounts as the company's stock plummeted. Many lost their life's savings.

Enron executives cashed out more than $1 billion in stock when it was near its peak.

Former Enron chief executive Jeffrey Skilling, who left the helm nearly two months before the company's swift descent, welcomes the investigation, said spokeswoman Judy Leon. Skilling has said he had no idea, despite Enron's falling stock values, that the company was on the brink of failure.

Formed in 1985, Enron had 20,000 employees and was once the world's top buyer and seller of natural gas and the largest electricity marketer in the United States. It also marketed coal, pulp, paper, plastics, metals and fiber-optic bandwidth.

One likely focus of the Justice Department investigation is possible fraud based on Enron's heavy reliance on off-balance-sheet partnerships which took on Enron debt. The partnerships masked Enron's financial problems and left its credit ratings healthy so it could obtain the cash and credit crucial to running its trading business.

The Houston-based company went bankrupt after its credit collapsed and its main rival, Dynegy Inc., backed out of an $8.4 billion buyout plan late last year.

Just a year ago, stock of Enron, the nation's largest buyer and seller of natural gas, traded at $85 per share. Today it is less than $1.

Lay has close ties to Bush and his father, the former president. Lay was a top contributor to the younger Bush's 2000 presidential campaign.

The company played a key role earlier this year when a White House task force met with business executives and other interests to fashion a national energy policy. The task force was headed by Vice President Dick Cheney.

01300000000460

Nickoloff, Peter

From: Carleton, Norman
Sent: Thursday, January 10, 2002 2:47 PM
To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: DJ: White House Says Enron Sought Help, Was Rebuffed

January 10, 2002

White House Says Enron Sought Help, Was Rebuffed

Dow Jones Newswires

WASHINGTON -- The Bush administration confirmed Thursday that Enron's (ENE) chief executive, Kenneth Lay, contacted two top officials last autumn and warned his company was headed toward bankruptcy, White House spokesman Ari Fleischer said.

However, Fleischer said that Lay's appeal for help from the government was rebuffed. In his appeal, Lay compared **Enron** to Long-Term Capital, a hedge fund that collapsed in the 1990s and sparked fears that its collapse could cause a shock to the financial system.

"What was told to me this morning was (Treasury) Secretary Paul O'Neill said that he had been contacted by Mr. Lay in the fall of last year and Mr. Lay brought to the secretary's attention his concerns about whether or not **Enron** would be able to meet its obligations. And he expressed his concern about the experience that Long Term Capital went through when Long Term Capital went bankrupt," Fleischer said.

"Secretary O'Neill then contacted (Treasury) Undersecretary (Peter) Fisher to ask him to evaluate whether the comparison was apt, and the Department of Treasury was advised that it was not apt as a result of Secretary Fisher's review," Fleischer said.

Interest in the administration's ties to **Enron** have been high because **Enron** was a major donor to President George W. Bush's political campaigns.

Democrats on Capitol Hill have begun hearings to see to if there was any impropriety in Enron's ties to the White House.

Further complicating the situation is that fact that many **Enron** employees held company stock in their 401K plans. **Enron** prevented the employees from selling their shares while the company collapsed, wiping out their savings in some cases.

Fleischer also said that Lay talked to Commerce Secretary Don Evans and expressed concerns about Enron's credit rating as the company experienced financial troubles.

Earlier in the day, Bush announced that two government working groups would begin reviewing the

country's 401K regulations and corporate disclosure rules as a result of Enron's bankruptcy. On Wednesday, the Justice Department announced it would launch a criminal investigation into Enron's collapse, the largest bankruptcy in the nation's history.

However, Bush said he didn't meet with Lay personally and he said a full investigation into **Enron** was warranted and would take place.

Fleischer maintained that Bush was never involved in the discussions about whether to extend government assistance to **Enron**.

Asked if O'Neill or Evans approached Bush about the **Enron** matter, Fleischer said. "They did not."

Fleischer also said the two secretaries didn't tell Bush that **Enron** had approached them until Thursday morning. He called the fact that Enron's Lay approached the two secretaries nothing unusual.

"I think it should surprise no one that people in the administration receive phone calls from people who are either in business or at unions. It happens everyday. I mean, it's not uncommon for people to receive phone calls from business leaders across the country, from union officials across the country. That happens as a common occurrence has always taken place," Fleischer said.

"I want to remind you that, communication is not a wrongdoing. What took place here was, they received phone calls and took no action. The charge has been, did the government take any action? And the answer form these two officials is no," Fleischer said.

Fleischer warned Democrats against seeking to reap political hay from Enron's woes and its ties to the White House. He called such efforts a "fishing trip" and said it was the sort of investigation the country tired of in the 1990s.

-By Alex Keto, Dow Jones Newswires; 202-862-9256; Alex.Keto@dowjones.com

From: Carleton, Norman
Sent: Thursday, January 10, 2002 2:49 PM
To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: DJ: Enron Justice Probe Not Seen Reaching Into Bankruptcy Crt

January 10, 2002

Enron Justice Probe Not Seen Reaching Into Bankruptcy Crt

By PHYLLIS PLITCH

Of DOW JONES NEWSWIRES

NEW YORK -- Despite its apparent sweeping nature, the Justice Department's creation of a task force to investigate **Enron** Corp. (ENE) isn't expected to have much of an impact on ongoing bankruptcy proceedings.

Nor does the bankruptcy code offer a safe haven to senior executives who managed the company before its historic Chapter 11 filing in December, the largest on record.

Late Wednesday, **Enron** confirmed it's the target of a criminal investigation. The probe, which is expected to focus on possible accounting fraud, will be run by the Justice Department in coordination with U.S. Attorneys from across the country, including New York City, San Francisco and Houston, where **Enron** is headquartered.

Investors and employees lost billions in the collapse of Enron's core energy-trading operations amid a crisis of confidence among shareholders and trading partners, and the case has spawned a slew of shareholder lawsuits, as well as investigations by the Securities and Exchange Commission and the Department of Labor.

There have been past bankruptcy cases where stays have been issued or injunctions entered that protect current officers and directors from being sued during bankruptcy, if the court finds a civil lawsuit would interfere with the ability to help the company reorganize, said attorney Matthew Feldman.

"But that extension of an automatic stay or injunction would not apply under any circumstances that would protect an officer being pursued by state or federal authorities," said Feldman, a bankruptcy partner at Willkie Farr & Gallagher.

Similarly, the criminal probes are not seen undermining any continuing efforts by **Enron** and its creditors to dispose of the failed energy company's assets, he said.

Feldman represented another high profile bankruptcy filer that drew criminal scrutiny, Livent Inc., the

Toronto-based theatrical production company that went down in flames in 1998. Though top executives, including prominent Livent founder Garth Drabinsky were criminally indicted by the U.S. Attorney's office, unloading assets of value went off without any issues related to the criminal investigation getting in the way. (Remaining in Canada, the executives themselves, however, have escaped the clutches of prosecutors here.)

Not to say that any potential criminal actions won't ultimately have an impact on plaintiffs pursuing civil cases against **Enron**, be they shareholders or other creditors. Any findings in a potential fraud complaint could help bolster future civil lawsuits, legal experts said.

"The criminal investigation as well as the Department of Labor and the SEC's investigation may develop facts that would support asserting certain causes of action against officers or other entities that dealt with **Enron**," said Jack Williams, the outgoing scholar-in-residence at the American Bankruptcy Institute in Alexandria, Va.

Further, a background of criminal activity that might emerge could help color any future efforts by creditors to appoint an examiner or a trustee to manage the company during bankruptcy, said Williams, who is returning to his former post teaching bankruptcy at Georgia State University College of law.

"It can change the tone of a bankruptcy case," said Williams. "The fact that you have a coordinated criminal investigation involving prosecutors from several different cities suggests a very serious investigation. It does raise the possibility of the ability of creditors and the like to successfully seek an examiner or an appointment of a trustee."

But the way things have been unfolding in bankruptcy court, that event is extremely unlikely, given that the company is not giving creditors reason to take that unusual step, said Feldman. The company appears to be trying to aggressively sell assets of value and retain critical employees and is being represented by highly respected lawyers and bankers, he said.

"If it wasn't moving in that direction, you might see creditors, as a leverage point, try to bring in an examiner, or in a dramatic scenario, a trustee," he said. "As long as it is moving in a direction people generally think it should be, they won't want to be distracted by a criminal investigation, any more than they already are."

-By Phyllis Plitch, Dow Jones Newswires, 201-938-2357; phyllis.plitch@dowjones.com

01300000000464

Nickoloff, Peter

From: Carleton, Norman
Sent: Thursday, January 10, 2002 2:54 PM
To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: Bloomberg: Attorney General Ashcroft Recuses Himself From Enron Probe

01/10 14:35

Attorney General Ashcroft Recuses Himself From Enron Probe

By Anna Marie Stolley

Washington, Jan. 10, (Bloomberg) -- U.S. Attorney General John Ashcroft said he won't participate in the Justice Department's investigation into Enron Corp.'s collapse due to his ``relationship" with the company.

The announcement followed a call to step aside by U.S. Representative Henry Waxman. The California Democrat pointed to political contributions that Enron and its Chief Executive Officer Kenneth Lay made to Ashcroft's unsuccessful 2000 Senate campaign.

The Justice Department said yesterday that it is creating a task force in Washington to investigate the events that led to the biggest corporate bankruptcy.

Ashcroft announced today that he and his chief of staff, David Ayres, have recused themselves from anything to do with the Enron investigation ``due to the totality of the circumstances of the relationship between Enron and the attorney general."

``The attorney general has not been involved in any aspect of initiating or conducting any investigation involving Enron," the Justice Department said in a statement.

From: Carleton, Norman
Sent: Thursday, January 10, 2002 3:54 PM
To: Schultheiss, Heidilynne; Nickoloff, Peter; Berardi, Steve; Pietrangeli, Fred
Subject: Bond sleuths were ahead on Enron. Now they have their sights on three others.

AGAINST THE GRAIN
Caught Off Balance
Bond sleuths were ahead on Enron. Now they have their sights on three others.
FORTUNE
Monday, January 21, 2002
By Herb Greenberg

If you learn nothing else from the Enron mess, take this lesson to heart: A company's inability to handle its debt can be its downfall--no matter how much Wall Street likes its stock. Indeed, while earnings may be a window to a company's psyche, the balance sheet is what gives you a truer picture of its well-being. Bond analysts make a beeline to this crucial piece of financial disclosure, paying special attention to a company's ability to service its debt. And when the ratio of cash to debt plunges--watch out!

The best balance-sheet snoops are often way ahead of the pack in finding signs of trouble. Sometimes, however, the big credit-rating firms, Standard & Poor's and Moody's, which get paid by the companies they rate, are slow off the mark--slower, as a rule, than independent bond-rating services like Egan-Jones of Wynnewood, Pa., or research firms like New York-based Gimme Credit. "We don't have the constraint of trying to keep a company happy," says Egan-Jones President Sean Egan, whose downgrade of Enron to junk beat the big guys by about a month. (To be fair, Moody's is revising how it assesses companies, taking into account additional information that could lead to a default. Standard & Poor's, for its part, argues that its existing methods are adequate.)

Given the scope--and the surprise--of the Enron failure, it's worth asking: Are there other companies out there that these aggressive independent credit-rating agencies are flagging now? You can bet on it. We're not necessarily talking future Enrons, but simply companies whose financial situation is more dire than the market thinks. Certainly one where the alarm bells are ringing loudly (and which--don't remind me--got a positive nod from this column a year ago) is Ford Motor. It's no secret that Ford is having serious problems, but you wouldn't know it from its credit rating, which is still investment grade. Egan-Jones, however, labels it BBB-, a few notches lower than the other rating agencies do and just one step above junk. That's where Egan-Jones thinks Ford will arrive within six months, as the sales boost from the much heralded 0% financing starts to wane and bad auto loans pile up. Junk status raises the cost of borrowing and would be particularly damaging for Ford, whose ability to cover its debt has been deteriorating rapidly. Egan and other bond analysts measure this by calculating a company's interest coverage ratio--pretax income plus interest expense divided by interest expense.

The ratio, which varies widely by industry, is key to credit analysis. Egan calculates that Ford's interest coverage has tumbled from 2.2 in September 2000 to just above 1 now. "That's akin to saying that nearly everything you earn will have to be used to pay your interest expense, which doesn't leave a lot of money to invest in the business," he says. Ford responds that it's "disappointed" by the Egan-Jones rating; both S&P and Moody's insist they haven't been laggards

and that their ratings are appropriate.

Egan-Jones is even warier of computer maker Hewlett-Packard. Its credit picture is as imperiled as its proposed Compaq merger, according to Egan-Jones--which has already tossed the tech giant's debt on the junk heap with a rating of BB+, several notches below that of the major rating agencies. "It's appropriate to view Hewlett-Packard on a stand-alone basis, which is not particularly attractive," Egan says. "Today it is hard to name any business where it's the undisputed leader--even its printer business is being attacked." Making matters worse: From October 2000, Hewlett-Packard's interest coverage has sunk steadily from 19 to just 6.6. (By contrast, IBM's ratio, according to Egan-Jones, is 11.7.) Hewlett-Packard officials couldn't be reached for comment.

Finally, there's retailer Gap (another company this column once argued you should never bet against, because of its miracle-working marketing genius of a CEO, Mickey Drexler). While Gimme Credit's Carol Levenson says Gap's balance-sheet condition is not yet critical, it's "not nearly as strong as it used to be." Egan-Jones points out that Gap's interest coverage ratio has plunged from 27.3 down to 8.8 over the past four quarters. As a result, the firm rates the retailer's debt one step above junk and a couple of notches below that of both Standard & Poor's and Moody's ratings. Gap officials say they have never "worked" with Egan-Jones and point to the retailer's standing with the major rating agencies instead. The problem is, as Enron proved, those agencies are not always the first to sound the alarm.

Nickoloff, Peter

From: Carleton, Norman
Sent: Thursday, January 10, 2002 4:50 PM
To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: DJ: Arthur Andersen Says It Destroyed Documents Related to Enron Account

January 10, 2002

Major Business News

Arthur Andersen Says It Destroyed Documents Related to Enron Account

By JUDITH BURNS
Dow Jones Newswires

WASHINGTON -- Arthur Andersen LLP, already under fire for its audits of **Enron** Corp., said it has destroyed documents sought by federal law enforcement officials investigating the Enron debacle.

In a statement issued Thursday, Andersen said it notified the U.S. Justice Department and the Securities and Exchange Commission that individuals at the firm "disposed of a significant but undetermined amount" of documents relating to its work for Enron. The Houston energy company declared bankruptcy in December after announcing it had overstated four-and-a-half years worth of earnings.

The document destruction includes paper documents and e-mail correspondence.

Andersen said it has instructed employees to retain all existing documents "until further notice."

In addition, the Chicago-based Big Five accounting firm said it has asked former Sen. John Danforth (R., Mo.) to conduct "an immediate and comprehensive review" of the firm's policies on document handling and recommend improvements.

Andersen said destruction of Enron documents occurred "in recent months" by individual employees involved in auditing the energy company.

Michael Donovan, a Philadelphia attorney with Donovan Searles, LLC, which has filed a class-action lawsuit against Andersen on behalf of Enron shareholders, said document destruction by an audit firm is shocking.

"Auditors save everything," including all work papers for audit clients, Mr. Donovan commented.

Enron was one of Andersen's largest clients, generating $25 million a year in audit fees and $27 million of fees for consulting. Enron, a high-flying energy company which last year ranked No. 7 on the Fortune 500 list, announced big losses last October in off-balance-sheet partnerships run by former Chief Financial Officer Andrew Fastow. In early November, Enron acknowledged it had overstated earnings by $569 million over a four-and-a-half year period and said investors could not rely on its past financial statements.

The SEC launched a formal investigation into Enron's accounting on Oct. 31.

Write to Judith Burns at judith.burns@dowjones.com[1]

01300000000469

Nickoloff, Peter

From: Carleton, Norman
Sent: Thursday, January 10, 2002 4:55 PM
To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: DJ: WHITE HOUSE WATCH: Enron Story Heats Up At White House

January 10, 2002

Dow Jones Newswires

WHITE HOUSE WATCH: Enron Story Heats Up At White House

By ALEX KETO

A Dow Jones Newswires Analysis

WASHINGTON -- The long-simmering story over the collapse of Enron (ENE) and its political contributions to President George W. Bush heated up considerably Thursday with the revelation that Enron Chairman Kenneth Lay pleaded for help from the administration while his company was going down in flames.

Administration officials turned Lay down, but the news brings the issues of political contributions and political favors into uncomfortably close proximity.

For his part, Bush said he was out of the loop.

"I have never discussed with Mr. Lay the financial problems of the company. The last time that I saw Mr. Lay was at my mother's fund-raising event for literacy in Houston. That would have been last spring," Bush said.

Bush went on to say he wants to see a full investigation into Enron's bankruptcy, the largest in U.S. history.

"What anybody's going to find out is that this administration will fully investigate issues such as the Enron bankruptcy, to make sure we can learn from the past and make sure workers are protected," Bush said.

Nevertheless, the White House appeared to be buffeted by fast-moving events with White House spokesman Ari Fleischer denying at midday there was any conflict of interest in having Attorney General John Ashcroft, who received political contributions from Enron as a Senate candidate, oversee a criminal probe of the company's bankruptcy. Less then two hours later, Ashcroft and a top aide recused themselves from the investigation.

Shortly after the Ashcroft announcement, Arthur Andersen LLP, the company that served as Enron's auditors, announced that a "significant" number of the company's documents and records had been destroyed. Both federal and congressional investigators have been seeking the documents.

Fleischer said that during the autumn Lay called Treasury Secretary Paul O'Neill to warn him that Enron was on the verge of collapse, and Lay said the bankruptcy of his company could be as destabilizing as the implosion of the Long-Term Capital Management hedge fund in the late 1990s.

However, upon investigation, the Treasury Department rejected Lay's arguments.

Later, Lay called Commerce Secretary Don Evans to say "he (Lay) was having problems with his bond rating and he was worried about its impact on the energy sector."

Evans then called O'Neill but "they both agreed no action should be taken to intervene with their bond holders," Fleischer said.

Even before the latest revelations, the White House had confirmed Vice President Dick Cheney or his aides met with Enron officials six times last year to discuss energy issues while the White House was drawing up its energy plan .

However, Fleischer said the fact that Lay and others were talking to top officials isn't in and of itself a crime.

"I want to remind you that communication is not a wrongdoing. What took place here was, they received phone calls and took no action. The charge has been, did the government take any action? And the answer from these two officials is no," Fleischer said.

"I think it should surprise no one that people in the administration receive phone calls from people who are either in business or at unions. It happens everyday," Fleischer said.

However, some of Fleischer's assertions were, to be blunt, surprising.

To begin with, Fleischer said Thursday morning was the first time that O'Neill and Evans mentioned to Bush they had been in contact with Lay in the weeks just ahead of the company's bankruptcy.

In addition, Fleischer said no one in the administration briefed Bush about Enron's woes and he was hard pressed to say how the president learned the company had gone belly up late last year.

"He learned last fall. And I couldn't tell you if he learned as a result of the media accounts when everybody wrote that Enron had gone bankrupt or through any other mechanism. He learned last fall," Bush said.

However, this explanation appeared to be rather thin considering that Bush was fully informed and deeply involved in the financial bailout of the nation's airlines at the same time in part because thousands of jobs were at risk. Enron employed 20,000 workers.

Asked if, in hindsight, the president wished he had been better informed of the developments at Enron and among his top officials, Fleischer said, "No."

Adding to the White House's discomfort is the fact that Democrats on Capitol Hill are gearing up for hearings on Enron. Fleischer warned them against going too far.

"It's appropriate to take a look into what led to the bankruptcy of Enron and whether or not anything was done wrong in the process of Enron going bankrupt. But if that's a politically charged, a politically motivated effort, then I think the American people are going to say that this is just another fishing expedition, another endless investigation, the type that they soured on over the last many years," Fleischer said.

Bush Warns Iran Not To Shelter Fleeing Al-Qaida

Following reports that Iran may be sheltering small numbers of fleeing al-Qaida or Taliban fighters and trying to control Afghanistan's western provinces, Bush bluntly warned Tehran it will be held accountable for any moves to terrorism or terrorists.

"Any nation that thwarts our ability to rout terror out where it exists will be held to account one way or the other," Bush said.

"We had some positive signals early - early in this war from - from the Iranians. We would hope that they would continue to be a positive force in helping us bring people to justice. We would hope, for example, they wouldn't allow al-Qaida murderers to hide in their country. We would hope that if that be the case, if someone tries to flee into Iran, that they would hand them over to us," Bush added,

Bush also told Tehran to keep its hands off of Afghanistan's fragile government and hinted the U.S. response could be sharp.

"If they, in any way, shape or form, try to destabilize the government, the coalition will be - will deal with them in, you know, in diplomatic ways, initially," Bush said.

For what its worth, Iran denied it was either undercutting the Kabul government or hiding terrorists.

"It has been our policy not to allow terrorist groups such as al-Qaida in Iran," Vice President Mohammad Ali Abtahi told The Associated Press.

The U.S. has long considered Iran a major backer of international terrorism.

Certainly, Abtahi's comments didn't sway Secretary of Defense Donald Rumsfeld.

"We know that (Afghanistan-Iran) has a porous border and we know people have moved back and forth throughout history. And we also know they've been moving back and forth in recent history," Rumsfeld said.

-By Alex Keto, Dow Jones Newswires; 202-862-9256; Alex.Keto@Dowjones.com

Nickoloff, Peter

From: Carleton, Norman
Sent: Thursday, January 10, 2002 5:57 PM
To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: DJ: CAPITAL VIEWS: An Interesting Day In The Enron Trenches

January 10, 2002

CAPITAL VIEWS: An Interesting Day In The Enron Trenches

By JOHN CONNOR

A Dow Jones Newswires Column

WASHINGTON -- Today was a big day on the **Enron** front, with key developments coming fresh on the heels of Wednesday's new that the Justice Department has opened a criminal investigation of Enron's bankruptcy.

To briefly review the bidding:

- Arthur Andersen, LLP, already taking heavy fire for its auditing of the now-bankrupt **Enron** Corp. (ENE), told the Justice Department and the Securities and Exchange Commission that individuals at the firm "disposed of a significant but undetermined amount" of documents relating to its **Enron** work.

Andersen said the destruction, encompassing both paper documents and e-mail, was done in recent months by individual employees involved in auditing **Enron**. The number of individuals involved was not specified.

- White House Press Secretary Ari Fleischer disclosed that **Enron** Chairman Kenneth Lay, a big campaign contributor to George W. Bush, contacted two senior Bush Administration officials last fall. The officials in question were Treasury Secretary Paul O'Neill and Commerce Secretary Don Evans. The contacts sound in the telling like a bid for help.

Fleischer related that O'Neill said he had been contacted by Lay last fall and that Lay brought to O'Neill's attention "his concerns about whether or not **Enron** would be able to meet its obligations. And he expressed his concern about the experience that Long-Term Capital (Management) went through....

"Secretary O'Neill then contacted (Treasury) Undersecretary (Peter) Fisher to ask him to evaluate whether the comparison was apt, and the Department of the Treasury advised that it was not apt as a result of Secretary Fisher's review," Fleischer recounted.

- Peter Fisher to center stage once again. As a senior official of the Federal Reserve Bank of New York, Fisher played a leading role in cobbling together a non-government-funded financial Heimlich

Maneuver for the strickened LTCM, animinated in that effort by concerns of systemic risks. Sounds like Lay was trying to float the systemic risk possibility - and Fisher blew it away.

Told by a questioning reporter that it sounds like Lay was asking for a bailout, the White House Press Secretary said, "I don't characterize it one way or another, I just report to you what was said. I leave the characterization to others. That was the conversation with Secretary O'Neill."

He later added that O'Neill told him the O'Neill-Lay conversation occurred in October.

- With respect to the O'Neill and Evans conversations with Lay, Fleischer told reporters, "This morning, Secretary O'Neill and Secretary Evans made the information known, and we immediately shared it and provided it to you."

Asked specifically when President Bush learned that the two secretaries had talked to Lay, Fleischer said, "This morning."

- Attorney General John Ashcroft, another recipient of **Enron** campaign contributions during his unsuccessful Senate race in 2000, recused himself from the **Enron** investigation, as did David Ayers, Ashcroft's chief of staff who previously served as his campaign manager.

Earlier in the day, Fleischer at the White House had said that "the president has full faith and confidence in the professional prosecutors of the Department of Justice, and in the attorney general, to get to the bottom of all the allegations of criminal wrongdoing by **Enron**."

- Speaking of the president and **Enron**, Fleischer was asked when Bush learned of Enron's financial difficulties. "He learned last fall," the press secretary said.

"And I couldn't tell you if he learned as a result of media accounts when everybody wrote that **Enron** had gone bankrupt or through other any other mechanism," Fleischer added. "He learned last fall."

Nickoloff, Peter

From: Carleton, Norman
Sent: Thursday, January 10, 2002 5:59 PM
To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: DJ: US O'Neill Focuses On Regulatory Reform In Enron Review

January 10, 2002

US O'Neill Focuses On Regulatory Reform In Enron Review

NEW YORK -- U.S. Treasury Secretary Paul O'Neill said Thursday that he would focus on regulatory reform as part of President George W. Bush's newly announced probe of **Enron** Co. (ENE).

O'Neill told Fox News Channel that he would be part of two task forces stemming from the issue.

In the first, he would join Commerce Secretary Don Evans and Labor Secretary Elaine Chao to look at the impact of recent corporate bankruptcies on pension benefits.

In the second, he would join Federal Reserve Chairman Alan Greenspan, Commodities Futures and Trading Commission Chairman James E. Newsome and Securities and Exchange Chairman Harvey Pitt in looking into disclosure rules. O'Neill said they will determine whether changes are needed "to assure that investors and markets have all the information they are entitled to have to make our free-market economy work properly."

In ordering the probe, Bush particularly pointed at the loss of pension benefits by employees at **Enron,** which filed for bankruptcy last month. As Enron's stock collapsed, employees were barred from selling the company's shares while the energy trading company was changing pension administrators and the accounts were frozen.

Asked for specific solutions, O'Neill suggested that the government needed to see if 401(k) and other pension accounts need to be locked up when new administrators come in.

"We need to look at that and see if that is a sensible thing to do," he said.

But beyond that, the Treasury secretary refused to be pinned down on possible remedies. "I think we need to do a study and we need to do analysis," he said.

"We need to do analysis before we do prescription. It's a pretty good idea to figure out what disease exists before we start cutting off arms and legs," he added.

O'Neill also stressed that this effort is motivated by Bush's concern for Enron's employees. The Treasury secretary said the president is "just hurting a lot for people who apparently accumulated all of their savings in a 401(k) plan and then lost it all in a couple of months."

-By Paul Rekoff, Dow Jones Newswires; 201-938-4370; paul.rekoff@dowjones.com

From: Carleton, Norman
Sent: Thursday, January 10, 2002 6:01 PM
To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: DJ: Ashcroft Recuses Self From Enron Investigation

January 10, 2002

Ashcroft Recuses Self From Enron Investigation

By Mark Wigfield
Of DOW JONES NEWSWIRES

WASHINGTON -- Attorney General John Ashcroft and his chief of staff David Ayres have recused themselves from the investigation of **Enron** Corp. (ENE).

In a prepared statement, the Justice Department said Ashcroft's decision was "due to the totality of the circumstances of the relationship between **Enron** and the Attorney General." Ashcroft hasn't been involved in any aspect of the investigation to date, the Justice Department said.

The statement didn't explain why Ashcroft and Ayres were recusing themselves. However, according to the Center for Responsive Politics, **Enron** gave $25,000 in so-called "soft money" to the Ashcroft Victory Committee in the 2000 election cycle.

Enron Chairman Kenneth Lay also gave the Ashcroft Victory Committee $25,000. The committee provided funds to the National Republican Senatorial Committee and Ashcroft's failed campaign for re-election to the Senate.

Enron's political action committee also gave Ashcroft's Senate campaign $4,999 in the 2000 cycle, while employees of the company gave $2,500, according to the Center for Responsive Politics. The group analyzes campaign finance filings.

Deputy Attorney General Larry Thompson will oversee the investigation in Ashcroft's absence, the Justice Department said.

Ashcroft's recusal is another indication of the company's ties with the Bush administration. **Enron** also contributed to President George W. Bush's election campaign, and the White House has acknowledged that Vice President Dick Cheney or his aides met six times with **Enron** representatives on energy issues last year, with the final meeting held six days before the company's financial condition was known.

However, White House spokesman Ari Fleischer told reporters Wednesday that he wasn't aware of anyone in the White House who discussed Enron's financial situation.

The Justice Department Wednesday confirmed that it is forming a special task force to combine the efforts of prosecutors nationwide who are investigating **Enron**. The nation's largest energy trader filed for protection from creditors under federal bankruptcy law after its market value plunged upon disclosures that it apparently misrepresented its financial condition.

-By Mark Wigfield, Dow Jones Newswires; 202-828-3397; mark.wigfield@dowjones.com

The Justice Department said Ashcroft made his decision without knowledge of a letter sent to him Thursday by Rep. Henry Waxman, D-Calif., that raised questions regarding Enron's campaign contributions to Ashcroft.

"As welcome as the Department of Justice's involvement is, it raises an awkward question regarding your own personal background with **Enron**," Waxman wrote. "As you know, during your last election campaign in 2000, **Enron** was one of your largest contributors."

Waxman also cited Federal Election Commission records showing that Ashcroft had received contributions from **Enron** and its employees totaling more than $60,000 since 1994, including a $1,000 1994 contribution from Enron's Kenneth Lay, when Ashcroft first ran for the Senate.

Waxman also cited criticism by the campaign finance watchdog group, Common Cause. The group last January complained to Senate Judiciary Committee Chairman Patrick Leahy, D-Vt., that the Ashcroft Victory Committee illegally mixed non-federal "soft money" that can only be used for party building activities with "hard money" that can go directly to an election campaign in an effort to exceed federal campaign contribution limits.

Leahy was ranking Democrat of the panel at the time because the Senate was still controlled by Republicans.

Waxman didn't recommend a specific course of action for Ashcroft. But "at a minimum, I would hope that you would immediately fully disclose your past background and contacts with **Enron** and seriously consider whether it is appropriate for you to be involved in the criminal investigation of **Enron**," he wrote.

The Justice Department said Ashcroft "voluntarily recused himself from any **Enron** matter," with the concurrence of Justice Department ethics officials.

In a statement, Leahy praised Ashcroft's decision.

"Attorney General Ashcroft has taken the appropriate step, and I commend him for it," Leahy said. "I have full confidence in Deputy Attorney General Larry Thompson and his ability to pursue this investigation."

-By Mark Wigfield, Dow Jones Newswires; 202-828-3397; mark.wigfield@dowjones.com

01300000000478

Nickoloff, Peter

From: Carleton, Norman
Sent: Friday, January 11, 2002 9:47 AM
To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: FW: 1BN) Treasury's O'Neill Comments on Enron Calls, Disclosur

-----Original Message-----
From: Lori.Santamorena@bpd.treas.gov [mailto:Lori.Santamorena@bpd.treas.gov]
Sent: Friday, January 11, 2002 8:40 AM
To: norman.carleton@do.treas.gov
Subject: 1BN) Treasury's O'Neill Comments on Enron Calls, Disclosur

----- Forwarded by Lori Santamorena/BPD on 01/11/02 08:39 AM -----

"PUBLIC DEBT, US DEPT OF TREASURY" <GSRS@bloomberg.net>

01/11/02 08:17 AM

To: lsantamorena@bpd.treas.gov
cc:
Subject: 1BN) Treasury's O'Neill Comments on Enron Calls, Disclosur

Treasury's O'Neill Comments on Enron Calls, Disclosure Rules
2002-01-10 19:35 (New York)

Washington, Jan. 10 (Bloomberg) -- The following are comments from U.S. Treasury Secretary Paul O'Neill on his conversations with Enron Corp.'s chairman Ken Lay prior to Enron's bankruptcy and a review by government regulators of the adequacy of corporate disclosure rules. O'Neill spoke during interviews on Cable News Network and CNBC.

``My first call from Ken Lay was for him to give me a heads-up that they were struggling and to offer the president of his company to speak with the Undersecretary of Domestic Finance (Peter Fisher) to understand the positions they had so we could make sure that we were taking care of our responsibility, which is to make sure that the U.S. capital markets work,'' O'Neill told CNN.

``That was the purpose of Ken's call to me, to let me know we were welcome to have access to information so we could understand what they were doing and the possible exposure to the world's capital markets.

``The second call, Ken called me to tell me they were in discussions with Dynergy and it was an information-only call. Subsequently, (Commerce Secretary) Don Evans called me to say he'd had a call and that Ken had told him that rating agencies were looking at them and there was real concern if the rating agencies downgraded them that that could effectively scupper the deal with Dynergy,'' he said.

On what he did following the call:
``I subsequently asked (Fisher) to speak with the Enron people, which he did, so that we could satisfy ourselves that the Enron affairs were not going to have a negative impact on U.S. capital markets,'' O'Neill told CNBC.

On whether he thinks ethics rules were broken:
``I thought it was business as usual,'' he told CNBC. ``I get calls every day from the big players in the world. Enron was the biggest trader of energy in the world. So I was not surprised at all that I would get a call saying we've got a problem over here and you should know about it.''

On whether he was he asked by Ken Lay for a government bailout:
``Absolutely not,'' he told CNBC. ``One of things I enjoy about Treasury is I don't have a lot of giveaway programs so if he wanted a giveaway from the government he sure wouldn't have called me. I don't know if one were inclined to make bailouts why there would be a bailout for a company that's gotten itself into trouble. If you want to look at recent Chapter 11 filings or Chapter seven filings you can look at Bethlehem Steel and Sunbeam and they don't call the government for a bailout. I ran a Fortune 50 company, it never would have occurred to me to call the government for a bailout if I got my company in trouble.''

On what President George W. Bush has asked him to do today:
``The president tasked me to one, head a committee that includes Don Evans and (Labor Secretary) Elaine Chao to look at the Enron case and other bankruptcy cases to pay special attention to the question of whether we need to amend the rules that govern pension plans and 401k plans to provide a greater deal of assurance to individuals who have a stake in pension plans and 401k plans,'' he told CNN. ``That is driven by the president's concern about the individual employees. The president said to me we need to see if there is something we need to do so that we learn from this. If there is a weakness in our rules let's fix the rules.''

``And the second committee the president asked me to convene is one that's a standing committee, the president's economic committee. That includes myself and Alan Greenspan, the head of (the Commodities Futures Trading Commission) and Harvey Pitt of the SEC. The charge the president's given us is to look at the Enron case and other cases and see if we need to adjust the disclosure rules so that shareholders and employees have all the information they need to make intelligent decisions. This is not about Enron, this is about making sure the rules that govern the way our economic system works are worthy of the conditions that we're dealing with these days to assure that individuals are not hurt because of a weakness in our rules.''

--Simon Kennedy in the Washington newsroom (202) 624-1834, or at skennedy4@bloomberg.net /jo

Story illustration: For graph of Enron's stock price, type:
{ENE US <Equity> GPO D <GO>}

ENE US <Equity> CN

01300000000480

NI TRE
NI SEC
NI SCR
NI LAW
NI ACC
NI CNG
NI FIN
NI GOV
NI US
NI TX
NI NY
NI NASD
NI OIL
NI PIP
NI NRG
NI GAS
NI ERN
NI EXE
NI CNG
NI LAW
NI RULES
NI VOICES

#<40533>#

-0- (BN) Jan/11/2002 0:35 GMT

01300000000481

Nickoloff, Peter

From: Carleton, Norman
Sent: Friday, January 11, 2002 10:53 AM
To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: FT: Power politics

Power politics
The furore over Enron is starting to raise some uncomfortable questions about the Bush administration's links with the collapsed energy giant, says Peter Spiegel
Published: January 10 2002 20:12 | Last Updated: January 10 2002 20:18

Home states have not been friendly to recent American presidents. For most of his administration, Bill Clinton found himself haunted by his financial dealings in Arkansas. Disquiet over a failed land development called Whitewater led to an investigation by an independent prosecutor that almost brought down his presidency.

Now George W. Bush is starting to find embarrassment in his proud Texas roots. The Lone Star State, of which Mr Bush used to be governor, is also home to Enron, the energy trading company. Enron's spectacular collapse has prompted a criminal investigation and spurred Mr Bush to order on Thursday a sweeping review of federal pension rules and corporate financial disclosure regulations.

Mr Bush's own connections to the company extend back to his time as Texas governor, when Kenneth Lay, Enron chief executive, was head of the governor's business council. Mr Lay was an early and eager supporter of Mr Bush's presidential campaign, signing on as a "pioneer" who raised more than $100,000 for the race. Enron and its executives donated $114,000 themselves.

But Mr Lay's ties to the Bush family go back even further. He was a strong supporter of Mr Bush's father, going so far as to hire former cabinet members James Baker and Robert Mosbacher as Enron consultants after the 1992 election defeat. The president said yesterday that he had last seen Mr Lay at a literacy fund-raising event organised by Barbara Bush, his mother. "I have never discussed with Mr Lay the financial problems of the company," he added.

For the Bush administration, the growing Enron controversy is proving a delicate tightrope. On the one hand, Mr Bush appears eager to be seen as above the fray, ordering executive branch agencies to pursue Enron without fear or favour. On the other, his stubborn and influential vice-president, Dick Cheney, has been unwilling to release records regarding contacts his energy taskforce had with Enron while it was formulating the administration's energy legislation, now before Congress.

"The vice-president could have put a lid on this early on," says Tom Fitton, president of Judicial Watch, a conservative group that is sueing for Mr Cheney's taskforce records. "Instead, he's painted himself into a corner. Supporters of the Bush administration have to ask themselves what would have been their reaction if the Clintons came out with this. They would have gone ballistic."

Mr Cheney also has links with Enron, as recent disclosures about a meeting between him and Mr Lay in Washington last April have illustrated. The two had got to know each other in Texas, where Mr Cheney was chief executive of Halliburton, another Houston-based energy company. Indeed, Mr Lay

and Mr Cheney had worked closely on one of the city's most prominent new landmarks, a baseball stadium for the home-team Astros, which was built by a Halliburton subsidiary and bears the name of Mr Lay's company: Enron Field.

On his trip to Washington last April, Mr Lay did not want to talk baseball. California was in the middle of an energy crisis - the state's largest investor-owned utility, Pacific Gas and Electric, had just filed for bankruptcy. Enron, which had helped to formulate the state's electricity deregulation plan, was facing criticism.

Neither Mr Lay nor Mr Cheney has talked in detail about what the two discussed in the half-hour session. A Cheney aide disclosed this week that the meeting was generally about "energy policy matters", including the California situation. But the sit-down, along with five other contacts between Enron representatives and the staff of the vice-president, who chaired Mr Bush's energy taskforce, has begun to raise questions.

Henry Waxman, a senior Democrat member of the House energy and commerce committee, which is conducting an inquiry into Enron's collapse, notes that the day after the Cheney-Lay meeting, the vice-president gave an interview to the Los Angeles Times in which he stated that the administration would not support price caps on electricity. Conservatives in Washington have long resisted price caps of any kind, and opposition from the Bush administration was not particularly surprising. The coincidence is nonetheless awkward.

These are not the only links between the administration and Enron. Both Lawrence Lindsey, the White House economic adviser, and Robert Zoellick, the US trade representative, were employed as consultants by Enron before taking jobs with Mr Bush. While there is no evidence so far of impropriety by any White House official, the saga reinforces past questions over whether Mr Bush's administration does the bidding of moneyed interests and corporations that provide political donations.

"Enron is just one example of these self-interested energy companies that had special access," says John Walke, a lawyer for the Natural Resources Defence Council, an environmental group that has sued the administration seeking documents about how Mr Cheney's energy taskforce formulated the White House's energy legislation.

Indeed, the taint of even an arm's-length association with Enron has become so great that several high-profile political groups have decided to forgo contributions from the company. The Republican Governors Association recently returned a $60,000 Enron donation, and the National Republican Senatorial Committee - the arm of the Republican party responsible for Senate races - sent back two cheques totalling $100,000. The Democratic Senatorial Campaign Committee - which received an identical $100,000 Enron donation - donated the money to charity.

Congressional inquiries into the ties between the Bush administration and Enron have their perils for Democrats as well. Senator John Breaux, a powerful conservative Democrat, has called for the White House to disclose all contacts with Enron, a move Mr Cheney in particular has resisted. But Mr Breaux himself received more than $11,000 in donations from Enron over the past decade, according to the Centre for Responsive Politics, a watchdog group. He is not alone. Senator Jeff Bingaman, chairman of the energy committee, has been a recipient of thousands of dollars of Enron's largesse, as has Congressman John Dingell, the top Democrat on the House energy and commerce committee and one of the most outspoken critics of Mr Cheney's dealings with the company. Linda Robertson, formerly a senior lobbyist for Enron, was an assistant Treasury secretary in the Clinton administration.

01300000000483

The question of whether Enron bought influence in Washington is not the only one facing the administration. A separate investigation is being carried out by Senator Joseph Lieberman, chairman of the government affairs committee, into the role of federal regulators. So far, the most embarrassing revelation has been the role of Wendy Gramm, wife of Phil Gramm, a Texas senator, who served as the chairman of the Commodities Future Trading Commission before joining Enron's board of directors. While at the CFTC, she kick-started regulations that exempted some energy trading from government oversight, a move backed by Enron. Mrs Gramm is now a member of the auditing committee of Enron's board, which has come under scrutiny.

The announcement by Mr Bush on Thursday will only add to the pressure on Washington figures such as Mrs Gramm whose ties to Enron are now proving embarrassing. So far, the Enron affair has been far less awkward for the administration than Whitewater was for Mr Clinton. Nor is there any sign that any Bush official had direct knowledge of, or involvement in, the financial mismanagement of the company. But Texas, like Arkansas, has come to Washington.

Carleton, Norman

From: Lori.Santamorena@bpd.treas.gov
Sent: Monday, December 10, 2001 2:47 PM
To: norman.carleton@do.treas.gov; peter.nickoloff@do.treas.gov
Subject: 1BN) Enron Records at SEC Sought by House Energy and

----- Forwarded by Lori Santamorena/BPD on 12/10/01 02:45 PM -----

"PUBLIC DEBT, US DEPT OF TREASURY" <GSRS@bloomberg.net>

12/10/01 02:34 PM

To: LSANTAMORENA@BPD.TREAS.GOV
cc:
Subject: 1BN) Enron Records at SEC Sought by House Energy and Comme

Enron Records at SEC Sought by House Energy and Commerce Panel
2001-12-10 13:15 (New York)

Enron Records at SEC Sought by House Energy and Commerce Panel

Washington, Dec. 10 (Bloomberg) -- The U.S. House Energy and Commerce Committee asked the Securities and Exchange Commission to produce by next Monday all reviews and reports it has done on Enron Corp. since 1997.

Committee chairman Representative Billy Tauzin and James Greenwood, chairman of the panel's oversight and investigations subcommittee, made the request in a Dec. 7 letter to SEC Chairman Harvey Pitt released by Tauzin's office today.

``The apparent collapse of the company has resulted in the loss of substantially all of the equity value in Enron, and the loss by many participants of sizeable portions of their retirement savings,'' said Tauzin of Louisiana and Greenwood of Pennsylvania, both Republicans. ``It also highlighted the lack of transparency in Enron's derivative positions in the energy market.''

Tauzin and Greenwood requested SEC reviews of all Enron quarterly and annual filings with the agency beginning January 1997 up to the date the SEC launched its own formal probe into Enron. Tauzin and Greenwood also want all proposed adjustments to Enron filings submitted to the SEC by Enron auditors.

--Vicky Stamas in Washington (202) 624-1958, or vstamas@bloomberg.net /ba

Story illustration: To compare Enron's stock performance with market indexes, type {ENE US <Equity> COMP <GO>}.

Company news:
ENE US <equity> CN

NI Codes:
NI CNG
NI NRG
NI TX
NI GOV
NI CGS
NI US
NI DC
NI CMD
NI GA
NI OIL
NI ELC
NI UTI
NI SEC
NI ACC
NI NYSE
NI BCY

01877

01300000000485

NI GAS
NI PIP

#<7991>#

-0- (BN) Dec/10/2001 18:15 GMT

01878

Carleton, Norman

From: Lori.Santamorena@bpd.treas.gov
Sent: Friday, January 11, 2002 2:00
To: norman.carleton@do.treas.gov

SHOW: MONEYLINE 06:00 PM Eastern Standard Time

January 10, 2002 Thursday

Transcript # 011001cb.110

SECTION: Business

LENGTH: 8009 words

HEADLINE: LOU DOBBS MONEYLINE; CNNfn

GUESTS: Paul O'Neill, Stephen Cannell, William Esrey

BYLINE: Lou Dobbs, John King, Susan Candiotti, Allan Chernoff, Bill Hemmer, Kitty Pilgrim, Jamie McIntyre, David Grange

BODY:
THIS IS A RUSH TRANSCRIPT. THIS COPY MAY NOT BE IN ITS FINAL FORM AND MAY BE UPDATED.

LOU DOBBS, CNNfn ANCHOR, LOU DOBBS MONEYLINE: Good evening. The Enron (Company: Enron Corporation; Ticker: ENE; URL: http://.www.enron.com/) debacle is taking on ominous and disturbing dimensions. It has already resulted in the largest corporate bankruptcy in history, the loss of thousands of jobs, and the loss of billions of dollars in investments. Today, Enron's accounting firm, Andersen, disclosed that it had destroyed a significant number of documents in recent months, something the Securities and Exchange Commission is calling, quote, "extremely serious".

Also today, Attorney General John Ashcroft and a top aide recused themselves from the criminal investigation of Enron. For the latest, we head to the White House, where senior White House correspondent John King is following the story -- John. JOHN KING, CNN SR. WHITE HOUSE CORRESPONDENT: Lou, good evening. Not only dramatic developments today indicating how the investigations are expanding, but also how the political ramifications of the Enron situation are stretching across Washington and deep within the Bush White House.

You mentioned the attorney general, John Ashcroft. He and his chief of staff announcing today they will recuse themselves from this relatively new, two-week-old federal criminal investigation into whether Enron defrauded its employees and its shareholders. The reason why: John Ashcroft was a Republican senator last year, seeking re-election. He received $60,000 in contributions from Enron and top company officials. So he is stepping aside.

Here at the White House, the president announced two additional investigations. These government reviews to determine if the government needs to do more, new disclosure laws to require companies to tell their shareholders and their employees those invested in 401(k) plans, especially when their finances are deteriorating. But, of course, because of the political connections of Enron CEO Ken Lay, the president was also asked whether perhaps this long-time friend of the Bush family received any special treatment.

(BEGIN VIDEO CLIP)

GEORGE W. BUSH, PRESIDENT OF THE UNITED STATES: I have never discussed with Mr. Lay the financial problems of the company. The last time that I saw Mr. Lay was at my mother's fundraising event for literacy in Houston. That would have been last spring.

(END VIDEO CLIP)

KING: Now, Enron filed for bankruptcy in early December. We learned today that CEO Ken Lay did call two members of the Bush cabinet. In late October, he called Commerce Secretary Don Evans and the **Treasury** secretary, **Paul O'Neill.** We're told he called Secretary O'Neill a second time, a short time later, in early November. In those conversations, we are told Ken Lay said the company was at risk of not being able

to meet its obligations and asked for help securing, boosting up Enron's bond rating. We're also told that Secretaries O'Neill and Evans conducted a quick review, spoke to each other and decided there was nothing the government could or should do. Top Bush administration officials saying tonight perhaps they should have disclosed word of those conversations a bit earlier. But the White House press secretary, Ari Fleischer, saying in the end, any investigation will show this administration did absolutely nothing wrong.

(BEGIN VIDEO CLIP)

ARI FLEISCHER, WHITE HOUSE PRESS SECRETARY: What's important here in the president's opinion is that this needs to be investigated from a criminal point of view to determine what went wrong with Enron as well as from the Department of Labor to protect the pensioners who worked for Enron, the employees of Enron. But in addition, it's very important to look at policies to make certain this doesn't happen to anybody else.

(END VIDEO CLIP)

KING: Again, the administration saying any investigation will prove that when a major friend, a contributor of this president asks for help, the answer was no. But Democrats say they still want more information on any contacts between Enron, CEO Ken Lay and other top officials with the president, with the vice president and anyone else, senior officials of this administration. So as the investigations continue, so, Lou, too will the political fallout.

DOBBS: John, thank you very much. And we will be talking with **Treasury** Secretary **Paul O'Neill** here in this broadcast, perhaps Commerce Secretary Don Evans as well as these events are unfolding and the investigation of the collapse of Enron.

For more now on the criminal investigation of Enron what it could mean for its audit firm, Andersen, we turn to CNN's Susan Candiotti -- Susan.

SUSAN CANDIOTTI, CNN CORRESPONDENT: Good evening, Lou.

With the recusal of the attorney general and his chief of staff, the Justice Department's Enron investigation will now be overseen by Deputy Attorney General Larry Thompson. The Washington-based task force includes prosecutors based in Enron's hometown, Houston, as well as San Francisco and New York, home to the Stock Exchange and Security Exchange Commission.

National investigations like Enron's are rare because justice doesn't usually focus on a single company, but an industry like big tobacco. And the timing is critical when justice is concentrating so many of its resources on the 9/11 investigation and still unsolved anthrax attacks.

And tonight, a disturbing disclosure from Arthur Andersen, which did accounting and consulting work for Enron. The company admitting it has gotten rid of documents that could be critical to the Enron investigation. Once more, the firm says it doesn't know exactly how many documents are gone, but calls the number significant, a revelation that has the SEC hopping mad.

Here's part of Arthur Andersen's statement: In recent months, documents including electronic files related to the Enron engagement were disposed of or deleted. Millions of documents related to Enron still exist and the firm has successfully retrieved some of the electronic files.

Well, the SEC's enforcement chief, Steven Cutler, not happy, issuing this response: Destruction of documents is obviously an extremely matter. Documents are an essential ingredient in our investigations. The destruction of documents by Arthur Andersen will not deter us from pursuit of our investigation and will be included within the scope of our investigation.

Now Arthur Andersen says it has told not only the SEC, but the Justice Department and the congressional committees investigating Enron. During congressional testimony last month, Arthur Andersen's chief auditor said he warned Enron it was involved in, quote, "possible illegal acts for allegedly withholding information from its own auditors". Now Enron denied that charge.

And this night, we also have late word for you, Lou, that tonight a spokesman for Congressman Billy Tauzin of the House Energy and Commerce Committee is saying that given the disclosures by Andersen about destruction of documents, he says that the company should be prosecuted if those documents were destroyed intentionally -- Lou.

DOBBS: Susan, thank you. Congressman Billy Tauzin, who has been involved in this investigation on the onset, saying that anyone who did this through negligence at Andersen should be fired, anyone who did it intentionally should be prosecuted. Susan, thank you very much. Susan Candiotti from Washington.

The fallout from the collapse of Enron is far reaching of course. Yet another example: Enron has 3,500 subsidiaries; 34 of them already have filed for bankruptcy protection. I want to turn, if I may now, to Allan Chernoff, who is following this investigation. Just how did we get here, in your judgment? How has this been spiraling so quickly?

ALLAN CHERNOFF, CNNfn CORRESPONDENT: Well, Lou, the latest item in terms of these lost documents, apparently it all started with investigators from Billy Tauzin's committee. Four of them went down to Houston, were looking for the documents yesterday. And they were told at the Andersen offices there was a problem. And earlier today, they were informed that in fact, potentially thousands of documents, primarily electronic, they believe...

DOBBS: Congressman Tauzin's committee, staff committee.

CHERNOFF: Precisely.

DOBBS: Committee staff rather was informed, and then came the statement and the disclosure from Andersen. Now the statement from Andersen, Allan, is intriguing for a number of reasons. And I'd like to read, and I apologize to our audience for not having this up on the screen.

But the firm says, "individuals in the firm involved with the Enron engagement disposed of a significant but undetermined number of electronic and paper documents." This appears at least to me to be the suggestion that there's some separation between the individuals of the firm and the firm itself, which is unique amongst professional services firms.

CHERNOFF: Yes. And, Lou, the people from the House Commerce and Energy Committee are saying that the deletions of these documents occurred in September, October and November when there already was some heat on Enron.

DOBBS: And the firm, the audit firm of Enron, Andersen, has retained former U.S. Senator John Danforth, as you know, to conduct an immediate and comprehensive review of Andersen's record management policy. But it goes on here to say that they're also looking to him to look for what they termed, "remedial and disciplinary actions within the firm". You're take on what that would mean?

CHERNOFF: Well, clearly they're looking for some people to blame. We don't know the full story just yet. And the investigators from the House committee are actually planning to meet with the partner in charge of the audit of Enron next Wednesday.

DOBBS: And the next steps in Washington, in terms of Capitol Hill?

CHERNOFF: We have got a lot of investigations ongoing right now, at least four, five separate investigations on Capitol Hill. And we have got also the **Treasury** secretary leading a number of policy reviews under direction of the president.

DOBBS: And, of course, a bankruptcy proceeding about to get underway in New York City, undetermined as yet as to whether it will be in Houston, which is the desire of many of the creditors, or New York City. What is the latest there?

CHERNOFF: That is still being battled. And today, there was a meeting, in fact, reviewing bids for energy, for the Enron trading business. The judge, Arthur Gonzalez, tomorrow in bankruptcy court may actually approve one of the bids for that business.

DOBBS: And Dynegy (Company: Dynegy Inc.; Ticker: DYN; URL: http://www.dynegy.com/), the punitive white knight for Enron in the early stages and later a litigant against Enron, reaching a settlement on the pipeline. Where does that stand?

CHERNOFF: Right. They have actually gone ahead. They're going to be able to go ahead and purchase the pipeline business from Enron that they wanted.

DOBBS: OK. Allan, thank you. Allan Chernoff following this story as are we all and appreciate your diligence on it. Thank you.

Well, a reminder once again, we will have much more on this developing story tonight. We will be talking with **Treasury** Secretary **Paul O'Neill** about this and a number of other issues as well.

We want to turn now to the war against terrorism, and report to you that the first wave of al Qaeda and Taliban prisoners have been flown out of Kandahar. But despite an extremely high level of security, gunfire was heard, flares were seen, as the C-17 transport aircraft sped down the runway. That aircraft took off without incident. No U.S. servicepeople were injured. A Marine spokesman says some people penetrated the outer perimeter. They were not identified, but presumably they're al Qaeda or Taliban, but they are no longer there after some search for them by the military.

Twenty al Qaeda and Taliban prisoners are being flown to the U.S. naval base as expected, Guantanamo Bay Cuba their destination. That journey covers about 8,000 miles and is expected to take about 20 hours to complete.

Our Bill Hemmer is at Kandahar airport tonight, and he heard a tracer fire while the transport plane was taking off. He joins us now from Kandahar. Bill, if I may, I'd like to start with the Pentagon, which is now saying the gunfire that took place as the plane took off, that it actually took place later and that it was not directed at the aircraft. You were an eyewitness. What can you tell us?

BILL HEMMER, CNN CORRESPONDENT: Lou, we got those reports again when they came out about 35 minutes ago. This is what we saw. We saw the C-17 taxiing toward the runway. There was tracer fire then shot up at the north end of the runway on the far side. And again, as the C-17 turned around and started heading down that runway, tracer fire was seen again.

Here is the confusion and here is why this is significant. Why was the tracer fire ignited at that time? Did they perceive shots or were they simply responding to sensors that may have been tripped on the perimeter? The C-17, as you mentioned, Lou, took off without incident. But about 15 minutes after that, there was significant red tracers crisscrossing the runway here. And we also heard several M-16s break out in a

short exchange of gunfire. To what that was directed is not clear right now, but it did last several minutes.

We were later told by the Marines that small arms were received here and also received by covert gunships circling overhead, two to be precise. Later, we were told by the Marines that snipers were detected and perceived around the perimeter. Special forces were sent out to extinguish that threat. Members of the 101st Airborne division, U.S. Marines, scrambling at that point to take their defensive positions here, many more scrambling inside the terminal building where we were located at the time.

Again, this lasted about three to three-and-a-half hours and we're not quite sure right now, Lou, as to whether or not that security breach continues at this point, or whether or not they'll be questions for the next shipment of detainees once that gets underway at sometime in the very near future, Lou.

DOBBS: You mentioned the two covert gunships. Presumably, they were dispatched in response to the perceived breach of the perimeter. Is that correct?

HEMMER: Yes, that is indeed correct, Lou. And they were flying around, based on our perception, for about two hours time. And we did notice also, at the time that the covert gunships were basically the only type of aircraft in the air, the airport was basically and essentially shut down, no flight operations, no lights were on as the security again was breached here, and they were taking no chances.

I should mention also prior to that, the first group of detainees, Lou, two groups of 10 taken out here. It seemed very orderly and very deliberate. Security was extremely tight. And the two groups were told recently all the detainees here taken out were clean shaven from head to toe, including the much coveted beard worn by many and all al Qaeda members here in Afghanistan.

Again, a C-17, especially equipped to take the detainees on that 20-hour flight to Guantanamo Bay, Cuba. But again, as I mentioned, this is a major security breach at this point. There will be many questions about how to handle this in the future. One source said it was a trial run of sorts to make sure the security measures implemented over the past four or five days here in Kandahar indeed were upheld. There will be many questions about that when the daylight comes up several hours from now, Lou.

DOBBS: One final question, Bill, the perimeter, presumably, manned by U.S. forces rather than Afghan. That would be my presumption. Is that a correct presumption?

HEMMER: Lou, at this point, here's our understanding: Two perimeters here in Kandahar, the interior and the exterior. The interior is guarded by the U.S. military and the other coalition forces. The exterior, we're told, is guarded by the OGs, the opposition groups, opposition groups of the Taliban and al Qaeda here in Kandahar. We are told the exterior perimeter is where the breach was determined and located, where those snipers apparently were firing again about nine hours ago here in Kandahar, Lou.

DOBBS: Bill, thank you very much. Bill Hemmer from Kandahar.

Well, CNN has learned an that an advance team of 25 U.S. special forces has landed in the Philippines. And that number could grow to 100 special forces with hundreds of maintenance and other personnel in support. They are all part of a larger U.S. military effort that could eventually number as many as 500 troops to help the Philippine government fight Muslim terrorists tied to the al Qaeda. Experts calculate that hundreds of Muslim terrorists may be in the outlying islands of the Philippines, perhaps thousands. Kitty Pilgrim has the report.

(BEGIN VIDEOTAPE)

KITTY PILGRIM, CNNfn CORRESPONDENT (voice-over): U.S. officials say the total effort could number 500 U.S. troops, including special forces troops, will be involved in the effort to root out Muslim terrorists tied to al Qaeda.

DONALD RUMSFELD, SECRETARY OF DEFENSE: Some time back, I signed understandings that we would provide some training and assistance to the Philippine government.

PILGRIM: The current effort is part of a $4 billion military aid package approved after September 11 to provide advice, training and equipment to the Philippine forces.

MIKE VICKERS, CSIS: Helicopters, transport aircraft, patrol craft and trucks, and then a lot of stepped up training too by special forces and intelligence folks and also helicopter training for the Filipinos to give them an edge over the guerrillas. But I think the Filipino army will largely do the work themselves.

PILGRIM: The Philippines has a been a hotbed of terrorist activity. A particularly savage group, Abu Sayyaf, operates from the Philippine island of Mindinao. U.S. troops are being sent to the southern city of Zamboanga.

Abu Sayyaf terrorists are notorious for beheading their captives. Two Americans, Martin Burnham and his wife, Gracia, were taken hostage along with another American and 17 Filipino guests of a resort last May. One of the Americans and four of the other captives were beheaded in June.

ADRIAN KARATNYCKY, PRESIDENT, FREEDOM HOUSE: But it is a fact that the founders of this group participated in the struggle in

Afghanistan. Some of them have been closely linked to Libya. So they do have links to this broader network of states and movements that have enabled and supported international terrorism.

PILGRIM: Abu Sayyaf has undeniable ties to al Qaeda. And convicted terrorists have studied in the Philippines, including Mohamed Sadeek Odeh, who was convicted for helping in the 1998 bombings of the U.S. embassies in Kenya and Tanzania. Also Ramzi Yousef, the mastermind of the first World Trade Center bombing in 1993.

(END VIDEOTAPE)

(on camera): The U.S. forces will set up a command center in the city of Zamboanga. And also expected, up to 10 helicopters and C-130 aircraft -- night flying equipment will give them an added advantage -- thousands of rifles and up to 100 motor vehicles. Lou, the troops have landed.

DOBBS: Kitty, thank you very much. Kitty Pilgrim.

Well, for more now on the U.S. military presence in the Philippines as well as the transport of the al Qaeda/Taliban fighters to Guantanamo and the continuing engagement in Afghanistan, I'm joined by Jamie McIntyre at the Pentagon -- Jamie.

JAMIE MCINTYRE, CNN MILITARY AFFAIRS CORRESPONDENT: Well, Lou, I think one of the key questions about these military trainers, special forces, going to the Philippines is exactly what they're going to be doing. And CNN has learned the mission guidance that they've been given allows for armed U.S. observers to travel with Philippine military to forward areas. Now that could potentially put them into a combat role even as the Pentagon says there are no plans to use them in direct combat. And the Philippine government says that such a use of troops would require special authorization from their Congress.

But when asked point blank today about what they -- whether they might be engaged in those kind of operations, Secretary Rumsfeld, following his well established policy, refused to speculate what they might do in the future.

And as for the detainees, the first flight is en route to Guantanamo Bay, Cuba. The United States is employing extraordinary security measures onboard the plane, keeping the detainees hooded, chained. They're not allowed to get up and go to the bathroom. They're given a bucket for that purpose. And the U.S. is extremely cautious about what these prisoners could do while they are in a confined airspace. They should arrive in Cuba by sometime tomorrow and begin to be processed there. And again, extremely tight security and some nervousness even about the transport of these very dangerous detainees -- Lou.

DOBBS: Jamie, thank you. Let me turn, if I may, to Bill Hemmer reporting from Kandahar, who says he heard and saw, of course, saw the tracer fire as the C-17 taking the al Qaeda and Taliban prisoners to Guantanamo Bay took off. The Pentagon, as I understand it, is not necessarily comfortable with that report, is that correct?

MCINTYRE: In any case like this they are trying to figure out exactly what happened. The report they got back to the U.S. central command, was that the major exchange of gunfire occurred after the plane had taken off and was apparently not directed at the aircraft, but directed at the base, testing the defenses or, you know, an assault there that coincided with the takeoff of the aircraft.

I don't think they are disputing anything Bill Hemmer saw, including some of that tracer fire early on. But they are just saying that at this point, as they go back and reassess, they don't think that what happened is an attempt to shoot at the aircraft, but rather an attempt to shoot at the U.S. forces that are at that base in Kandahar.

DOBBS: An indication, Jamie, there at the Pentagon, that there will be a further beefing up of the outer perimeter, which Bill Hemmer reported was at least momentarily breached?

MCINTYRE: Well, they have very tight security there already. So I'm not sure exactly what they'll be doing. But the have -- it just underscores, that this continues to be a war zone in a very dangerous place.

DOBBS: Jamie McIntyre, as always, thank you.

As I mentioned earlier. The first flight carrying the Taliban and al Qaeda prisoners from Kandahar are on their way to the U.S. Naval Base in Guantanamo Bay. The fact of the matter is CNN military analyst, General David Grange is here to assess, at least give us his assessment of the situation.

General, as always, good to have you here. It is interesting we have an eyewitness, one of the few incidents in which we have an eyewitness, a reporter on the ground and the Pentagon, at least in the initial stages wanting to, if you will, mold a somewhat different story. What's your reaction?

BRIGADIER GEN. DAVID GRANGE (RET.), CNN MILITARY ANALYST: Well, it depends where you're located at the incident site. A lot of people see different things.

DOBBS: Exactly.

GRANGE: Bill probably saw some tracer fire. Was the tracer fire red, was the tracer fire green? A lot of AK-47 fire is green tracers. So, it's really hard to say. And no one knows if the perimeter was even breached. It may have been just fire. The fire could have been outgoing.

I think it is too early to tell, and I think that the security forces there took appropriate action from the rehearsals that they have conducted, which all units do when they start an operation in an area, by firing mortar flairs, helicopters, launch and check the area net. So it seems very small. This is one of those incidents that happened almost every day in Vietnam.

DOBBS: General, we have an axiom in the newscraft -- always go with your person in the field. I believe the military has a similar axiom, so it is interesting and the good news is that no one, certainly, was injured in what did transpire.

General, let's turn to the Philippines; 100 U.S. troops, special forces, arriving there. The first elements of a force estimated to rise to as many as 500. How effective could such a small force be in a significant struggle against terrorism?

GRANGE: What we have in the Philippines is you have terrorist organizations, (UNINTELLIGIBLE) al Qaeda and probably some other organizations that again are in a guerrilla force environment. In other words, you have a counter-insurgency effort going on with the Filipino government against an insurgency to the south.

So you have fighters like the Taliban, very similar, with the terrorist nucleus within that. So what they have to do is conduct a counter terrorist training to assist the Filipino Army taking down this insurgency. That will involve -- and it doesn't involve a lot, but some special forces trainers to teach some advance techniques in this, as well as some other support and aviation units to help train and support the Filipino Army to do this counter-insurgency.

DOBBS: General, would it surprise you to learn that the U.S. military has had a presence in the Philippines before today's announcements of the arrival of U.S. Special Forces?

GRANGE: Not at all. I would think they've been there. And any -- any day of the year. Seriously. Any day of the year, you have -- I would say in over 70 countries, special ops forces, doing normal training with our allies.

DOBBS: I just wanted you to make the point if you would, General, and as you always do, the fact is that we have a significant number of special operations, elements at work around the world, but particularly in certain parts of Asia. Do you expect this to hold at 500 or do you see a more sizable commitment in the Philippines?

GRANGE: I guess it depends if this is going to be maybe truly the next major operation. You know, limited operations will take place for sure. Mainly by the Filipino Army I would believe. It may be unilateral hostage rescue or direct assaults by American forces with the permission, of course, of the Filipino government if that is necessary.

It could grow bigger. It's pretty big area down there, jungle fighting usually consumes quite a lot of troops.

DOBBS: General, thank you very much. General David Grange.

GRANGE: Thank you, Lou.

DOBBS: Coming up next, we will have more for you on tonight's developing story on the criminal investigation into Enron. We'll be joined by **Treasury** Secretary **Paul O'Neill** to discuss this and a number of other issues. We'll be taking an inside look at the corrupt world of money laundering from what you might consider an unusual source. Stay with us.

(COMMERCIAL BREAK)

DOBBS: The world of money laundering, corruption and the role played by big corporations is the subject of a new novel by Stephen Cannell. Cannell knows this material very well. He is the creator of more than 40 television crime series, such as "The Rockford Files" and "The A-Team." And he's one of the most prolific writers in television, a very astute businessman as well.

Through his production company Cannell still owns the rights to 1,000 hours of television series and movies. His new book is called "The Viking Funeral." Is a fictional account of a group of rogue LAPD officers, but Cannell's research is based some very real cases. And we are going to be turning to him in just a moment, I'm told, to discuss that book and what we have learned about the war on drugs and its relationship to the against terrorism.

Stephen Cannell are you there? OK, I'm told he's not there, and I want to apologize. Let's turn to the latest developments in the war against terrorism.

Tracer fire, as you heard Bill Hemmer report earlier in this broadcast, heard today as the first plane carrying Taliban and al Qaeda prisoners took off from Kandahar, Afghanistan. Small arms fire followed. Marines at the airport returned fire. Two Cobra gunships were launched in retaliation. There are no reports of any American injuries; 20 al Qaeda Taliban prisoners are being flown to the U.S. Naval Base on Guantanamo Bay Cuba, a trip expected to take about 20 hours.

CNN has learned that 25 special forces soldiers on the ground in the Philippines. They will be there to help train Philippine troops to hunt down Muslim rebels tied to al Qaeda terrorist network. Sources now till CNN that they expect the U.S. deployment to expand to more than 500 troops in the next few months.

President Bush is demanding that Palestinian Leader Yasser Arafat renounce terrorism. President Bush's words come one day after U.S. officials said there is now credible evidence that Arafat's Palestinian authority was involved in an arms shipment intercepted by Israel.

As we mentioned, **Treasury** Secretary Paul O'Neil is joining us. He is at the center of the war against terrorism, searching out, freezing terrorist assets around the world. He is also helping to manage the fallout from an economy in recession and now involved in the Enron disaster and its investigation.

There is word tonight that the entire U.S. attorney's office in Houston has recused itself from the Enron investigation. **Treasury** Secretary **Paul O'Neill** joins me now.

Mr. Secretary, good to have you here.

PAUL O'NEILL, U.S. **TREASURY** SECRETARY: Nice to be with you, Lou.

DOBBS: These are extraordinary developments in terms of Enron: the attorney general recusing himself, the president now for the first time having to deal with the issue from the White House; the reports of your conversations between Ken Lay, twice, once in October, once in November; and then his calls also to Commerce Secretary Evans as well as subsequent conversation between the two of you. If I may, sir, I'd just like to ask you what you and the commerce secretary discussed and what your decision was?

O'NEILL: Well, as you say, Lou, I had -- my first call from Ken Lay was for him to give me a heads-up that they were struggling and to offer the president of his company to speak with the undersecretary for domestic finance to understand the positions that they had to make so that we could make sure that we were taking care of our responsibility which is to make sure that the U.S. capital markets work. And that was the purpose of Ken's call to me, to let me know that we were welcome to have access to information so we could understand what they were doing and understand the possible exposure for the world's capital markets. The second call to me was -- I've forgotten exactly when, but Ken called me to tell me that they were in discussions with Dynegy. And it was an information only call. And subsequent to that, Don Evans called me to tell me that he'd had a call from Ken and that Ken had told him that their -- rating agencies were looking at them and there was a real concern that if the rating agencies downgraded them, that that could had effectively scuttle the deal with Dynegy. And I went down...

DOBBS: Which it subsequently did.

O'NEILL: Excuse me?

DOBBS: Which it subsequently did.

O'NEILL: That's right. And when Don called me, and we talked about it, we agreed there wasn't anything within our responsibilities that required us to do anything. And that was the end of it.

DOBBS: Were you asked at anytime by Ken Lay to do anything specific?

O'NEILL: I was not. Absolutely not.

DOBBS: An extraordinary statement today, the president said that he had not discussed the financial problems of Enron with Ken Lay. And I would like to ask you at any point have you discussed the financial problems of Enron with Ken Lay over the course of your tenure as **Treasury** secretary?

O'NEILL: Well, the only contact I had with Ken on the subject of Enron was the two times that he called me that have been reported. And I must tell you, I thought it was business as usual. I mean, as secretary of the **Treasury** with the responsibility for the U.S. capital markets and our position in world capital markets, I get calls every day from the big players in the world. Enron was the biggest trader of energy in the world. And so I was not surprised at all that I would get a call saying, hey, we've got a problem over here and you should know about it.

DOBBS: Although, you were, I'm sure, aware that on November 2, the auditor, head of the auditing firm Andersen had said to the finance committee, the Financial Institutions Committee, that in fact they had said that there were criminal violations as a result of their own early investigation, would that be correct?

O'NEILL: I have no idea. You're telling me something I don't know.

DOBBS: You were not aware then?

O'NEILL: Absolutely not.

DOBBS: Mr. Secretary, at this point, the SEC has an investigation, the Justice Department, the Labor Department, is there a significant and large role for the **Treasury** Department in the investigation of Enron here?

O'NEILL: No, I don't think so at all. Today the president asked me to do two different things, one, to head a committee that includes Don Evans, the secretary of commerce, and Elaine Chao at the Labor Department, to look at the Enron case and to other bankruptcy cases, to pay special attention to the question of whether we need to amend the rules that govern pension plans and 401(k) plans to provide a greater degree of assurance to the individuals who have a stake in pension plans and 401(k) plans. And this is driven by the president's concern about the individual employees.

He's seen stories on television about people who lost all of the money that they had accumulated in 401(k) plans, that represented their life savings. And the president said to me, we need to see if there's something we need to do. This is really a -- this is a tragic circumstance for these individuals. And so you should have a committee, include Elaine Chao because of her Labor Department responsibility, and Don Evans, and let's see if there's something we need to do so that we learn from this. If there is a weakness in our rules, let's fix the rules.

And the second committee the president asked me to convene is a standing committee, that's the president's economic committee. It includes myself, and Alan Greenspan, the head the Commodities Future Trading Corporation, and Harvey Pitt at the SEC. And the charge the president has given us there is to look at the Enron case and other cases and see if in this ever more complicated world we need to adjust the disclosure rules so that shareholders, employees, have all the information that they need to make intelligent e decisions.

So this is not about Enron. This is about making sure that the rules and regulations that govern the way our economic system works are worthy of the conditions that we're dealing with these days to assure first and foremost that individuals are not hurt because of a weakness in the rules.

DOBBS: Mr. Secretary, you are certainly taking the long view when you say this is not about Enron and I understand I believe the implications to what you're saying, but for the foreseeable future, it will definitely be about Enron in the way in which thousands of employees lost their 401 (k)s, pensions, bond funds, and the investors in them lost a considerable amount of money. And so would you rate this as a significant and large task you have to assure protection for investors and employees in the years ahead?

O'NEILL: Well, I don't know. I think I was asked this question earlier today and I said this, I'm one who believes before you do prescription, you do analysis.

DOBBS: Right.

O'NEILL: If you think about this in a medical metaphor, you wouldn't want the doctor to start cutting your arms and legs off before he figured out what was wrong with you. And so I don't know what we should do. I have a clear idea what the president asked me to do and we will do it.

DOBBS: Mr. Secretary, I have no doubt. We want to go to your colleague in the cabinet immediately after this short break. We're going to be talking with Commerce Secretary Don Evans next. Stay with us.

(COMMERCIAL BREAK)

DOBBS: The world of money laundering, corruption and the role played by big corporations is the subject of a new novel by Stephen Cannell and Shane Sculley. A character that Stephen Cannell created is one of my very favorites, so it is good to have you here.

STEPHEN CANNELL, AUTHOR, "THE VIKING FUNERAL": Nice to be here.

DOBBS: Some of our audience may be wondering why you and I are talking about this. And the reason is, one of the earliest questions I was asked, as matter of fact, in the state of Texas, after September 11, if we're being so successful in this war on terrorism, why in the world weren't we so successful in the war against drugs? Your book begins to suggest some answers to that.

CANNELL: Yeah, I think we're being very lazy about some aspects of law enforcement, and if we don't prosecute these cases, you know, we aren't going to be able to shut down a good portion of the drug business.

You know that interdiction takes about 10 percent of what comes across the border, our best guess.

DOBBS: Our best guess.

CANNELL: So, what does that tell us? That means that if we are going to hit these guys, way you are going to hit them is by getting their laundries. And if you don't shut these laundries down then they continue to profit from their drug business and they continue to set-up new businesses and expand.

And we have in our grasp here, I think, the opportunity to shut down some of these big laundries.

DOBBS: How much time did you spend researching the book?

CANNELL: Quite a bit. I started with some custom officials. Worked very closely with a guy named Bill Gately (ph) , who was the ASACK in

L.A. that was involve with this. He told me that there's a thing called the parallel market where Fortune 500 companies are basically using their product to launder Colombian drug cash. It has been going on for years and years.

DOBBS: Using certain countries, Caribbean countries, principly, as the duty-free air.

CANNELL: That's right. The duty-free companies broker these deals between the drug dealers and the cigarette companies. The cigarettes go to an island, somewhere in the Caribbean, a duty-free zone and then it is smuggled into Columbia.

DOBBS: What is the total size of the cigarette market in Columbia?

CANNELL: They believe that the market is about $10 million.

DOBBS: And they spend -- U.S. companies -- spend in advertising, how much a year?

CANNELL: Well, over 30.

DOBBS: Now there is a $10 million market. They are spending 30 million, and what do you think the value of the entire enterprise is?

CANNELL: I think there may be as much as a billion dollar illegal market in Columbia.

DOBBS: Just in Columbia?

CANNELL: Yes. And this advertising money is being spent to basically promote that billion dollar market.

DOBBS: You don't name names, you don't name specific tobacco company, would you like to venture forth tonight?

CANNELL: No, I mean, I will tell you what, if you go on the Internet and you punch out the black market peso exchange, and -- with any descent search engine you will get 50 stories that will name them for you -- the idea is that what I'm trying to do with this novel, this is work of fiction -- but it is based on fact -- I'm trying to do is put some heat on this idea that there is a way that we can attack drug dealers without manning these borders and trying to shut down the importation of narcotics.

DOBBS: And in my opinion, you've done just that. And as always, anytime you have Shane Sculley, I am going to read it. The fact is, what I was pointing out in terms of naming names, the lawsuits that would result are probably sufficiently bothersome that it wouldn't be...

CANNELL: Well, that is probably where we are headed. You're right.

DOBBS: All right. Stephen Cannell as always, good to see you.

CANNELL: Thank you.

DOBBS: Still ahead here, with the telecom business in the midst of the worst slump ever, we will be talking with the chief executive officer of Sprint. William Esrey will be talking about new products and plaguing problems. Stay with us.

(COMMERCIAL BREAK)

DOBBS: On Wall Street, stock prices finishing generally lower despite new signs pointing toward economic recovery. Blue Chips falling for the fourth straight session, the Dow down 26 points today. The Nasdaq gained two points however. And the S&P 500 up a point on the day.

A much anticipated advancement in telecom: the third generation technology 3G, providing higher data speed and capacity for the mobile phones of Sprint (Company: Sprint FON Group; Ticker: FON; URL: http://www.sprint.com/). Sprint today announcing the new product at its consumer electronics show, announcing that they will offer the 3G next generation applications and services this summer, the first to do so.

CEO William Esrey joins me now from Las Vegas to talk about the product, his company and the prospects.

Bill, good to have you here.

WILLIAM ESREY, CHMN & CEO, SPRINT: Lou, always a pleasure to be with you.

DOBBS: You've stolen the march on your competitors with the introduction of the next, if you will, generation of CDMA. How will you maintain the advantage?

ESREY: We're going to convert our entire nationwide network in the middle of the year to this third generation technology. We are fortunate that we have the frequency and we have the technology that enables us to get there. It is going to be very hard for our competitors that are frequency shy and don't have the technology that allows a graceful migration to third generation.

So, we have an advantage. It is not often you get a distinctive advantage and we are going to be working hard to keep that advantage for a long time into the future.

DOBBS: Now in the -- in terms of the addition of new customers, some analysts are a little disappointed by a relatively small shortfall in new customers and in the third quarter. What's the fourth quarter look like for you?

ESREY: We haven't announced fourth quarter. Actually, we had a huge gain -- gain in the third quarter. We surprised people on the upside. Fourth quarter we will be announcing in a few days, and as you know, under the rules of the SEC, I'll have wait 'til then to make the announcement.

DOBBS: Oh, I was just talking about the sign-ups of new customers. I wasn't talking about earnings, Bill.

ESREY: Well, that's one that is akin to the other.

DOBBS: Your stock, like the stocks of so many companies, in particular, telecom companies, languishing here. Tremendous overcapacity in telecom in general. How long is it going to take to you work through the period?

ESREY: It's been a tough time for the whole industry. I think it is going to be sometime particularly on the wire line side. On the wireless side there isn't that. There's lot of competitors but there really isn't overcapacity.

I think most of the wireless companies are struggling to keep up with the demand of the marketplace. But on the wireline side there is a lot of capacity, it is already being absorbed, but it is not going to go away tomorrow.

DOBBS: OK, Bill Esrey, congratulations, thanks for being here and good luck in managing through what I know will be another tough year. Thanks.

ESREY: Thanks, Lou.

DOBBS: Bill Esrey.

Just ahead, we will take a look at your thoughts, including an answer to a question troubling many investors: Is this market overvalued? Stay with us.

(COMMERCIAL BREAK)

DOBBS: Now taking a look at your thoughts. Jim Davies writing in from Mexico says: "When I accentuate the positive, I'm doing viewers a disservice." His beef? That we are ignoring the high valuation of the market.

Jim writes: "The P/E level of the markets now is about double the historical norm. This might he understandable if we are in a boom economy, but we are not. We are still trying to find our way back from an incredible equity bubble, yet irrational exuberance remains in tact."

Based on the latest quarter, on an as-reported basis, it's true. The S&P 500 is trading around 40 times earnings, that's more than double the long term average. But simply putting those numbers side-by-side distorts the whole picture. As Professor Jeremy Siegel, professor of finance at the Wharton School points out, the historical average is skewed by very bad episodes in the economy, like double-digit inflation and severe recessions. And That pulled valuations down.

The professor's conclusion, you cannot use today's recessionary earnings when determining the future profit potential of companies. They're simply not out of line, he says, with the favorable economic conditions being built now.

Gordon Travis in Kalamazoo, Michigan writes in to say an economic stimulus package will only serve to stimulate the economies of other countries, saying, "isn't there something we can do to boost our own manufacturing sector? I am a displaced steel worker and it is painful to see the influx of foreign goods flooding our markets."

Buy American means more now than ever before, and unfortunately, Gordon, you have analyzed the situation precisely as it is. The manufacturing sector dwindling to its smallest level ever.

On to the government's special fund set up to help the families of those killed on September 11 and the growing outrage that we're receiving as what's being viewed by some as apparent greed by some a few of those families.

Barb Harris writes in to say, "I don't want to minimize the tragedy of that day, but tell me, how much the survivors families in Oklahoma City received."

Will Simpson in New York, writing in to say, "While our hearts are broken, and the loss of so many is a national tragedy, we have lost our perspective. Such a major commitment to create a special class of victims to be supported by the federal government is unsound and ill-conceived."

Please send us your thoughts. Our address: Moneyline@cnn.com. Please include you name and address.

"WOLF BLITZER REPORTS" begins in just a few minutes. Let's go to Wolf now to find out what's in store -- Wolf.

WOLF BLITZER, HOST, WOLF BLITZER REPORTS: Thank you very much, Lou. The U.S. military is sending troops to a second far away country in the war against terrorism. We will go live to the Pentagon for details. Also, U.S. Marines at the Kandahar base come under hostile fire. Our Bill Hemmer is right there. And in our CNN WAR ROOM discussion, what are the new dangers facing American forces. All that and much more at the top of the hour -- Lou.

DOBBS: Wolf, thanks, we are looking forward to it.

Coming up next here, some reports that may move at least in part, some part of the markets tomorrow. Stay with us.

(COMMERCIAL BREAK)

DOBBS: Tomorrow, on the economy, the Producer Price Index for December will be reported. Federal Reserve Chairman Alan Greenspan will be talking before business leaders in San Francisco. He will be talking about the prospects of the economy. Talking in some detail for the first time in point of fact, since October of last year.

Ford is announcing its restructuring, and reportedly those plans include as many as 20,000 layoffs.

And the Enron investigation is accelerating. Enron is expected to announce a winning bid for its trading operations. The judge in that case also deciding where the bankruptcy proceedings will be held and of course Congress continuing its investigation, set tomorrow to send out subpoenas to various parties, as many as 50 subpoenas expected to be issued tomorrow.

For tonight that's MONEYLINE. Thank you for being with us. I'm Lou Dobbs. Good night from New York. "WOLF BLITZER REPORTS" begins right now.

TO ORDER A VIDEO OF THIS TRANSCRIPT, PLEASE CALL 888-CNNFN-01 OR USE OUR SECURE ONLINE ORDER FORM LOCATED AT WWW.FDCH.COM

LOAD-DATE: January 10, 2002

About LexisNexis™ | Terms and Conditions | Privacy Policy | Support Identifier

Copyright © 2002 LexisNexis, a division of Reed Elsevier Inc. All rights reserved.

Carleton, Norman

From: Lori.Santamorena@bpd.treas.gov
Sent: Friday, January 11, 2002 1:52
To: norman.carleton@do.treas.gov

CNN

CNN

SHOW: CNN THE POINT 20:30

January 10, 2002 Thursday 8:30 PM Eastern Time

Transcript # 011000CN.V68

SECTION: News; International

LENGTH: 4186 words

HEADLINE: Enron Political Repercussions Just Beginning

GUESTS: Mark Juergensmeyer, Eric Margolies, Jon Corzine, Arianna Huffington, Peter Coy, William Bradley

BYLINE: Catherine Crier, Sheila MacVicar

HIGHLIGHT: Guests discuss the collapse of Enron.

BODY:
THIS IS A RUSH TRANSCRIPT. THIS COPY MAY NOT BE IN ITS FINAL FORM AND MAY BE UPDATED.

(BEGIN VIDEO TAPE)

ANNOUNCER:

THE POINT, with Catherine Crier.

He's in jail. But others got away, and could try again. Tonight, why investigators have decided the alleged shoe bomber didn't act alone.

UNIDENTIFIED MALE: The combination of materials in the device and the priming mechanism appears to be quite unusual and sophisticated. ANNOUNCER: Flashpoint: where are the others?

It was the biggest bankruptcy in U.S. history.

UNIDENTIFIED MALE: Each floor at the -- at the Enron building had a floor meeting. Some floors were told you have 30 minutes and get out.

ANNOUNCER: Thousands lost their retirement savings. And the political repercussions are just beginning.

UNIDENTIFIED MALE: What's important here in the president's opinion is that this needs to be investigated from a criminal point of view to determine what went wrong with Enron.

(END VIDEO TAPE)

ANNOUNCER: THE POINT. Now, from New York, Catherine Crier.

CATHERINE CRIER, HOST: Good evening. Well, you need something else to worry about, especially if you're a frequent flier? We've got it. Investigators have been looking over the shoes taken from shoebomb suspect Richard Reid, and they don't think he made them without help.

Now, flashpoint. Where are the others? CNN's Senior International Correspondent Sheila MacVicar brings us up to date now on the investigation.

(BEGIN VIDEO TAPE)

SHEILA MACVICAR, CNN CORRESPONDENT: Hidden in the immigrant neighborhoods of Paris are the secrets of Richard Reid's six days in this city. Somewhere here, just hours before he was scheduled to leave, intelligence sources believe Richard Reid was given the shoes containing the bombs -- the bombs he tried to set off on the American Airlines flight to Miami.

French police are urgently trying to retrace his movements. The French anti-terrorism judge is so concerned, he is now working the case full time. Investigators want to know if Reid's trip to Israel last summer was designed to test airline security, and intelligence sources say there is growing evidence he traveled at least once to Afghanistan.

European investigators and intelligence sources say they now believe that Richard Reid, far from acting alone, is part of a previously unknown terror network, one which may ultimately prove to be part of al Qaeda. And they warn that within the ranks of that network, there is a very sophisticated bombmaker.

FBI analysis of the shoes showed the bombs were made of two explosives, a combination experts say they had not previously seen: a military explosive called PETN and a homemade explosive called TATP.

TATP was the explosive used by the Hamas suicide bomber who blew himself up outside this Tel Aviv nightclub last June, killing more than 20 others.

MACVICAR: Joseph Almog is the former head of the Israeli police forensic laboratories. TATP was first analyzed in those labs.

JOSEPH ALMOG, HEBREW UNIVERSITY: It's an extremely sensitive material. Extremely sensitive. It's very sensitive to friction, to spots, to blow, and it can explode just by itself.

MACVICAR: European intelligence sources say, quote, "it is absolutely impossible that Reid made the bombs." And the former head of the FBI Explosives Unit says the bombmaker was very skilled.

CHRIS RONAY, INST. OF MAKERS OF EXPLOSIVES: The combination of materials in the device and the priming mechanism appears to be quite unusual and sophisticated. Hard to concoct it. Hard to put it together.

MACVICAR: Given the evidence, investigators now believe there is a logistics base somewhere in Europe, a place where the explosives and the bombs could be manufactured. They do not yet know where.

It is now clear, they say, the crew and passengers on board American Airlines Flight 63 averted a disaster. And they warn of the possibility of more attempts by this previously unknown terror network, of more bombs that could bring down planes concealed in places beyond the limited capabilities of airport screening. Sheila MacVicar, CNN, Paris.

(END VIDEO TAPE)

CRIER: So if there is a previously unknown terror group and bombmaker out there, is it time for everyone to fly barefoot?

Joining us from Toronto is journalist and author Eric Margolies. His book "The War at the Top of the World" is about the struggle for Afghanistan, Kashmir, and Tibet. And in Los Angeles, Mark Juergensmeyer. He's chairman of the Global Peace and Security Program at UC Santa Barbara and the author of "Terror in the Mind of God."

Gentlemen, thanks so much. Mark, let me start with you. Do you buy the theory that there is an unknown terrorist group operating primarily in Europe?

MARK JUERGENSMEYER, AUTHOR: Sure, it makes perfectly good sense. In fact, it fits in very well with what we know about al Qaeda. I mean, the common-sense notion that there is a kind of corporate structure and if we get Osama bin Laden, we get the CEO of terrorism really doesn't hold true with what we know about the way in which the network works.

There are all these small cells, these various groups, some of them working more or less independently, some with only somewhat tenuous ties to the Osama bin Laden/al Qaeda network. And it appears as if Reid was a part of one of these groups.

CRIER: When we talk about analyzing the -- the explosive material and one being a military substance, one that the Israelis had discovered through the Hamas bombing, it is -- it still sounds like this is some great revelation to investigators, be it the CIA or those over in Europe, and that's a bit frightening.

JUERGENSMEYER: Yeah, it's...

CRIER: In other words, the premise being if they've looked at this before, there -- somebody has been making these sorts of combinations, why would this be so new, so fresh?

JUERGENSMEYER: Well, I don't think it's new to the people who have studied the al Qaeda network closely, but I think it is shocking to those of us who think that now that the war in Afghanistan seems to be over, that there is still these cells operating out someplace that we don't know about.

The other thing that's very interesting is that this is not the usual suspect. This is not a Middle Eastern male between the ages of 16 and 30 that we seem to have targeted as our prime suspect for international terrorism. This is a guy of a different background, a different ethnic background, resident of London.

All this shows that the unrest against America has a kind of larger show of strength of groups that would like to do America in in some way -- some loosely associated with al Qaeda, others more strongly -- is a much broader net than we had previously thought.

CRIER: On the other hand, Eric, this -- this guy doesn't strike me as a rocket scientist. This -- the Reid fellow. Does he seem like someone who would be integral to a network who might be participating in the building of explosives and the blowing up of a plane or possibly an underling of sorts?

ERIC MARGOLIES, AUTHOR: Catherine, he does not fit any of the normal patterns. In fact, to me, Reid looks -- fits the pattern of being your typical drug mule, that is, somebody who travels around hiding or smuggling drugs. And the pattern of his travels suggest that strongly, the places he went to.

The fact he worked as a cook and an incense salesman, supposedly. Yet he went to Israel, he went to Pakistan. He may have been in Afghanistan. He traveled around Europe with cash -- suggests a criminal. And in fact, he had a criminal background.

Now, I've spent a good deal of time with -- with Islamic militants in Pakistan and in Kashmir and other parts of the Muslim world. And he is totally atypical. These are not criminals, petty criminals, as he was. These are -- are militant, committed people.

CRIER: But Eric, back up just a minute with your analysis before you move on. And that is criminal. I don't know about a criminal record. But traveling with cash to Afghanistan, to Uzbekistan, even to Israel and across Europe, all of that could certainly be correlated with the terrorism we've seen.

MARGOLIES: Yes, it's -- it could very truly. But he's not the type of person that the terror or terrorist groups or the extremist groups would normally pick. He's very obvious.

CRIER: Wouldn't that be a brilliant plan, though? Wouldn't that be brilliant?

UNIDENTIFIED MALE: Yeah, what a perfect person to choose.

CRIER: Read all this stuff -- read all this stuff about the fact that they want to come into the United States. Here devout Muslims are wearing Western clothes, they're drinking in strip bars, for heaven's sakes. It doesn't seem so far-fetched that they begin to reach out.

MARGOLIES: No, no not so, Catherine. Because when he was stopped by the Israelis, for example, he stood out like a sore thumb. He's as tall -- almost as Osama bin Laden.

He looked like a wild man, an enrage, is the French would call him. He had Islamic texts in his backpack. And they -- so this -- he wasn't trying to sort of hide in plain sight. So the best theory is that somehow he was some poor sort of very unintelligent or retarded person who was somehow convinced to go and go on a suicide raid for reasons we still don't understand.

CRIER: Well, let me ask you about that, Mark. Trying to understand the reasons. They have made some correlation with Moussaoui, who is preparing to stand trial here in the United States because they went to the same mosque, apparently, for a time period in London. There may be even some telephonic links, I'm not sure. But they seem to be trying to tie him in through that.

JUERGENSMEYER: Yes, and what an excellent choice to make, somebody who was somewhat out of the box. I mean, we've assumed that there would be no women involved. But is it entirely impossible that maybe one of the next carriers of one of these weapons might be a woman? Might be a blond, blue-eyed woman? Somebody that you might not at all expect?

I think part of the extraordinary character of this kind of war, this kind of struggle, is it involves a movement that is diverse, a movement that

does not follow the patterns, the usual lines, and for which our response has to be as -- as diverse and subtle as well.

CRIER: All right. But then -- one final thought from Eric. Because whatever we think Reid is part of, he is displaying something with this shoe bomb that is frightening a lot of investigators. What does that signal to you? Anything?

MARGOLIES: Well, first of all, that there are not so much a network but like-minded groups everywhere who are against the United States and who are attracting other anti-American groups around them. We're lucky that Reid was as stupid as he was and tried to light a match inside the cabin.

Supposed he had gone to the toilet and set off the bomb there. If he had had any brains he would have done that. Thank God he didn't. So next time, the -- the person who was sent may be much more clever than this. This guy was strictly expendable material. Cannon fodder.

CRIER: Absolutely. Well, next time is a chilling phrase, but one we have to remember. Eric Margolies, Mark Jurgensmyer. Gentlemen, thank you.

Now, we're going to stop worrying about terrorists for just a while and talk about money. Specifically, a stock that went from $80 a share to a mere 66 cents. Was your retirement riding on it? Don't go away.

(COMMERCIAL BREAK)

(BEGIN VIDEO TAPE)

ANNOUNCER: Ahead, the biggest fall in corporate history.

People who lost a good chunk of change.

ANNOUNCER: Who's hurting? Who's investigating? And who's not getting involved? When THE POINT continues.

(COMMERCIAL BREAK)

CRIER: It was the biggest fall from grace in business history. Enron was ranked number seven in last year's "Fortune 500." By the time the energy merchant went bankrupt in December, its fallout wiped out $60 billion in shareholder value and the financial, legal and political fallout, far from over.

Today, to avoid a possible conflict of interest, Attorney General John Ashcroft and his chief of staff recused themselves from the criminal investigation of Enron. The company and its executives have given tens of thousands of dollar to Ashcroft's political campaigns.

Enron also has been one of President Bush's contributors. Today the president told reporters he never discussed the company's financial problems with its chief executive, although the two met at a fundraiser. The administration also has disclosed that during Enron's fall there were contacts between its executives and Vice President Cheney, **Treasury** Secretary **Paul O'Neill** and Commerce Secretary Don Evans.

This afternoon, Enron's accounting firm, Andersen, disclosed it had destroyed a significant number of documents in recent months, something the Securities and Exchange Commission is calling, quote, "extremely serious."

All right. Congress is now looking into the Enron mess. It's also looking for lessons and ways to protect regular investors from future wipeouts.

So joining me now is New Jersey Senator Jon Corzine. He is co- sponsor of legislation to protect pension plans in the wake of Enron's collapse. Senator, thanks so much for joining us.

SEN. JON CORZINE (D), NEW JERSEY: Good evening, Catherine.

CRIER: Looking at this act, cited as the Pension Protection and Diversification Act of 2001, the point being what?

CORZINE: Very simple. When investors put all of their bets, all of their investments in one asset, one stock or a highly-concentrated portion of it, they're at a much greater risk than they would be if they had a diversified portfolio.

Most professional money managers, most people who study financial planning think about this on a -- an effective basis have a diversified portfolio, so we put a cap, a 20 percent cap.

Barbara Boxer and I introduced the bill to make that the maximum that one could hold in their 401(k) plans with regard to company stock -- actually, any stock, because diversification is a good principle for investment.

CRIER: OK. Senator, I have a little bit of trouble. While -- while I think it's a good thing for you to go in and tell companies they cannot mandate -- which I understand is part of this -- they can't make employees buy their stock. They can't prevent employees from selling stock

01893

01300000000501

within certain parameters, because so many people were trying to bail out and couldn't.

CORZINE: We also have a 90-day rule here.

CRIER: Yeah. But. But to tell people, the government, financial planners, no better than you -- since all these financial people couldn't figure out what was happening with Enron, I don't have a lot of confidence -- but to tell us we can't hold more than x amount of stock begins to bother me. Isn't that a bit Big Brother?

CORZINE: Well, there's two things that I'd comment. First of all, sometimes when there is fraud or deception in accounting statements, it's easy for investors to draw the wrong conclusions. I think there's a whole set of issues with regard to Enron that surround their accounting statements.

But as it relates to so-called interference with an individual's decision, the fact is that the federal government is sponsoring 401(k) programs. It's giving tax advantages both to the employee and the employer for encouraging these 401(k) programs.

I think they're great. I think the defined contribution programs, as embedded in the 401(k) program and a number of the ESOP programs, are great. But when the government is encouraging it, then I think we ought to follow sound principles of investment management within that context.

CRIER: The government -- the government is giving people tax breaks, as it does corporations and others in the IRS code. It's giving tax breaks to encourage savings. It's not taking the place of either a financial investor or my own judgment as to what I want to invest in.

Now, for example, when Enron was $80 a share, I would probably be pretty angry if the Senate was telling me I couldn't buy much of that stuff that I wanted. Now, if I'm going to be foolish enough to do that, isn't that really my choice? Of course, it's very different from the company telling me I have to buy their stock.

CORZINE: Again, when I think public monies are used to encourage retirement savings -- and by the way, if you were in a divine benefit program, the ERISA laws have a 10 percent limit when professional money managers are responsible -- I think it is reasonable that the public ought to say that we use our money consistent with sound financial planning advice.

CRIER: OK. Final question...

CORZINE: And that's what you'd hear from anyone who has been involved in financial markets over time.

CRIER: Yeah, well, I do agree with the principle. But final question, Senator. All these people who have lost their retirement portfolios are going to be desperate. Anything about the Enron investigation that can give them hope they'll see money back?

CORZINE: Well, I think there is the potential that there may be some recovery from some of the individuals who have benefited from Enron, particularly inside the company.

If we find out with the fullness of time of investigations, either by the Justice Department or other entities that there was fraud involved, then I think we can go back for recovery, some people who may have assets. That's part of the process, the legal process, and I think it has to run its course.

CRIER: OK.

CORZINE: Thank you.

CRIER: Senator Jon Corzine, thank you very much.

And just as a side note, the judge down in Houston -- for all of you at home -- the judge down in Houston that's looking at this is thinking about freezing the financial assets of 29 current or former execs over at Enron. Still debating, and maybe there is some money there to glom on to.

In the meantime, anyone smell a rat in the whole Enron mess? Well, perhaps even more than one.

Joining us to do some sniffing around are "Business Week" economics editor Peter Coy, who is in New York; in Los Angeles, syndicated columnist Arianna Huffington; and in Sacramento, political writer William Bradley. He's a contributor to the "American Prospect."

Arianna, I want to start out with you. You wrote a great editorial, really took off on the political question. And it's disturbing to me that we're hearing a lot about the pension funds and money that people lost, which is critical.

We're hearing a lot about Arthur Andersen and accounting firms not doing their job. We're not hearing a lot about outright corruption and possible political connections. What about that?

ARIANNA HUFFINGTON, SYNDICATED COLUMNIST: Well, actually, that is probably the most interesting story, because it's really an

01894

01300000000502

indictment on our whole system.

It's the aura of power around Ken Lay and other Enron executives, his access to George Bush, his friendships with top Cabinet members that we are seeing that somehow has a chilling effect on any kind of investigation, watchdogs.

We had really everybody not minding the store, from political leaders who are now falling all over themselves to investigate Enron, but who really did nothing during the many months that led to the collapse, including allowing Harvey Peete (ph) to be named and confirmed by the Senate as head of the SEC, even though he had had -- all his relationships with the -- with Arthur Andersen and with many accounting firms and had lobbied against changes in the rules that would have perhaps prevented the kind of auditing that Arthur Andersen did that allowed all these things to go on unchecked for so many months.

Also, we had financial journalists, financial watchdogs, everybody giving high marks to Enron without any real investigation. I think at the heart of that is that glow of power around Ken Lay and Enron.

CRIER: Peter, to expand on that a little bit, we've got the SEC connection there. You've got the -- the head of the energy regulatory commission that was basically flipped, many say at Enron's request, so that they had a buddy over there.

The commodities exchange is supporting legislation to deregulate. Just so happens that Senator Gramm's wife, Wendy -- a top economist -- is over there. Leaves them, joins Enron. This good senator is -- is very critical in passing through that deregulation and legislation.

You've got many former Enron employees and advisers, Larry Lindsey. Now our secretary of the Army, our -- our trade head, all of these people. It is so incestuous and nobody seems to think that that access and influence could have brought down Enron.

PETER COY, "BUSINESS WEEK" ECONOMICS EDITOR: Right. I -- I think that the incest is quite remarkable, but I also think that people are drawing a connection that is far from proven so far, which is that somehow this tars energy deregulation.

I happen to think that electricity deregulation has not worked the way it's been done so far, particularly in California. But I think that the argument that because Enron collapsed, therefore energy deregulation was a bad idea, just doesn't make sense.

CRIER: Well, energy deregulation is going on all over the world. It is probably going to be the trend. We aren't going to avoid that. But that's sort of like focusing on the pension question, isn't it?

If you look at, oh, well, it's the deregulation politics or oh, it's the pension problem, that's a great way to ignore what I see as major political corruption. When I say that, I'm not pointing a finger at George W. Bush or pointing a finger at Dick Cheney.

Because you've got Republicans and Democrats who were seduced by the power Arianna described, who were influenced by the corporate contributions and who allowed tremendous access and literally direction of this country's energy policy by a company who wasn't coming clean.

COY: Right. And the point I was trying to make is that connecting Enron to the failure of electricity deregulation, the reason it doesn't make sense, if you think about it -- if the purpose of electricity deregulation had been to protect large powerful firms from failing, then you could say, yes, electricity deregulation failed to do that because Enron did fail.

That was never the point of it. The point of it was to lower rates for consumers. You could argue that that hasn't worked either. And I'm not defending electricity deregulation, I'm going against the point that Arianna made that somehow this proves -- Enron's failure proves the failure of electricity deregulation.

CRIER: I don't buy that either. But in fact, William Bradley, we have to get into the whole notion of energy, natural gas and other things like bandwidth as a commodity, which gets -- starts to get very complex and the regulations of a commodity.

But back to -- Arianna mentioned it, but nobody is talking to me and I want to hear this -- about how much influence this company had on our energy policy. How much Dick Cheney listened to them.

I was shocked when he was confronted with the six meetings, the accounting office trying to get him to tell what happened in those meetings. The White House basically said this reflects the open and inclusive approach of Cheney's energy task force, that it was dominated by Ken Lay and Enron. I don't buy it. What do you think, William?

WILLIAM BRADLEY, "AMERICAN PROSPECT": It really doesn't make any sense at all. I think as Arianna was suggesting, there's a tremendous connection between big money politics and unfettered markets. And that's what we see with Enron's role.

Enron was really the forerunner for both deregulation and for globalization in the energy markets. And both have -- have come a cropper. There are tremendous problems around the world with U.S. firms investing, running into problems in India, as Enron did. In India, they...

CRIER: Before you go into that, we've got about 15 seconds left.

BRADLEY: Oh, OK. Well. Well then.

CRIER: The point that you just made -- and I'll get you back on here, William, because this is such an important story. The point is that access will breed complacency and possibly corruption and we better get to the bottom of that.

BRADLEY: Totally deregulated markets and big money politics go hand in hand together.

CRIER: You got it.

BRADLEY: Corruption follows.

CRIER: OK. William Bradley, Arianna Huffington, Peter Coy, thank you so very much. THE POINT will be right back.

(COMMERCIAL BREAK)

CRIER: I know you've got opinions about the Enron mess. We want to know. Send that e-mail to thepoint@cnn.com.

I'm Catherine Crier in New York. Coming up next on Larry King, he takes up the issue of televising the Zacarias Moussaoui trial with guests like Mark Geragos and Julian Epstein. We'll see you back here tomorrow night. TO ORDER A VIDEO OF THIS TRANSCRIPT, PLEASE CALL 800-CNN-NEWS OR USE OUR SECURE ONLINE ORDER FORM LOCATED AT www.fdch.com

LOAD-DATE: January 11, 2002

THE WALL STREET JOURNAL. FROM THE ARCHIVES

Article Search
Go
Advanced Search / Help

THE WALL STREET JOURNAL ONLINE.
CATCH TODAY'S COMMENTARY.

Quotes & Research
Symbol Name
Market
U.S. Go
Advanced Search / Help

WSJ.com Audio:
Business Update
Markets Recap
WSJ on Audible
Learn More

Journal Atlas:
Table of Contents
Headlines
Business Index
Search
News Search
Past Editions
Briefing Books
Quotes

Tools:
E-Mail
Mobile & Wireless
Business Box
Market Browser
WSJ Yogi

Resources:
Help
New Features
Your Account
Contact Us
WSJ.com Gifts
Glossary

Free Journal Sites:
CareerJournal
CollegeJournal
Online Investing

January 11, 2002

Tsy: Fisher Spoke With Enron Pres 6-8 Times Oct-Nov

By Deborah Lagomarsino

Of DOW JONES NEWSWIRES

WASHINGTON -- Treasury Undersecretary for Domestic Finance Peter Fisher spoke with **Enron** President and Chief Operating Officer Lawrence Whalley six or eight times in late October and early November and rebuffed Whalley's request to "call the banks" at at a time when **Enron** Corp. (ENE) was engaging in negotiations for an extension of credit, a Treasury spokeswoman said Friday.

The disclosure from Treasury about Enron's conversations with Fisher comes a day after the White House revealed that top **Enron** executives sought help from the administration last fall not long before collapsing in what was the biggest-ever corporate bankruptcy.

"Following (**Enron** Chairman) Ken Lay's call to the Secretary, the President of **Enron** called Undersecretary Fisher," said Treasury spokeswoman Michele Davis.

The White House said Thursday that Lay called Treasury Secretary Paul O'Neill in late October. The Treasury also has said Lay called O'Neill again in early November and at that time likened Enron's woes to that of Long-Term Capital Management, a hedge fund that failed in the fall of 1998.

Fisher, who headed the New York Federal Reserve's open-market operations at the time of LTCM's failure, helped to organize a Wall Street bailout of the troubled hedge fund.

Davis said Fisher's six or eight conversations with Enron's Whalley were "informational," and stressed that Fisher's job is to "monitor capital markets and monitor the effects of any major economic developments on the capital markets."

Fisher rebuffed Whalley's request to "call the banks" at a time when **Enron** was negotiating for an extension of credit from its bankers,

Advertisements
eBAs
M.I.T. SLOAN
Recognizing business leadership and innovation
Recognizing business leadership and innovation

01933

01300000000541

OpinionJournal
Personal Tech
RealEstateJournal
StartupJournal
WSJ Books

The Print Journal:
Subscribe
Customer Service

More Dow Jones Sites:
Barron's Online
Publications Library
Reprints
SmartMoney
Dow Jones & Co.

Corrections

Privacy Policy

Davis said.

"As Enron's negotiations with its bankers for an extension of credit neared a decision point, the President of **Enron** asked Undersecretary Fisher to call the banks," Davis said.

"Fisher inferred that he was being asked to encourage the banks to extend credit. He made no such calls," she said.

White House spokesman Ari Fleischer on Thursday said O'Neill asked Fisher to evaluate whether there were any LTCM comparisons to be drawn from Enron's problems after Lay brought up LTCM's experience.

Asked to confirm whether Fisher did, in fact, review whether there were any comparisons between the two, Davis said: "The Secretary passed along information from Ken Lay's call to Undersecretary Fisher and asked him to look in to it."

Briefing Book for: ENE

SAVE THIS EMAIL THIS FORMAT FOR PRINTING

PARDON US

Return to top of page

Copyright © 2002 Dow Jones & Company, Inc. All Rights Reserved.
Copyright and reprint information.

From: Carleton, Norman
Sent: Thursday, December 20, 2001 5:36 PM
To: Cetina, Jill; Salladin, Anne; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark

December 20, 2001

Enron, GE, Bechtel Claim US Insurance On India Project

Dow Jones Newswires

WASHINGTON -- **Enron** Corp. (ENE), General Electric Co. (GE) and Bechtel Corp. (X.BTL) have filed a total of nearly $200 million in insurance claims with the U.S. government for investment losses in India.

Since last week the three companies have individually filed applications with the Overseas Private Investment Corp. for "expropriation compensation" on their investments in Dabhol Power Co., OPIC spokesman Larry Spinelli said Thursday.

Dabhol Power is a $2.9 billion power plant and liquefied natural gas, or LNG, import terminal near Bombay in western India. It's considered the largest foreign direct investment in India's history.

"We obviously regard this as a very serious development," Spinelli said of the insurance claims. "And we are looking to the Indian government for constructive involvement to settle these issues."

OPIC is a government agency that finances U.S. companies' overseas investments through insurance and loans. In addition to OPIC financing, the U.S. government is owed $202.5 million for a loan the Export-Import Bank made to Dabhol Power.

Work on the 2,184-megawatt Dahbol power plant stopped this year after its sole customer, the Maharashtra State Electricity Board, declined to pay earlier-agreed power prices.

Faced with nonpayment, **Enron** said in August it would consider buyers for its controlling 65% interest in the project. Officials from the bankrupt Houston-based company met last week with Indian lenders and government officials to discuss ways of disposing of its stake.

GE and Bechtel each hold a 10% interest in the project. The Maharashtra State Electricity Board holds the remaining 15%.

Two Indian companies, Tata Power Co. (P.TPW) and BSES Ltd. (P.BSX), have shown interest in bidding for the Dabhol power plant. Royal Dutch/Shell (RD) and BG Group Plc (BRG) have shown interest in the Dabhol LNG import terminal.

-By Campion Walsh, Dow Jones Newswires; 202-862-9291; Campion.Walsh@dowjones.com

Choose Print from the File menu and then close this window.

[Choose Font Size]

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended SEPTEMBER 30, 2001

Commission File Number 1-13159
ENRON CORP.
(Exact name of registrant as specified in its charter)

Oregon	47-0255140
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
Enron Building 1400 Smith Street Houston, Texas	77002
(Address of principal executive offices)	(Zip Code)

(713) 853-6161
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 2001
Common Stock, No Par Value	743,904,638 shares

ENRON CORP. AND SUBSIDIARIES

TABLE OF CONTENTS

	Page No.
EXPLANATORY NOTE	3
PART I. FINANCIAL INFORMATION	
ITEM 1. Financial Statements	
Consolidated Income Statement - Three Months Ended September 30, 2001 and 2000 and Nine Months Ended September 30, 2001 and 2000	4
Consolidated Balance Sheet - September 30, 2001 and December 31, 2000	5
Consolidated Statement of Cash Flows - Nine Months Ended September 30, 2001 and 2000	7
Notes to Consolidated Financial Statements	8
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	43
PART II. OTHER INFORMATION	
ITEM 1. Legal Proceedings	74
ITEM 6. Exhibits and Reports on Form 8-K	74

EXPLANATORY NOTE

02068

As explained in a November 8, 2001 Form 8-K filed by Enron Corp. (Enron) with the Securities and Exchange Commission (SEC), Enron will be filing restated consolidated financial statements for the fiscal years ended December 31, 1997 through 2000 and for the first and second quarters of 2001 but it has not yet done so. As a result, the previously issued financial statements for these periods and the audit reports covering the year-end financial statements for 1997 through 2000 should not be relied upon. In addition, as discussed in Note 2 herein, Enron's Board of Directors has formed a Special Committee to conduct an independent investigation and review of transactions between Enron and certain related parties. The Special Committee has retained the law firm of Wilmer, Cutler & Pickering (Wilmer, Cutler) as its counsel. Wilmer, Cutler has retained Deloitte & Touche LLP to provide related accounting advice to the law firm. The

01300000000676

Special Committee began its review on October 26, 2001. Management believes that, based on information currently available to it, the consolidated financial statements set forth herein were compiled in accordance with generally accepted accounting principles and fairly depict the financial condition and results of operations of Enron, and include adjustments designed to capture the anticipated restatements. Information gathered during the Special Committee's investigation, however, may impact the unaudited results set forth herein, including the adjustments designed to reflect the necessary restatements as well as the information set forth in the November 8, 2001 Form 8-K. In addition, Enron has been advised by Arthur Andersen LLP, Enron's independent auditors, that, due to their need to complete review procedures and the ongoing Special Committee investigation, Arthur Andersen LLP is unable at this time to finalize its review of Enron's consolidated financial statements set forth herein in accordance with established professional standards and procedures for conducting such reviews, as established by generally accepted auditing standards, which review is required by Rule 10-01(d) of Regulation S-X.

3

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
ENRON CORP. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
(In Millions, Except Per Share Amounts)
(Unaudited)

	Three Months Ended September 30,	
	2001	2000
		Restated See Note 3
Revenues	$46,877	$29,834
Costs and Expenses		
Cost of gas, electricity and other products	45,742	28,036
Operating expenses	929	943
Depreciation, depletion and amortization	293	257
Investment losses	768	-
Taxes, other than income taxes	62	65
	47,794	29,301
Operating Income (Loss)	(917)	533
Other Income and Deductions		
Equity in earnings (losses) of unconsolidated affiliates	194	72
Gains (losses) on sales of non-merchant assets	(1)	45
Interest income	91	50
Other income (loss), net	(33)	(21)

02069

01300000000677

Income (Loss) Before Interest, Minority Interests and Income Taxes	(666)	679
Interest and Related Charges, net	201	259
Dividends on Company-Obligated Preferred Securities of Subsidiaries	20	20
Minority Interests	33	24
Income Tax Expense (Benefit)	(276)	73
Net Income (Loss) Before Cumulative Effect of Accounting Changes	(644)	303
Cumulative Effect of Accounting Changes, net of tax	-	-
Net Income (Loss)	(644)	303
Preferred Stock Dividends	20	21
Earnings (Loss) on Common Stock	$ (664)	$ 282
Earnings (Loss) Per Share of Common Stock		
Basic		
Before Cumulative Effect of Accounting Changes	$ (0.87)	$ 0.39
Cumulative Effect of Accounting Changes	-	-
Basic Earnings (Loss) per Share	$ (0.87)	$ 0.39
Diluted		
Before Cumulative Effect of Accounting Changes	$ (0.87)	$ 0.35
Cumulative Effect of Accounting Changes	-	-
Diluted Earnings (Loss) per Share	$ (0.87)	$ 0.35
Average Number of Common Shares Used in Computation		
Basic	761	729
Diluted	761	858

The accompanying notes are an integral part of these consolidated financial statements.

PART I. FINANCIAL INFORMATION - (CONTINUED)
ITEM 1. FINANCIAL STATEMENTS - (CONTINUED)
ENRON CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(In Millions)
(Unaudited)

02070

Septem
20

01300000000678

ASSETS

Current Assets	
Cash and cash equivalents	$ 1,
Trade receivables (net of allowance for doubtful accounts of $437 and $35, respectively)	9,
Other receivables	1,
Assets from price risk management activities	9,
Inventories	
Deposits	2,
Other	
Total Current Assets	24,
Investments and Other Assets	
Investments in and advances to unconsolidated affiliates	7,
Assets from price risk management activities	9,
Goodwill	3,
Other	5,
Total Investments and Other Assets	26,
Property, Plant and Equipment, at cost	
Natural gas transmission	6,
Electric generation and distribution	3,
Fiber-optic network and equipment	
Construction in progress	1,
Other	2,
	14,
Less accumulated depreciation, depletion and amortization	3,
Net Property, Plant and Equipment	10,
Total Assets	$61,

The accompanying notes are an integral part of these consolidated financial statements.

PART I. FINANCIAL INFORMATION - (CONTINUED)
ITEM 1. FINANCIAL STATEMENTS - (CONTINUED)
ENRON CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(In Millions)
(Unaudited)

02071

Septem

01300000000679

	20
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities	
Accounts payable	$ 7,
Liabilities from price risk management activities	8,
Short-term debt	6,
Customers' deposits	1,
Other	2,
Total Current Liabilities	27,
Long-Term Debt	6,
Deferred Credits and Other Liabilities	
Deferred income taxes	1,
Liabilities from price risk management activities	9,
Other	3,
Total Deferred Credits and Other Liabilities	15,
Minority Interests	2,
Company-Obligated Preferred Securities of Subsidiaries	
Shareholders' Equity	
Second preferred stock, cumulative, no par value	
Mandatorily Convertible Junior Preferred Stock, Series B, no par value	1,
Common stock, no par value (net of notes receivable of none and $172, respectively)	8,
Retained earnings	2,
Accumulated other comprehensive income	(1,
Common stock held in treasury	(
Restricted stock and other	(
Total	9,
Total Liabilities and Shareholders' Equity	$61,

The accompanying notes are an integral part of these consolidated financial statements.

02072

PART I. FINANCIAL INFORMATION - (CONTINUED)

01300000000680

ITEM 1. FINANCIAL STATEMENTS - (CONTINUED)
ENRON CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(In Millions)
(Unaudited)

	2
Cash Flows From Operating Activities	
Reconciliation of net income to net cash provided by (used in) operating activities	
Net income	$
Cumulative effect of accounting changes, net of tax	
Depreciation, depletion and amortization	
Deferred income taxes	
Gains on sales of non-merchant assets	
Investment losses	
Changes in components of working capital:	
Net margin deposit activity	
Other working capital	(
Net assets from price risk management activities	
Merchant assets and investments:	
Realized (gains) losses on sales	
Proceeds from sales	
Additions	
Unrealized losses	
Other, net	
	--
Net Cash Provided by (Used in) Operating Activities	
	--
Cash Flows From Investing Activities	
Capital expenditures	(
Equity investments	(
Proceeds from sales of non-merchant assets	
Acquisition of subsidiary stock	
Business acquisitions, net of cash acquired	
Other investing activities	
	--
Net Cash Used in Investing Activities	(
	--
Cash Flows From Financing Activities	
Issuance of long-term debt	
Repayment of long-term debt	(
Net increase in short-term borrowings	
Issuance of common stock	
Net redemption of company-obligated preferred securities of subsidiaries	
Dividends paid	
Net (acquisition) disposition of treasury stock	
Other financing activities	
	--
Net Cash Provided by Financing Activities	
	--
Increase (Decrease) in Cash and Cash Equivalents	
Cash and Cash Equivalents, Beginning of Period	

02073

01300000000681

Cash and Cash Equivalents, End of Period	$
Changes in Components of Other Working Capital	
Receivables	$
Inventories	
Payables	(
Other	
Total	$

The accompanying notes are an integral part of these consolidated financial statements.

PART I. FINANCIAL INFORMATION - (CONTINUED)

ITEM 1. FINANCIAL STATEMENTS - (CONTINUED)
ENRON CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

As discussed in Note 3, on November 8, 2001, Enron Corp. (Enron) announced that it will restate its Consolidated Financial Statements for the years ended December 31, 1997 through 2000 and for the first and second quarters of 2001. As a result, the previously-issued financial statements for these periods and the audit reports covering the year-end financial statements for 1997 through 2000 should not be relied upon.

As further discussed in Note 2, the Securities and Exchange Commission (SEC) has opened a formal investigation of certain related party transactions. Additionally, Enron's Board of Directors (Board) has formed a special committee (Special Committee) to conduct an independent investigation and review of transactions between Enron and certain related parties. The Special Committee also was charged with taking any disciplinary action that it deems appropriate, communicating with the SEC and recommending to the Board any other appropriate actions. The duration of the SEC and Special Committee investigations, and the ultimate results of those investigations, have not yet been determined.

The consolidated financial statements included herein have been prepared by Enron without audit pursuant to the rules and regulations of the SEC. Contrary to the rules of the SEC, the Consolidated Financial Statements included herein have not been reviewed by an independent public accountant using professional standards and procedures for conducting such reviews, as established by generally accepted auditing standards, because of the ongoing investigation by the Special Committee, as discussed above, and the need of Arthur Andersen LLP, Enron's independent auditors, to complete their review procedures.

02074

These statements reflect all adjustments (consisting of the anticipated restatement items discussed in Note 3, and normal recurring entries) which are, in the opinion of management, necessary for a fair statement of the financial results for the interim periods. The Consolidated Financial Statements included

01300000000682

herein have been adjusted to reflect the impacts of the anticipated restatements discussed in Note 3 based on Enron's current understanding of the relevant facts as of the date of filing of this report. For the impacts on Enron's Consolidated Financial Statements for the years ended December 31, 1997 through 2000 and for the first and second quarters of 2001, see Note 3. It is possible that the investigation by the Special Committee will identify additional or different information concerning these matters which may require additional or different restatements. Accordingly, Enron will not file amendments to its annual reports on Forms 10-K for the years ended December 31, 1997 through 2000, or its quarterly reports on Forms 10-Q for the quarterly periods ended March 31, 2001 and June 30, 2001 to reflect the restatements of Enron's Consolidated Financial Statements until the Special Committee has completed its investigation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Consistent with SEC requirements for interim reporting, certain information and notes normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. Enron believes that the disclosures are adequate to make the information presented not misleading.

Certain reclassifications have been made in the 2000 amounts to conform with the 2001 presentation.

2. RECENT EVENTS

FINANCIAL CONDITION. Following Enron's announcement of its third quarter 2001 results on October 16, 2001, there was a significant decrease in Enron's common share price and subsequent decreases in the credit ratings of Enron's long-term debt to BBB- and Baa3 (the lowest level of investment grade) with a warning that further downgrades were possible. This situation resulted in a loss of investor confidence and significantly affected Enron's ability to raise capital.

02075

Maintaining an investment grade credit rating is a critical element in maintaining liquidity for Enron's wholesale business which, together with the natural gas pipeline operations and the retail business, comprise Enron's core businesses discussed below. As a part of their standard contractual arrangements, Enron and its trading counterparties regularly post cash deposits or letters of credit to collateralize a portion of their trading obligations. A downgrade to below investment grade could lead to a substantial increase in the level of cash required for collateral and margin deposits with Enron's wholesale trading partners. Additionally, Enron and its subsidiaries have outstanding surety bonds and other instruments related to construction projects

01300000000683

and other performance obligations. Under certain circumstances, the issuers of such sureties may request collateral.

Liquidity Actions. Enron has implemented a financial strategy to restore investor confidence and will continue its initiatives in this regard. Enron has taken the following steps to assure its customers and investors that it can fulfill its commitments in the ordinary course of business:

- Enron borrowed approximately $3.0 billion from its committed lines of credit to repay outstanding and expiring commercial paper obligations of approximately $1.9 billion and to provide immediate cash liquidity. This action to convert Enron's committed lines of credit to cash was done to eliminate any doubt as to their availability in the future;

- In an effort to further enhance short-term liquidity, on November 13, 2001, Enron (through its wholly-owned subsidiary) obtained $550 million in a new secured line of credit from JP Morgan Chase Bank (Chase) and Citicorp North America, Inc. (Citicorp), secured by Enron's Transwestern Pipeline Company assets. Enron anticipates obtaining $450 million in a new secured line of credit on or about November 20, 2001 from Chase and Citicorp secured by Northern Natural Gas Company assets. These proceeds will be used to further supplement short-term liquidity and to retire maturing obligations;

- On November 13, 2001, Enron received a $1.5 billion equity infusion in the form of a preferred stock investment in Northern Natural Gas Company, an Enron subsidiary (Northern), from Dynegy Inc. (Dynegy) in connection with the merger agreement signed between Enron and Dynegy discussed below.

- Enron anticipates the receipt of over $800 million in net proceeds from asset sales scheduled to close by year-end. However, the closings of these sale transactions are pending certain regulatory and other approvals that will impact whether such transactions close and the ultimate timing of the closings. Of the net proceeds, approximately $250 million, or a portion thereof, may be required to repay an obligation that may become a demand obligation due to a recent credit rating downgrade discussed below and in Note 9.

Enron is also engaged in discussions with various institutions about investing in Enron equity. Enron is diligently pursuing a program to raise an incremental $500 million to $1 billion of private equity from these sources in the near future. There can be no assurance, however, that such program will be successful. Depending on the terms and amounts of such investments, Enron may be required to increase its authorized capital, which would require the approval of its stockholders.

02076

Restructuring Plan. As a result of the merger agreement with Dynegy, discussed below, and the loss of investor confidence, Enron has initiated an action plan for restructuring its business. The key aspects of the action plan involve (i) concentrating primarily on its core businesses; (ii) taking aggressive steps to rationalize the existing cost structure; (iii) accelerating the process of divesting non-core businesses and assets; (iv) restructuring

01300000000684

scheduled maturities of debt and other obligations; (v) completing the investigation by the Special Committee and its advisors with respect to related party transactions; (vi) reviewing and strengthening Enron's corporate governance; and (vii) expanding certain disclosures with a focus on increased transparency. Management and the Board have not completed nor approved a restructuring plan. Such restructuring plan is currently being prepared and, therefore, Enron is unable to estimate the timing of implementation or the financial impacts. Enron's fourth quarter 2001 results of operations will likely be negatively impacted by severance, restructuring and other charges resulting from the repositioning of many of Enron's businesses.

In order to focus on Enron's core businesses and rationalize their cost structure, management is in the process of dividing Enron into three fundamental groups of businesses - Core, Non-Core and Under Review. Following is a description of each group of businesses:

- Core Businesses are the consistent franchise businesses for which Enron has a distinct competitive advantage. These businesses, collectively, generate significant earnings and cash flows. These businesses include:
  - Gas and power businesses in North America and Europe;
  - Coal businesses in North America and Europe;
  - Retail businesses in North America and Europe; and
  - Natural gas pipeline businesses.
- Non-Core businesses are businesses that do not provide value to Enron's core businesses. These primarily are part of Enron's global assets and broadband services segments. Enron has approximately $8 billion

invested in these businesses and the return from these investments is below acceptable rates. Accordingly, Enron is developing a plan to exit these businesses in an orderly fashion. Enron expects that the sale of these non-core businesses will generate cash proceeds that will be used to repay debt. Should the exit strategy, currently being prepared, result in a lower value than Enron's current carrying value, then Enron may be required to record related asset writedowns, possibly as early as the fourth quarter of 2001.

- Businesses Under Review are businesses that Enron believes have strong future prospects; however, under the restructuring program, Enron is in the process of looking closely at the capital requirements and near-term growth prospects of these businesses. These businesses are primarily Enron's wholesale businesses outside of power and gas, which include both energy-related and industrial markets activities. The in-depth assessment of each of these businesses will be completed very quickly to determine the resources Enron intends to expend in these areas.

02077

Impact of Recent Events. The recent deterioration in Enron's credit rating and decline in its stock price has caused a negative impact on Enron's projected 2001 fourth quarter profitability. This is primarily the result of a reduced level of transaction activity by Enron's trading counterparties,

01300000000685

particularly in longer-term transactions. It is too early to determine the impact these events will have on Enron's fourth quarter 2001 operating results. Additionally, the fourth quarter of 2001 will likely be negatively impacted by severance, restructuring and other charges resulting from the repositioning of many of Enron's businesses consistent with the restructuring plan, as well as potential writedowns as discussed in Note 8.

Enron has various financial arrangements which require Enron to maintain specified credit ratings. The November 12, 2001 downgrade in Enron's senior unsecured debt rating to BBB- by Standard & Poor's has caused a ratings event related to a $690 million note payable that, absent Enron posting collateral, will become a demand obligation on November 27, 2001. See Note 9 for a description of this obligation. Consistent with the restructuring plan discussed above, Enron is currently working with the lenders to develop a mutually acceptable amendment or waiver to the transaction documents in order to avoid an early Enron payment obligation.

In the event Enron were to lose its investment grade credit rating and Enron's stock price was below a specified price, a note trigger event would occur. This could require Enron to repay, refinance or cash collateralize additional facilities totaling $3.9 billion, which primarily consist of $2.4 billion of debt in Osprey Trust (Osprey) and $915 million of debt in Marlin Water Trust (Marlin). In the event such a trigger event occurs and Enron cannot timely issue equity in an amount sufficient to repay the notes or restructure the obligations, Enron is obligated to pay the difference in cash. For a description of the Marlin and Osprey Trusts, both of which are unconsolidated affiliates, and the related debt obligations, see Note 8.

In the event that Enron fails to pay any debt obligations when due, including when such obligations may be accelerated, or is unable to refinance or obtain a waiver of or amendment to such obligations, a series of events would begin which could impact Enron's compliance with the terms of its Revolving Credit Agreements and certain other obligations, including bank debt facilities.

It is not possible to predict whether any or all of the actions described above (including the sale of non-core businesses and assets and the refinancing or waiver of Enron obligations that may become immediately payable upon scheduled maturities or due to an acceleration event) will be adequate to maintain Enron's investment grade credit rating or enable Enron to refinance or otherwise restructure its debt obligations that become due. An adverse outcome with respect to any of these matters would likely have a material adverse impact on Enron's ability to continue as a going concern.

02078

MERGER WITH DYNEGY AND RELATED EQUITY FINANCING. On November 9, 2001, Enron and Dynegy announced the execution of a definitive agreement providing for a merger of the two companies. The merger agreement contemplates that both Enron and Dynegy will merge with separate subsidiaries of a newly formed holding company to be named Dynegy Inc. (New Dynegy). As a result of the mergers, both Enron and Dynegy would become wholly owned subsidiaries of New Dynegy. However, the merger agreement provides that both parties will cooperate with each other in analyzing and determining an alternative structure that results in a single corporation with substantially all the senior debt (other than that of regulated utility subsidiaries) of the two companies.

01300000000686

Under the terms of the merger agreement, Enron shareholders will receive 0.2685 shares of New Dynegy Class A common stock per share of Enron common stock, subject to adjustment as provided below. Dynegy shareholders will receive one share of New Dynegy Class A common stock or Class B common stock for their existing shares of Dynegy Class A common stock or Class B common stock, respectively. As a result of the merger, Dynegy's current stockholders will own approximately 64 percent of the common stock of New Dynegy and Enron's stockholders will own approximately 36 percent.

The proposed merger is subject to the approval of Enron's and Dynegy's shareholders, regulatory approvals and other customary conditions, including the absence of any event after November 9, 2001 that would have a material adverse effect on Enron, excluding the effects of general economic and industry conditions. If Enron's liabilities and expenses from and after November 9, 2001 associated with all pending or threatened litigation matters, in the reasonable judgment of Dynegy, exceed, or are reasonably likely to exceed, $2 billion in the aggregate (net of proceeds of insurance and litigation reserves reflected in Enron's financial statements), the amount of such excess over $2 billion will be taken into account in determining whether a material adverse effect on Enron has occurred, and, in any event, if the amount of such excess exceeds, or is reasonably likely to exceed, $1.5 billion, a material adverse effect on Enron will be deemed to have occurred. Assuming all approvals are obtained and conditions satisfied or waived, the merger is expected to close by the end of the third quarter of 2002.

The merger agreement also provides that, in the event the merger agreement is terminated in certain circumstances involving a competing offer to acquire Enron or a change in the Board's recommendation of the merger, Enron would pay Dynegy a break-up fee of $350 million. Dynegy must pay a similar fee to Enron in the event of corresponding actions with respect to Dynegy.

Under the merger agreement, Enron is entitled to issue up to $2 billion of additional equity prior to closing of the merger. However, the Enron merger ratio is subject to downward adjustment if Enron issues equity at an Enron common stock price below the implied Enron common stock price determined

by multiplying the Enron merger exchange ratio by the then current Dynegy common stock price.

02079

In connection with the merger agreement, Dynegy entered into a subscription agreement with Enron and Northern pursuant to which Dynegy agreed to purchase 1,000 shares of Northern's Series A preferred stock for $1.5 billion. This purchase was consummated on November 13, 2001. Additionally, Dynegy has agreed to invest an additional $1 billion in Enron at the closing of the merger.

The preferred stock provides for cumulative dividends at the rate of 6% per annum (subject to declaration by the Northern board of directors) payable annually beginning on January 31, 2003, or, at Northern's option, quarterly. Unpaid dividends accrue additional dividends at 6% per annum. Upon any liquidation or winding up of Northern, the holders of the preferred stock would be entitled to receive, in preference to the holders of the Northern common stock, an amount equal to $1.5 million per share plus accrued and unpaid dividends, if any. If the merger agreement is terminated for various specified

01300000000687

reasons, Northern may redeem the preferred stock in whole, but not in part, at a redemption price equal to the $1.5 billion liquidation preference amount plus any accrued and unpaid dividends.

In connection with the subscription agreement, Dynegy entered into an option agreement with a subsidiary of Enron that indirectly owns the common stock of Northern, under which a Dynegy subsidiary has the option to purchase all of the equity of that Enron subsidiary. The option will become exercisable only upon certain specified terminations of the merger agreement. The exercise price for the option is $23 million, plus the amount by which Northern's indebtedness under its bank credit facility and senior notes is less than $950 million (or minus the amount by which such indebtedness exceeds $950 million), subject to adjustment for the amount of working capital at the time of the exercise. If the option is exercised by Dynegy, Enron will have certain rights to repurchase the ownership of Northern for 90 (or under some scenarios 180) days at a substantially equivalent exercise price adjusted for changes in working capital and debt after the purchase by Dynegy.

Also in connection with the purchase of the Northern preferred stock, Dynegy entered into an exchange agreement with Enron under which each share of the Northern preferred stock may be exchanged for shares of Enron common stock. Dynegy has the option to cause such an exchange if the merger agreement is terminated in certain circumstances relating to a competing third party acquisition proposal relating to Enron or if the Board withdraws or changes, in a manner adverse to Dynegy, its approval or recommendation of the merger with Dynegy or recommends a competing third party acquisition proposal. Enron has the option to cause such an exchange if the merger agreement is terminated in certain circumstances relating to a competing third party acquisition proposal relating to Dynegy or if Dynegy's board of directors withdraws or changes, in a manner adverse to Enron, its approval or recommendation of the merger with Enron or recommends a competing third party acquisition proposal. If the exchange right is exercised, each share of Northern preferred stock would be exchanged for approximately 169,300 shares of Enron common stock (or approximately 169.3 million shares in the aggregate), subject to adjustment based on changes to the Enron merger exchange ratio pursuant to the merger agreement. The exchange agreement will terminate if the proposed merger is consummated, the option under the option agreement described above is exercised or the preferred stock is redeemed in accordance with its terms.

02080

The exchange agreement further provides that if Dynegy is prevented from receiving Enron common stock under the exchange agreement because the regulatory and other specified conditions for the issuance have not been satisfied, Dynegy will have the right to assign its rights under the exchange agreement to any third party or Enron will issue to Dynegy shares of a new class of Enron preferred stock convertible into an equivalent number of shares of Enron common stock. If the conditions for Dynegy to receive Enron common stock are not satisfied after twelve months, Dynegy may instead elect to withdraw its exercise of the exchange right and exercise its rights under the option agreement, or receive equivalent consideration from Enron.

Subsequent to the execution of the merger agreement with Dynegy, Kenneth L. Lay, Enron's Chairman and Chief Executive Officer, waived his right to receive approximately $60.6 million under the change of control terms in his

01300000000688

employment contract with Enron, with respect to the merger with Dynegy.

SEC INVESTIGATION. On October 17, 2001, the SEC requested that Enron voluntarily provide information regarding certain related party transactions. On October 31, 2001, the SEC opened a formal investigation of the matters that were the subject of recent press reports and that were previously the subject of the SEC informal inquiry. Enron is cooperating fully with the SEC relative to its investigation. Enron cannot predict the term of the SEC investigation or its potential outcome.

SPECIAL COMMITTEE. Based on various reports and information concerning Enron's transactions with certain related parties, on October 31, 2001 the Board elected William K. Powers Jr., Dean of the University of Texas School of Law, to the Board, and appointed Dean Powers as Chairman of a newly formed Special Committee. The Special Committee is responsible for conducting an independent investigation and review of transactions between Enron and certain related parties. The Special Committee also was charged with taking any disciplinary action that it deems appropriate, communicating with the SEC and recommending to the Board any other appropriate actions. The other members of the Special Committee are independent directors Frank Savage, CEO of Savage Holdings LLC, Paulo Ferraz Pereira, Executive Vice President of investment bank Group Bozano, and Herbert S. Winokur, Jr., Chairman and CEO of Capricorn Holdings, Inc.

The Special Committee has retained the law firm of Wilmer, Cutler & Pickering (Wilmer, Cutler) as its counsel. The firm's representation is led by William R. McLucas, former Director of the Division of Enforcement of the SEC. Wilmer, Cutler has retained Deloitte & Touche LLP to provide related accounting advice to the law firm. The Special Committee began its review on October 26, 2001. The review will include an analysis of both the underlying substance and business purposes of the transactions, as well as an analysis of their financial impact on Enron and, to the extent information is available, on the related parties. The duration of the Special Committee's review, and the ultimate results of that review, have not yet been determined. Accordingly, Enron cannot predict the ultimate results of the Special Committee investigation and the related impact on Enron's reported Consolidated Financial Statements.

3. RESTATEMENT

On November 8, 2001, Enron announced that it will restate its Consolidated Financial Statements for the years 1997 through 2000 and the first and second quarters of 2001 to (1) reflect its conclusion that three previously unconsolidated entities did not meet certain accounting requirements and should have been included in Enron's consolidated financial statements, (2) reflect an adjustment to shareholders' equity described below and (3) include prior-year proposed audit adjustments and reclassifications (which were previously determined to be immaterial in the years originally proposed). Specifically, Enron has concluded that based on a review of related party transactions:

- The financial activities of Chewco Investments, L.P. (Chewco), a related party which was an investor in Joint Energy Development Investments Limited Partnership (JEDI), should have been consolidated into Enron's consolidated financial statements beginning in November 1997;

02081

01300000000689

- The financial activities of JEDI, in which Enron was an investor and which were consolidated into Enron's financial statements beginning in the first quarter of 2001, should have been consolidated beginning in November 1997; and

- The financial activities of a wholly-owned subsidiary of LJM Cayman, L.P. (LJM1), a private investment limited partnership for which the general partner's managing member was Andrew S. Fastow, former Executive Vice President and Chief Financial Officer of Enron (see Note 4), should have been consolidated into Enron's consolidated financial statements beginning in 1999.

The Consolidated Financial Statements included herein reflect such anticipated restatements based on Enron's current understanding of the relevant facts as of the date of the filing of this report. It is possible that the Special Committee's investigation (discussed in Note 2) will identify additional or different information concerning these matters which will require additional or different restatements. As a result, Enron will not issue amendments to its annual reports on Forms 10-K for the years ended December 31, 1997 through 2000 or its quarterly reports on Forms 10-Q for the quarterly periods ended March 31, 2001 and June 30, 2001 to reflect the impacts of the anticipated restatements on Enron's Consolidated Financial Statements until the Special Committee has completed its investigation. Additionally, Enron has announced that the previously-issued financial statements for these periods and the audit reports covering the year-end financial statements for 1997 through 2000 should not be relied upon.

The effects of the anticipated restatements, based on Enron's understanding of the relevant facts as of the date of the filing of this report, are outlined below and a description of the anticipated restatements follows the table (dollars in millions, except per share amounts). Certain amounts in the following table differ from those included in Enron's November 8, 2001 Form 8-K due to further refinement of the identified restatement items.

(Amounts are subject to change pending the results of the Special Committee investigation.)

02082

	1997	1998	1999	2000	1st 20
Net income as reported	$ 105(a)	$ 703	$ 893	$ 979	$
Restatements:					
Consolidation of JEDI and Chewco	(28)	(133)	(153)	(91)	
Consolidation of LJM1 subsidiary	-	-	(95)	(8)	
Raptor equity adjustment	-	-	-	-	
Prior period proposed audit adjustments and reclassifications	(51)	(6)	(10)	(38)	

01300000000690

Net Income Restated	$ 26	$ 564	$ 635	$ 842	$
Diluted shares outstanding, as reported	555	695	769	814	
DILUTED SHARES RESTATED	553	686	755	801	
Diluted EPS as reported	0.16	1.01	1.10	1.12	0
DILUTED EPS RESTATED	0.02	0.82	0.78	0.97	0
Total assets as reported	$22,552	$29,350	$33,381	$65,503	$67,
Restatements:					
Consolidation of JEDI and Chewco	451	160	181	(161)	
Consolidation of LJM1 subsidiary	-	-	(222)	-	
Raptor equity adjustment	-	-	-	(172)	(1,
Prior period proposed audit adjust ments and reclassifica- tions	(79)	(68)	(68)	(244)	(1,
TOTAL ASSETS RESTATED	$22,924	$29,442	$33,272	$64,926	$65,
Debt as reported	$ 6,254	$ 7,357	$ 8,152	$10,229	$11,
Restatements:					
Consolidation of JEDI and Chewco	711	561	685	628	
Consolidation of LJM1 subsidiary	-	-	-	-	
Raptor equity adjustment	-	-	-	-	
Prior period proposed audit adjustments and reclassifica- tions	-	-	-	-	
DEBT RESTATED	$ 6,965	$ 7,918	$ 8,837	$10,857	$11,
Equity as reported	$ 5,618	$ 7,048	$ 9,570	$11,470	$11,
Restatements:					
Consolidation of JEDI and Chewco	(258)	(391)	(544)	(814)	
Consolidation of LJM1 subsidiary	-	-	(166)	60	
Raptor equity adjustment	-	-	-	(172)	(1,
Prior period proposed audit adjustments and reclassifica- tions	(51)	(57)	(136)	(255)	(
EQUITY RESTATED	$ 5,309	$ 6,600	$ 8,724	$10,289	$10,

(a) After effect of significant contract restructuring charge totaling $463 million (after tax).

PART I. FINANCIAL INFORMATION - (CONTINUED)

ITEM 1. FINANCIAL STATEMENTS - (CONTINUED)
ENRON CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

02083

01300000000691

DESCRIPTION OF RESTATEMENT ITEMS

Chewco and JEDI Consolidation. Enron's decision that Chewco should be consolidated beginning in November 1997 is based on recently obtained information that Chewco did not meet the accounting criteria to qualify as an adequately capitalized unconsolidated special purpose entity (SPE). See Note 4 for a discussion of Chewco and a description of an SPE. As a result of Chewco's failure to meet these criteria, JEDI, in which Chewco was a limited partner, also did not qualify for nonconsolidation treatment. When the consolidation of these two entities are taken into account, Enron's prior-year reported debt amounts are increased by both JEDI's and Chewco's borrowings. In addition, Enron's net income is reduced for specific JEDI revenues previously allocated to Chewco, relating to the appreciation in value of Enron stock held by JEDI, which eliminates upon consolidation. This, in effect, reduces Enron's share of JEDI's earnings. The net effect reduces Enron's prior-years' reported net income and shareholders' equity amounts.

LJM1 Subsidiary Consolidation. Enron's decision that the LJM1 subsidiary should be consolidated in 1999 and 2000 is based on Enron's current assessment that the subsidiary did not qualify for nonconsolidation treatment because of inadequate capitalization.

In 1999, Enron entered into a series of transactions involving a third party and LJM1. The effect of the transactions was (i) Enron and the third party amended certain forward contracts to purchase shares of Enron common stock, resulting in Enron having forward contracts to purchase Enron common shares at the market price on that day, (ii) LJM1 received 6.8 million shares of Enron common stock subject to certain restrictions, 3.1 million shares of which it contributed to the LJM1 subsidiary and (iii) Enron received a note receivable from LJM1, which was repaid in December 1999, and certain financial instruments hedging Enron's investment in the stock of Rhythms NetConnections, Inc. Enron recorded the assets received and equity issued at estimated fair value. In connection with the transactions, LJM1 agreed that Mr. Fastow would have no pecuniary interest in such Enron common shares and would be restricted from voting on matters related to such shares. In March 2000, Enron and LJM1 entered into an agreement to terminate the financial instruments. In connection with this agreement, Enron received the 3.1 million shares of Enron common stock held by the LJM1 subsidiary. A put option, which was originally entered into in the first quarter of 2000 and gave LJM1 the right to sell shares of Enron common stock to Enron at a strike price of $71.31 per share, was terminated under this agreement. In return, Enron paid approximately $26.8 million to LJM1.

Consolidation of the LJM1 subsidiary has the effect of eliminating the income recognized by Enron on derivative transactions with this LJM1 subsidiary, thus reducing Enron's net income in 1999 and 2000. Shareholders' equity has been reduced in 1999 and increased in 2000 to reflect the elimination of Enron common stock contributed by LJM1 to the LJM1 subsidiary.

Shareholders' Equity Reduction. Enron's previously-announced $1.2 billion reduction of shareholders' equity primarily involves the correction of an accounting error made in the second quarter of 2000 and in the first quarter of 2001. As described in more detail below and in Note 4, four SPEs known as Raptor I-IV (collectively, Raptor) were created in 2000 to permit Enron to hedge market risk in certain of its investments. (LJM2 Co-Investment, L.P. (LJM2), a private investment limited partnership for which the general partner's managing member was Mr. Fastow, invested in these entities, but the related-party nature of the transaction is not relevant to the accounting correction.) As part of the capitalization of these entities, Enron issued

02084

01300000000692

PART I. FINANCIAL INFORMATION - (CONTINUED)

ITEM 1. FINANCIAL STATEMENTS - (CONTINUED)
ENRON CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

common stock in exchange for a note receivable. Enron increased notes receivable and shareholders' equity to reflect this transaction. Enron now believes that, under generally accepted accounting principles, the note receivable should have been presented as a reduction to shareholders' equity (similar to a shareholder loan). This treatment would have resulted in no net increase to shareholders' equity. The net effect of this initial accounting entry was to overstate both notes receivable and shareholders' equity by approximately $172 million (which represented less than 2% of shareholders' equity at the time) in each of the second quarter, third quarter and year-end financial statements of Enron for the year 2000.

In the first quarter of 2001, Enron entered into a series of transactions with Raptor that could have obligated Enron to issue Enron common stock in the future in exchange for notes receivable. Enron accounted for these transactions using the accounting treatment described in the preceding paragraph. This resulted in an additional overstatement of both notes receivable and shareholders' equity by $828 million. As a result of these errors, shareholders' equity and notes receivable were overstated by a total of $1 billion in the unaudited balance sheets of Enron at March 31, 2001 and June 30, 2001.

In the third quarter of 2001, as a result of deterioration in the credit quality of the Raptor SPEs caused by the decline in New Power Holdings, Inc.'s (NPW) stock price, the increase in Raptor's exposure under derivative contracts with Enron and the increasing dilutive effect on Enron's earnings per share calculation, Enron acquired LJM2's equity in the SPEs for $35 million and terminated the entities. Consistent with the original treatment, Enron accounted for this transaction as a reduction to Enron shareholders' equity and notes receivable by $1.2 billion. Of this amount, $270 million related to the amount by which the fair value of contracts to deliver Enron shares exceeded the value of the notes receivable, which is not related to the restatement discussed above.

Audit Adjustments. The restatements include prior-year proposed audit adjustments and reclassifications which were determined to be immaterial in the periods originally proposed.

4. RELATED PARTY TRANSACTIONS

On November 8, 2001, Enron released information in a Form 8-K regarding the two LJM limited partnerships formed by Enron's former chief financial officer, his role in the partnerships, the business relationships and transactions between Enron and the partnerships, and the economic results of those transactions as known thus far, and transactions between Enron and certain other Enron employees. Following is the information that was provided.

THE LJM LIMITED PARTNERSHIPS AND TRANSACTIONS WITH ENRON. LJM1 and LJM2 (collectively, LJM) are private investment limited partnerships that were formed in 1999. Andrew S. Fastow was (from inception through July 2001) the managing member of the general partners of LJM1 and LJM2. Enron believes that the LJM partnerships have as limited partners a significant number of institutions and other investors that are not related parties to Enron. These partnerships are a subject of the Special Committee's investigation and it is possible that this investigation will identify additional or different information concerning matters described herein.

02085

01300000000693

PART I. FINANCIAL INFORMATION - (CONTINUED)

ITEM 1. FINANCIAL STATEMENTS - (CONTINUED)
ENRON CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Enron, like many other companies, utilizes a variety of structured financings in the ordinary course of its business to access capital or hedge risk. Many of these transactions involve "special purpose entities," or "SPEs." Accounting guidelines allow for the non-consolidation of SPEs with the sponsoring company's financial statements in certain circumstances. Accordingly, certain transactions between the sponsoring company and the SPE may result in gain or loss and/or cash flow being recognized by the sponsor, commonly referred to by financial institutions as "monetizations."

The LJM Partnerships. Enron believes that, under the LJM1 and LJM2 limited partnership agreements (as with many similar agreements in private equity investing), the general partners are entitled to receive a percentage of the profits in excess of their portions of total capital contributed to the partnerships depending upon the performance of the partnerships' investments. Enron also believes that the general partners are entitled to receive annual management fees based in part on formulas that take into account the total amount of capital committed and/or invested by the limited partners. Enron now believes that Mr. Fastow earned in excess of $30 million relating to his LJM management and investment activities. Enron believes that the initial capital commitments of all partners to LJM1 were $16 million, and aggregate capital commitments of all partners to LJM2 were $394 million.

LJM1 and LJM2 were described to the Enron Board of Directors as potential sources of capital to buy assets from Enron, potential equity partners for Enron investments and counterparties to help mitigate risks associated with Enron investments. The Board also was informed that LJM1 and LJM2 intended to transact business with third parties. Prior to approving Mr. Fastow's affiliation with LJM1 and LJM2, the Board determined that Mr. Fastow's participation in the partnerships would not adversely affect the interests of Enron. The Board approved the initial transaction with LJM1 and recognized that Enron could (but was not required to) engage in additional transactions with LJM.

The Board directed that certain controls be put into place relating to Mr. Fastow's involvement with the partnerships and transactions between Enron and the partnerships. The Board required review and approval of each transaction by the Office of the Chairman, the Chief Accounting Officer and the Chief Risk Officer. The Board also recognized the ability of the Chairman of the Board to require Mr. Fastow to resign from the partnerships at any time and directed that the Audit and Compliance Committee conduct annual reviews of transactions between Enron and LJM1 and LJM2 completed during the prior year to ensure the Board's requirements as to controls were met. Whether these controls and procedures were properly implemented is a subject of the Special Committee's investigation.

Enron believes that, as of July 31, 2001, Mr. Fastow sold his interests in LJM1 and LJM2 to Michael J. Kopper, and that Mr. Fastow ceased to be the managing member of LJM's general partners. Prior to that time, Mr. Kopper reported to Mr. Fastow as a non-executive officer of an Enron division. Mr. Kopper resigned from Enron immediately before Enron believes he purchased Mr. Fastow's interests in LJM. Mr. Fastow is no longer working for Enron.

02086

01300000000694

PART I. FINANCIAL INFORMATION - (CONTINUED)

ITEM 1. FINANCIAL STATEMENTS - (CONTINUED)
ENRON CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

General Summary of LJM Transactions. From June 1999 through September 2001, Enron and Enron-related entities entered into 24 business relationships in which LJM1 or LJM2 participated. These relationships were of several general types, including: (1) sales of assets by Enron to LJM2 and by LJM2 to Enron; (2) purchases of debt or equity interests by LJM1 or LJM2 in Enron-sponsored SPEs; (3) purchases of debt or equity interests by LJM1 or LJM2 in Enron affiliates or other entities in which Enron was an investor; (4) purchases of equity investments by LJM1 or LJM2 in SPEs designed to mitigate market risk in Enron's investments; (5) the sale of a call option and a put option by LJM2 on physical assets; and (6) a subordinated loan to LJM2 from an Enron affiliate. The financial results of these transactions are summarized below.

(In Millions)	LJM Investment	Cash and Other Value Received by LJM	LJM Net Cash Flow
Nine Months Ended September 30, 2001			
Sales of Assets	$ -	$ -	$ -
Purchases of Equity/Debt in Enron-Sponsored Special Purpose Entities	-	52.5	52.5
Investments in Enron Affiliates	3.4	17.8	14.4
Portfolio Special Purpose Entities	-	75.5	75.5
Call Option	-	-	-
Transactions with LJM and Other Entities	-	-	-
Transaction with LJM and Whitewing	-	-	-
Total	$ 3.4	$145.8	$142.4
Nine Months Ended September 30, 2000			
Sales of Assets	$ 30.0(b)	$ -	$(30.0)
Purchases of Equity/Debt in Enron-Sponsored Special Purpose Entities	83.3	63.0	(20.3)
Investments in Enron Affiliates	64.3	48.9	(15.4)
Portfolio Special Purpose Entities	127.1	109.0	(18.1)
Call Option	8.2	0.9	(7.3)

02087

01300000000695

Transactions with LJM and Other Entities	7.5	11.7	4.2
Transaction with LJM and Whitewing	-	-	-
Total	$320.4	$233.5	$(86.9)

(a) Enron's pre-tax earnings impact of transactions with LJM2 through the Raptor SPEs was approximately $545 million and $49 million for the nine months ended September 30, 2001 and 2000, respectively, excluding the pre-tax charge described below. During the nine months ended September 30, 2001 and 2000, the Raptor SPEs hedged losses related to Enron investments of $453 million and $35 million, respectively. The 2001 pre-tax earnings amount includes a $710 million pre-tax charge in the quarter ended September 30, 2001 related to the termination of the Raptor SPEs.

(b) This amount excludes a seller financed note from Enron to LJM of approximately $70 million.

(In Millions)	LJM Investment	Cash and Other Value Received by LJM	LJM Net Cash Flow
2000			
Sales of Assets	$ 30.0(b)	$ 32.4	$ 2.4
Purchases of Equity/Debt in Enron-Sponsored Special Purpose Entities	100.7	64.4	(36.3)
Investments in Enron Affiliates	66.5	51.2	(15.3)
Portfolio Special Purpose Entities	127.1	148.5	21.4
Call Option	11.3	12.5	1.2
Transactions with LJM and Other Entities	7.5	11.7	4.2
Transaction with LJM and Whitewing	40.3	-	(40.3)
Total	$383.4	$320.7	$(62.7)

02088

1999

01300000000696

Sales of Assets	$ -	$ -	$ -
Purchases of Equity/Debt in Enron-Sponsored Special Purpose Entities	73.8	15.4	(58.4)
Investments in Enron Affiliates	44.5	1.0	(43.5)
Portfolio Special Purpose Entities	64.0	95.2(c)	31.2
Call Option	-	-	-
Transactions with LJM and Other Entities	-	-	-
Transaction with LJM and Whitewing	-	38.5	38.5
Total	$182.3	$150.1	$(32.2)
Estimated Fair Value of Existing LJM Investments			$ 43.6(d)

(a) Enron's pre-tax earnings impact of transactions with LJM2 through the Raptor SPEs was approximately $532 million in 2000. During 2000, the Raptor SPEs hedged losses related to Enron investments of $501 million.

(b) This amount excludes a seller financed note from Enron to LJM of approximately $70 million.

(c) This amount represents Enron's estimate of the value received in Enron common stock, a portion of which was restricted. The estimate was based on a 36% discount off the market price on the date of issuance for shares that were restricted and estimated proceeds received by LJM from the sale of the unrestricted shares.

(d) This amount represents Enron's estimated fair value of the six investments made by LJM that remained outstanding as of September 30, 2001.

02089

Sales of Assets. In June 2000, LJM2 purchased dark fiber optic cable from Enron for a purchase price of $100 million. LJM2 paid Enron $30 million in cash and the balance in an interest-bearing note for $70 million. Enron recognized $67 million in pre-tax earnings in 2000 related to the asset sale. Pursuant to a marketing agreement with LJM2, Enron was compensated $20 million for marketing the fiber to others and other fees for providing operation and maintenance services to LJM2 with respect to the fiber. This arrangement gave Enron profit potential in proceeds received after LJM2 achieved a specified return level. LJM2 sold a portion of the fiber to industry participants for $40 million. LJM2 sold the remaining dark fiber assets for $113 million in December 2000 to an SPE that was formed to acquire the fiber. In December 2000, LJM2 used a portion of the proceeds to pay in full the note and accrued interest owed to Enron. At the

01300000000697

time of LJM2's sale of the fiber to the SPE, Enron entered into a derivative contract which served as credit support for the benefit of some of the debt holders of a third-party investor in the SPE. This credit support provided the lender with a specified rate of return. As a result, Enron's credit exposure under the $70 million note was replaced with $61 million in remaining exposure under the derivative contract. LJM2 earned $2.4 million on its resale of the fiber.

Purchases of Equity/Debt in Enron-Sponsored SPEs. Between September 1999 and December 2000, LJM1 or LJM2 purchased equity or debt interests in nine Enron-sponsored SPEs. LJM1 and LJM2 invested $175 million in the nine SPEs. These transactions enabled Enron to monetize assets and generated pre-tax earnings to Enron of $2 million in 1999.

Enron believes that LJM received cash of $15 million, $64 million and $53 million in 1999, 2000 and 2001, respectively, relating to its investments in these entities. In three instances, third-party financial institutions also invested in the entities. LJM invested on the same terms as the third-party investors. In one of these nine transactions, Enron entered into a marketing agreement with LJM2 that provided Enron with the right to market the underlying equity. This arrangement gave Enron profit potential in proceeds received after LJM2 achieved a specified return level. In six of these nine transactions, Enron repurchased all or a portion of the equity and debt initially purchased by LJM.

The SPEs owned, directly or indirectly, a variety of operating and financial assets. For example, Yosemite Securities Trust was a finance entity which facilitated Enron's ability to raise funds in the capital markets through the use of credit-linked notes, a standard financing arrangement offered by investment banks. Osprey Trust is beneficially-owned by a number of financial institutions and is a limited partner in Whitewing Associates, L.P., an Enron unconsolidated affiliate (Whitewing) (see Note 8). Enron is the other partner. Whitewing purchased certain Enron investments for future sale.

In addition, as a result of these transactions, Enron was able to monetize equity interests with investment banks. These monetizations resulted in Enron's recognizing $146 million and $5 million in pre-tax earnings in 2000 and the nine months ended 2001, respectively, and $252 million in cash inflows, all in 2000.

Investment in Enron Affiliates. In two transactions, LJM2 made direct and indirect investments in stock (and warrants convertible into stock) of NPW. NPW initially was a wholly-owned subsidiary of Enron, subsequently included other strategic and financial investors, and in October 2000 became a

public company. NPW is engaged in the retail marketing and sale of natural gas, electricity and other commodities, products and services to residential and small commercial customers in the United States. In January 2000, LJM2 invested $673,000 in Cortez Energy Services LLC (Cortez), a limited liability company formed by Enron and LJM2, and Enron contributed five million shares of NPW stock to Cortez. In July 2000, in a private placement, LJM2 purchased warrants exercisable for NPW stock for $50 million on the same terms as third-party investors. Enron believes that LJM2 still owns these investments.

02090

In September 1999, LJM1 acquired from Enron a 13% equity interest in a

01300000000698

company owning a power project in Brazil for $10.8 million, and acquired redeemable preference shares in a related company for $500,000. Enron recognized a $1.7 million loss on the sale of these interests to LJM1. Enron recognized revenues of $65 million, $14 million and $5 million from a commodity contract with the company owning the power project in 1999, 2000 and 2001, respectively. As part of an exclusive marketing arrangement to sell LJM1's equity in the project to third parties and to limit LJM1's return, Enron paid LJM1 a $240,000 fee in May 2000. In 2001, Enron repurchased LJM1's 13% equity interest and the redeemable preference shares for $14.4 million. Enron currently owns this equity interest and consolidates the Brazilian company.

In December 1999, LJM2 paid Enron $30 million for a 75% equity interest in a power project in Poland. Enron recognized a $16 million gain in 1999 on the sale. Enron paid $750,000 to LJM2 as an equity placement fee. In March 2000, Enron repurchased 25% of the equity in the Polish power project from LJM2 for $10.6 million, and Whitewing acquired the remaining 50% from LJM2 for $21.3 million. Enron and Whitewing still own their respective equity interests.

In December 1999, LJM2 acquired a 90% equity interest in an Enron entity with ownership rights to certain natural gas reserves for $3 million. As a result, Enron recognized $3 million in revenue from an existing commodity contract. Subsequently, LJM2 assigned a portion of its ownership interest in the entity to Enron and Whitewing at no cost (to achieve certain after-tax benefits). Enron believes LJM2 continues to own its remaining interest.

Portfolio SPEs. Enron and LJM established a series of SPEs to mitigate market exposures on Enron investments, including investments in NPW, Rhythms NetConnections, Inc., and other technology, energy, and energy-related companies. LJM made $191 million in equity investments in five separate SPEs ($127 million in the four Raptor SPEs and $64 million related to the Rhythms SPE), three of which (Raptor I, II and IV) were also capitalized with Enron stock and derivatives which could have required the future delivery of Enron stock. Raptor III was capitalized with an economic interest in warrants convertible into stock of NPW. The Rhythms SPE is discussed in Note 3 in the "LJM1 Subsidiary Consolidation" section. Enron subsequently engaged in hedging transactions with these SPEs, which included price swap derivatives, call options and put options. The derivatives and options generally were intended to hedge Enron's risk in certain investments having an aggregate notional amount of approximately $1.9 billion.

In the first quarter of 2001, Enron entered into a series of transactions with the Raptor SPEs that could have obligated Enron to issue Enron common stock in the future in exchange for notes receivable. These transactions, along with a transaction entered into in 2000, obligated Enron to deliver up to 30 million shares of Enron common stock to the Raptor SPEs in March 2005.

02091

Such transactions were to have been accounted for as equity transactions when settled.

In the third quarter of 2001, as a result of deterioration in the credit quality of the Raptor SPEs caused by the decline in Enron and NPW's stock price, the increase in Raptor's exposure under derivative contracts with Enron and the increasing dilutive effect on Enron's earnings per share calculation, Enron acquired LJM2's equity in the SPEs for $35 million and terminated the entities.

01300000000699

Enron recognized pre-tax earnings (losses) (as restated) relating to risk management activities of none, $532 million and ($166) million in 1999, 2000 and 2001, respectively, including the effect of a $710 million pre-tax charge recognized in 2001, related to the decline in credit quality and ultimate termination of the Raptor SPEs. During 2000 and the nine months ended September 30, 2001, the Raptor SPEs hedged losses of $501 million and $453 million, respectively. The Rhythms SPE was used to hedge Enron's exposure arising from an investment in the stock of Rhythms NetConnections, Inc. However, it was subsequently determined that it did not meet the criteria to qualify as an adequately capitalized unconsolidated SPE. See Note 3 for a discussion of the restatements related to the Rhythms SPE.

In total, LJM1 and LJM2 invested $191 million and received $319 million (an estimated $95 million of which is non-cash value from the receipt of 3.6 million shares of Enron restricted stock) related to their investments in these five SPEs.

Call Option. In May 2000, Enron purchased a call option from LJM2 on two gas turbines at the same time that LJM2 contracted to purchase the gas turbines from the manufacturer. Enron paid LJM2 $1.2 million for this right during a seven-month period in 2000. The call option gave Enron the right to acquire these turbines from LJM2 at negotiated fair market value, which was $11.3 million. The call option was subsequently assigned from Enron to an Enron-sponsored SPE capitalized by a third-party financial institution. In December 2000, the call option was exercised by the SPE, which acquired the turbines from LJM2 at cost.

Transactions with LJM and Other Entities. Enron sold its contractual right to acquire a gas turbine to a utility for $15.8 million in July 2000. Enron recognized a pre-tax gain of $3.5 million on the transaction. At the same time, the utility entered into a put option agreement with LJM2 relating to the turbine under which the utility paid LJM2 $3.5 million. Subsequently, upon the execution of an engineering, procurement and construction contract with a wholly-owned subsidiary of Enron, the utility assigned the contractual right to acquire the gas turbine to that subsidiary.

In December 1999, Enron sold an equity investment in Enron Nigeria Barge Ltd. to an investment bank and provided seller financing. In June 2000, LJM2 purchased this equity investment directly from the investment bank for $7.5 million and the assumption of the seller-financed note from Enron. In September 2000, LJM2 sold the equity investment to an industry participant for $31.2 million. The proceeds from LJM2's sale were used by LJM2 to repay the principal and interest on the note from Enron in the amount of $23.0 million. The remaining $8.2 million repaid LJM2's $7.5 million purchase price and provided a profit of $700,000 to LJM2.

Transaction between LJM and Whitewing. In December 1999, a wholly-owned subsidiary of Whitewing entered into a $38.5 million credit agreement with

LJM2, the borrower. The loan had a term of one year and carried an interest rate of LIBOR+2.5%. The loan amount (including interest) of $40.3 million was repaid by LJM2 in 2000.

Currently Outstanding LJM2 Transactions. Enron believes that LJM2

02092

01300000000700

currently has interests in six of the investments described above in which LJM2 originally invested $124 million, and that LJM2 has received cash inflows of $27 million from these investments. These investments include $23 million in equity in two Enron-sponsored SPEs, $32.5 million in equity in Osprey Trust, $3 million in equity in an Enron affiliate and $50.7 million in direct equity investments in NPW (representing two transactions).

Enron and LJM2 also entered into various agreements relating to cash management services, employee services and office space provided by Enron to LJM2. In addition, Enron paid LJM2 a management fee for certain transactions, and other transaction fees described above. Enron also reimbursed LJM2 for transaction-related expenses (such as legal and tax fees and other costs) associated with some of the transactions described above.

OTHER EMPLOYEE TRANSACTIONS. From June 1993 through November 1997, an Enron subsidiary was the general partner of JEDI and a third-party, the California Public Employees' Retirement System (CalPERS), was the limited partner. In November 1997, JEDI made a liquidating distribution to CalPERS of $383 million. Concurrently, Chewco purchased a limited partnership interest in JEDI for $383 million, $132 million of which was financed by an interest-bearing loan from JEDI to Chewco, and $240 million of which was borrowed from a third-party financial institution (supported by a guarantee from Enron). The balance of the transaction (approximately $12 million) was principally funded by a contribution from a third party. Enron has subsequently determined that a portion of this contribution was cash collateralized. Based on current information, Enron believes that a non-executive officer of an Enron division, Michael J. Kopper, was an investor in the general partner of Chewco and, at the time of the purchase, also was the manager of the Chewco general partner. These events resulted in inadequate capitalization of Chewco to meet the SPE accounting guidelines. The restatement resulting from the Chewco transaction is discussed in Note 3.

From December 1997 to December 2000, Chewco received distributions of $433 million from JEDI. Among other things, Chewco used a portion of these distributions to make repayments on its JEDI loan and to repay an additional borrowing from the third-party financial institution.

In December 1999, Chewco purchased a $15 million equity interest in Osprey Trust, an Enron-sponsored SPE, from LJM1.

In March 2001, Enron purchased Chewco's limited partnership interest in JEDI for $35 million. In September 2001, Enron paid an additional $2.6 million to Chewco in connection with a tax indemnification agreement between JEDI, Chewco and Enron. Of the total purchase consideration, $26 million was used by Chewco to make a payment on the JEDI loan. Chewco currently has an outstanding balance due on the JEDI loan of $15 million. JEDI is currently a wholly-owned subsidiary of Enron.

Enron now believes that Mr. Kopper also was the controlling partner of a limited partnership that (through another limited partnership) purchased interests in affiliated subsidiaries of LJM1 in March 2000. Enron also now believes that four of the six limited partners of the purchaser were, at the time of the investment, non-executive officers or employees of Enron, and a

02093

01300000000701

fifth limited partner was an entity associated with Mr. Fastow. These officers and employees, and their most recent job titles with Enron, were Ben Glisan, Managing Director and Treasurer of Enron Corp.; Kristina Mordaunt, Managing Director and General Counsel of an Enron division; Kathy Lynn, Vice President of an Enron division; and Anne Yaeger, a non-officer employee. Enron has terminated the employment of Mr. Glisan and Ms. Mordaunt. Ms. Lynn and Ms. Yaeger are no longer associated with Enron and Enron believes they are now associated with LJM2. At the time these individuals invested in the limited partnership, LJM1 had ceased entering into new transactions with Enron. However, some pre-existing investments involving LJM1 and Enron were still in effect, and Enron believes that these investments resulted in distributions or payments to LJM1 and to the limited partnership in which these individuals invested.

Pursuant to a services agreement among Enron, LJM1 and LJM2, Enron made available to LJM1 and LJM2 a portion of the time of certain of its employees to provide administrative assistance to the general partners of LJM1 and LJM2. Mr. Kopper, Ms. Lynn and Ms. Yaeger, among other Enron employees, were made available to LJM1 or LJM2 from time to time during their employment by Enron.

OTHER TRANSACTIONS. In the first nine months of 2001, Enron received approximately $241.8 million from Whitewing, an unconsolidated equity affiliate, related to monetizations. During the first nine months of 2001, Enron acquired investments from Whitewing for approximately $28.8 million. No gains were recorded by Enron in connection with these transactions. Management believes that the terms of these transactions are reasonable compared to those which could have been negotiated with third parties.

5. SUPPLEMENTAL CASH FLOW INFORMATION

Net cash paid for income taxes for the first nine months of 2001 and 2000 was $168 million and $37 million, respectively. Cash paid for interest for the same periods, net of amounts capitalized, was $640 million and $573 million, respectively.

BUSINESS ACQUISITIONS. In September 2001, Retail Services contributed subsidiary companies with net book value of $103 million in the formation of a new company, ServiceCo Holdings Inc. (ServiceCo). Also contributing to the formation of ServiceCo was a third party financial investor and technology partner. ServiceCo provides facility management services to retail customers. Retail Services received an 86% interest in ServiceCo in return for its contributions.

In the third quarter of 2000, Enron, through a wholly-owned subsidiary, acquired all of the outstanding common shares of MG plc, a leading independent international metals market-making business that provides financial and marketing services to the global metals industry, for approximately $413 million in cash. Enron recorded goodwill of approximately $354 million. As of the date of acquisition, MG plc's balance sheet primarily consisted of approximately $1.7 billion of metals inventory and $1.6 billion of short-term debt.

In 2000, Enron entered into an agreement with Azurix Corp. (Azurix) under which the holders of Azurix's approximately 39 million publicly traded shares would receive cash of $8.375 in exchange for each share. On March 16, 2001, Azurix shareholders approved the agreement whereby Enron paid approximately $330 million for an equivalent number of shares held by the public and all publicly traded shares of Azurix were redeemed.

PART I. FINANCIAL INFORMATION - (CONTINUED)

ITEM 1. FINANCIAL STATEMENTS - (CONTINUED)

ENRON CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OTHER. In September 2001, Enron acquired LJM's interests in the four Raptor SPEs for $35 million (see Note 3 "Description of Restatement Items" and Note 4).

6. LITIGATION AND OTHER CONTINGENCIES

Enron is a party to various claims and litigation, the significant items of which are discussed below.

RECENT SECURITIES, FRAUD AND DERIVATIVE LAWSUITS

Since October 16, 2001, multiple class action lawsuits have been filed against Enron and certain current and former officers and/or directors (the Defendants) in the District Court for the Southern District of Texas. The lawsuits allege that the Defendants violated sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and rule 10b-5 promulgated thereunder, by issuing a series of material misrepresentations to the market during different class periods ranging from June 1, 1999 to October 30, 2001, thereby artificially inflating the price of Enron common and/or preferred stock. The lawsuits generally claim that the alleged misrepresentations and omissions involved the Broadband Services Division, transactions with the LJM entities and Azurix and Enron's accounting for various transactions. The plaintiffs generally seek to recover compensatory damages, expert fees, attorney's fees, costs of court and pre- and post-judgment interest. Enron expects that these lawsuits will be consolidated into a single action and Enron intends to vigorously defend these lawsuits.

Enron also is a nominal defendant in numerous shareholder derivative lawsuits pending in state courts in Texas and Oregon and in the United States District Court for the Southern District of Texas. These lawsuits, which were filed after October 16, 2001, purport to assert derivative claims on behalf of Enron against certain current and/or former officers and directors of Enron, outside firms providing professional services to Enron and various other companies. The claims asserted in these lawsuits include breach of the duty of disclosure, abuse of control, fraud, unjust enrichment and money had and received. The plaintiffs seek actual and punitive damages, restitution, a constructive trust, an accounting, injunctive relief, attorney's fees, expert fees, pre- and post-judgment interest and court costs. These lawsuits were filed very recently and Enron is investigating its responsibilities with respect to them. Enron has also received requests from shareholders under Section 16(b) of the Securities Exchange Act of 1934 to recover short-swing profits from officers, directors and certain other parties. Enron is currently investigating these requests.

On November 12, 2001, a shareholder filed a class action in state court in Houston, Texas against Enron, its directors and Dynegy, seeking to enjoin the merger between Enron and Dynegy. The petition alleges that Enron's directors breached their fiduciary duties to Enron's shareholders by agreeing to sell Enron for inadequate consideration, for improper purposes and without an adequate investigation of the alternatives available to Enron. The shareholder seeks to enjoin the merger. Enron intends to vigorously defend this lawsuit.

Although the outcome of these various lawsuits cannot be determined, the resolution of these matters could well have material impact on Enron's financial condition and/or results of operations. The cost of any resolution is not currently estimable. In addition, as explained in Note 2 (see "Merger with Dynegy and Related Equity Financing"), the completion of the merger with

PART I. FINANCIAL INFORMATION - (CONTINUED)

ITEM 1. FINANCIAL STATEMENTS - (CONTINUED)
ENRON CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Dynegy is conditioned on the absence of any event after November 9, 2001 that would have a material adverse effect on Enron. Pursuant to the merger agreement, if Enron's liabilities and expenses from and after November 9, 2001 associated with all pending or threatened litigation matters, in the reasonable judgment of Dynegy exceed, or are reasonably likely to exceed, $2 billion in the aggregate (net of proceeds of insurance and litigation reserves reflected in Enron's financial statements), the amount of such excess over $2 billion will be taken into account in determining whether a material adverse effect on Enron has occurred, and, in any event, if the amount of such excess exceeds, or is reasonably likely to exceed, $1.5 billion, a material adverse effect on Enron will be deemed to have occurred.

OTHER LITIGATION

Intratex. In 1995, a number of parties (the Plaintiffs) filed suit in Harris County District Court in Houston, Texas, against Intratex Gas Company (Intratex), Houston Pipe Line Company and Panhandle Gas Company (collectively, the Enron Defendants), each of which is a wholly-owned subsidiary of Enron. The Plaintiffs were either sellers or royalty owners under numerous gas purchase contracts with Intratex, many of which have terminated. Early in 1996, the case was severed by the Court into two matters to be tried (or otherwise resolved) separately. In the first matter, the Plaintiffs alleged that the Enron Defendants committed fraud and negligent misrepresentation in connection with the "Panhandle program," a special marketing program established in the early 1980s. This case was tried in October 1996 and resulted in a verdict for the Enron Defendants. In the second matter, the Plaintiffs allege that the Enron Defendants violated state regulatory requirements and certain gas purchase contracts by failing to take the Plaintiffs' gas ratably with other producers' gas at certain times between 1978 and 1988. The trial court certified a class action with respect to ratability claims. On March 9, 2000, the Texas Supreme Court ruled that the trial court's class certification was improper and remanded the case to the trial court. The case was then severed again into two lawsuits asserting two separate theories of recovery. The trial court granted summary judgment in favor of the Enron Defendants in one of the lawsuits. The Plaintiffs have appealed. The Enron Defendants deny the Plaintiffs' claims and have asserted various affirmative defenses, including the statute of limitations. The Enron Defendants believe that they have strong legal and factual defenses, and intend to vigorously contest the claims. Although no assurances can be given, Enron believes that the ultimate resolution of these matters will not have a material adverse effect on its financial position or results of operations.

02096

San Juan Gas. On November 21, 1996, an explosion occurred in the Humberto Vidal Building in San Juan, Puerto Rico. The explosion resulted in fatalities, bodily injuries and damage to the building and surrounding property. San Juan Gas Company, Inc. (San Juan Gas), an Enron affiliate, operated a propane/air distribution system in the vicinity, but did not provide service to the building. Enron, San Juan Gas, four affiliates and their insurance carriers were named as defendants, along with several third parties, including The Puerto Rico Aqueduct and Sewer Authority, Puerto Rico Telephone Company, Heath Consultants Incorporated, Humberto Vidal, Inc. and their insurance carriers, in numerous lawsuits filed in U.S. District Court for the District of Puerto Rico and the Superior Court of Puerto Rico. These suits seek damages for wrongful death, personal injury, business interruption and property damage allegedly caused by the explosion. After nearly four years without determining the cause of the explosion, all parties agreed not to litigate further that issue, but to move these suits toward settlements or trials to determine whether each plaintiff was injured as a result of the explosion and, if so, the lawful damages attributable

01300000000704

to such injury. The

defendants agreed on a fund for settlements or final awards. Numerous claims have been settled and ten cases involving 18 plaintiffs were scheduled for trial in the United States District Court beginning on December 10, 2001. Five of these cases involving 11 plaintiffs have been resolved. No cases have yet been scheduled for trial in the Superior Court. Although no assurances can be given, Enron believes that the ultimate resolution of these matters will not have a material adverse effect on its financial position or results of operations.

Trojan Investment Recovery. In early 1993, PGE ceased commercial operation of the Trojan nuclear power generating facility. The Oregon Public Utility Commission (OPUC) granted PGE, through a general rate order, recovery of, and a return on, 87 percent of its remaining investment in Trojan.

The OPUC's general rate order related to Trojan has been subject to litigation in various state courts, including rulings by the Oregon Court of Appeals and petitions to the Oregon Supreme Court filed by parties opposed to the OPUC's order, including the Utility Reform Project(URP) and the Citizens Utility Board (CUB).

In August 2000, PGE entered into agreements with the CUB and the staff of the OPUC to settle the litigation related to PGE's recovery of its investment in the Trojan plant. Under the agreements, the CUB agreed to withdraw from the litigation and to support the settlement as the means to resolve the Trojan litigation. The OPUC approved the accounting and ratemaking elements of the settlement on September 29, 2000. As a result of these approvals, PGE's investment in Trojan is no longer included in rates charged to customers, either through a return on or a return of that investment. Collection of ongoing decommissioning costs at Trojan is not affected by the settlement agreements or the September 29, 2000 OPUC order. With the CUB's withdrawal, the URP is the one remaining significant adverse party in the litigation. The URP has indicated that it plans to continue to challenge the settlement and the original OPUC order allowing PGE recovery of and a return on its investment in Trojan. Although no assurances can be given, Enron believes that the ultimate resolution of these matters will not have a material adverse effect on its financial position or results of operations.

Azurix Litigation. In October 2000, several class actions were filed against Enron, Azurix and several of Enron's officers and directors, alleging that some or all of the defendants violated Section 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder and Sections 11, 12 and 15 of the Securities Act of 1933. The plaintiffs alleged that defendants made misrepresentations and omissions related to Azurix's performance between June 9, 1999 and August 8, 2000. The lawsuits were consolidated into one lawsuit in the United States District Court for the Southern District of Texas. The plaintiffs seek rescission and compensatory damages, expert fees and attorney's fees. The defendants have moved to dismiss this lawsuit. Enron intends to vigorously defend this lawsuit. Although no assurances can be given, Enron believes that the ultimate resolution of these matters will not have a material adverse effect on its financial position or results of operations.

OTHER CONTINGENCIES

02097

Environmental Matters. Enron is subject to extensive federal, state and

01300000000705

local environmental laws and regulations. These laws and regulations require expenditures in connection with the construction of new facilities, the operation of existing facilities and for remediation at various operating

sites. The implementation of the Clean Air Act Amendments is expected to result in increased operating expenses. These increased operating expenses are not expected to have a material impact on Enron's financial position or results of operations.

Enron's natural gas pipeline companies conduct soil and groundwater remediation on a number of their facilities. Enron does not expect to incur material expenditures in connection with soil and groundwater remediation.

Enron has received a request for information from the Environmental Protection Agency (EPA) asking for data regarding certain spills and discharges since 1998 on oil pipelines operated by Enron and its subsidiaries. EOTT Energy Partners, L.P. (EOTT), an unconsolidated affiliate of Enron, is the only entity that has extensive domestic oil pipeline operations, and Enron's response will include information on EOTT pursuant to the request. The responsive information was originally to be filed with the EPA on or prior to November 7, 2001. In October 2001, Enron received an extension from the EPA to file the responsive information on or before January 31, 2002. Enron cannot predict the outcome of the EPA inquiry but believes that the ultimate outcome will not have a material adverse effect on its financial position or results of operations.

Developments in the California Power Market. During 2000, prices for wholesale electricity in California significantly increased as a result of a combination of factors, including higher natural gas prices, reduction in available hydroelectric generation resources, increased demand, over-reliance on the spot market for electricity and limitations on supply. California's regulatory regime instituted in 1996 permitted wholesale price increases but froze retail prices below market levels. The resulting disparity between costs of supply and customer revenues caused two of California's public utilities, Pacific Gas & Electric Company (PG&E) and Southern California Edison Company (SCE), to accrue substantial unrecovered wholesale power costs and certain obligations related to the difference between third party power purchase costs and frozen rates charged to retail customers. PG&E and SCE have defaulted on or are challenging payments owed for certain outstanding obligations, including wholesale power purchased through the California Power Exchange (the Power Exchange), from the California Independent System Operator (the Independent System Operator), and from qualifying facilities. In addition, PG&E and the Power Exchange each have filed a voluntary petition for bankruptcy.

Various legislative, regulatory and legal remedies to the energy situation in California have been implemented or are being pursued, and may result in restructuring of markets in California and elsewhere. Additional initiatives are likely at the Federal, state and local level, but it is not possible to predict their outcome at this time.

02098

Enron has entered into a variety of transactions with California utilities, the Power Exchange, the Independent System Operator, end users of energy in California, and other third parties, and is owed amounts by certain of these entities. Enron has established reserves related to such activities and believes that the combination of such reserves in accounts receivables and other credit offsets with such parties are adequate to cover its exposure to

01300000000706

developments in the California power market. Due to the uncertainties involved, the ultimate outcome of the California power situation cannot be predicted, but Enron believes these matters will not have a material adverse impact on Enron's financial position or results of operations.

India. Enron indirectly owns 50% of the net voting interest in Dabhol Power Company (Dabhol), which owns a 740 megawatt power plant and is constructing an additional 1,444 megawatt power plant together with an LNG regasification facility (collectively Phase II) in India. Enron accounts for its investment in Dabhol under the equity method and the debt of Dabhol is non-recourse to Enron. As of September 30, 2001, Enron's investment in and advances to Dabhol and related activities was $1.2 billion. This amount is included in "non-core businesses" as discussed in Note 2.

Dabhol has been in dispute with the Maharashtra State Electricity Board (MSEB), the purchaser of power from Dabhol, and the Government of Maharashtra (GOM) and the federal government of India (GOI), the guarantors of payments by the MSEB pursuant to the terms and conditions of the power purchase agreements (PPA) and the other project documents. The contract disputes relate principally to (a) the failure by the MSEB to pay certain capacity and energy payments under the PPA, and the failure of the GOM and GOI to satisfy certain guarantee obligations under the project documents and (b) MSEB's statements that MSEB has "rescinded" the PPA and MSEB is therefore no longer bound by the PPA. As a result of such disputes, the 740 megawatt power plant is not being dispatched by MSEB, the Phase II lenders have stopped funding the continued construction of Phase II, the construction contractors have terminated the construction contracts for non-payment and Dabhol has suspended all construction activities. Additionally, the lenders to Dabhol have assumed control of Dabhol's bank accounts in order to monitor the use of its remaining available funds. There is no assurance that Dabhol will be able to resolve the disputes with MSEB, GOM and GOI to its favor and to successfully collect on and to enforce any judgment or settlement. However, Dabhol believes that the MSEB's actions are in clear violation of the terms of the PPA, and Dabhol intends to pursue all available legal remedies under the project documents which would entitle Enron to receive an amount in excess of its investment.

On November 5, 2001, Dabhol delivered notice stating its intent to sell and transfer the power plant and the LNG regasification facility to MSEB pursuant to the provisions of the PPA. Most recently, certain of the Indian financial institutions providing loans to the project have obtained court orders temporarily preventing Dabhol from terminating the PPA. These same lenders are seeking broader orders requiring Dabhol to restart the power plant pending the resolution of disputes between Dabhol and MSEB. In addition, the India Commissioner of Customs has recently passed orders adversely altering the custom duty rates applicable to substantial portions of the project and other rulings detrimental to the project. Dabhol intends to appeal these orders. Based on the latest developments, Enron cannot predict the outcome of this dispute. However, the ultimate outcome of these proceedings or negotiations may have a material adverse effect on Enron's financial position and results of operations.

7. SALE OF PORTLAND GENERAL

02099

On October 5, 2001, Enron entered into an agreement with Northwest

01300000000707

Natural Gas Company (NW Natural) for the sale of Portland General for $1.9 billion, comprised of $1.55 billion in cash, $200 million in NW Natural preferred stock and common stock purchase units, $50 million in NW Natural common stock and the assumption of Enron's $75 million balance on its customer benefits obligation, which was stipulated in its 1996 agreement to purchase Portland General. In addition to the purchase price, NW Natural will assume approximately $1.1 billion in Portland General debt and preferred stock. The proposed transaction, which is subject to customary regulatory approvals, is expected to close by the fourth quarter of 2002; however, no assurances can be

given that such regulatory approvals will be obtained. Enron currently believes that the after-tax gain on the sale of Portland General will not be material. However, certain regulatory and other contingencies could negatively impact Enron's current estimate. Enron's carrying amount of Portland General as of September 30, 2001 was approximately $1.6 billion. Income before interest, minority interest and income taxes for Portland General was $108 million and $241 million for the nine month periods ended September 30, 2001 and 2000, respectively.

8. UNCONSOLIDATED EQUITY AFFILIATES

Summarized below is a description related to two of Enron's unconsolidated equity affiliates for which Enron has committed to issue equity to satisfy obligations of these equity affiliates. As discussed in Note 2, Enron's current common share stock price, liquidity situation and credit ratings may significantly impact Enron's ability to satisfy these obligations solely with equity issuances.

WHITEWING ASSOCIATES L.P. Whitewing is an entity formed by Enron and various investors, investing through an entity named Osprey, to acquire and own energy-related assets and other investments. Osprey is capitalized with approximately $2.4 billion in debt and $220 million in equity. The Osprey debt is supported by the assets within Whitewing, which include Enron Mandatorily Convertible Junior Preferred Stock, Series B (which is convertible into 50 million shares of Enron common stock), and a contingent obligation of Enron to issue additional shares, if needed, to retire such debt obligation. In the event that the sale of equity is not sufficient to retire such obligations, Enron is liable for the shortfall.

At November 16, 2001, Whitewing held assets with a book value of approximately $4.7 billion. This includes approximately $1.3 billion in energy related projects in Europe and South America, including European power plants, and an electric distribution company in Brazil, approximately $600 million of merchant investments, approximately $600 million in demand notes due from Enron and other assets of $100 million. The merchant portfolio includes both private and publicly traded entities and consists of oil and gas investments, power generation and energy investments and technology related and other investments. In addition, Whitewing holds Mandatorily Convertible Junior Preferred Stock, Series B, mentioned above, and a contingent obligation of Enron to issue additional shares, if needed, which together have a combined book value of approximately $2.1 billion. This contingent obligation is in the form of a derivative instrument. As such, both Enron and Whitewing account for this contingent obligation at fair value. As a result, Enron recognizes losses

02100

01300000000708

associated with this obligation as a reduction of "Revenues" in the accompanying consolidated income statement. However, the loss is offset as Enron recognizes its share of Whitewing's earnings through "Equity in Earnings of Unconsolidated Affiliates" in the accompanying consolidated income statement. As of September 30, 2001, the amount due Whitewing under such derivative totaled approximately $1.0 billion and is included in "Other Liabilities" in the accompanying consolidated balance sheet. Such amount has increased by approximately $600 million as a result of the decline in Enron's common stock price subsequent to September 30, 2001 through November 16, 2001. Based on the subsequent decline in the Enron stock price through November 16, 2001, there would currently exist an approximate $700 million pre-tax charge to earnings due to the shortfall in the recovery of Enron's book investment. Enron is currently evaluating the fair value of Whitewing's other assets mentioned above in conjunction with the restructuring plan discussed in Note 2

which will impact the amount of any writedown of Enron's investment in Whitewing, possibly as early as the fourth quarter.

ATLANTIC WATER TRUST. Atlantic Water Trust is an entity formed by Enron and unrelated institutional investors, investing through an entity named Marlin, for the purpose of acquiring and holding an interest in Azurix Corp. (Azurix). The primary asset of Azurix is Wessex Water Services Ltd. (Wessex), a regulated water utility in the UK. Atlantic Water Trust currently owns 67% of Azurix, with Enron owning the remaining 33%. Marlin was capitalized with approximately $915 million in debt and $125 million in equity. The Marlin debt is supported by the assets of Atlantic Water Trust and Enron's contingent obligation to cause the sale of Enron equity, if needed, in an amount sufficient to retire such obligations. In the event that the sale of equity is not sufficient to retire such obligations, Enron is liable for the shortfall.

DESCRIPTION OF TRIGGER EVENTS. Osprey and Marlin's debt obligations contain certain "Note Trigger Events" to protect the note holders, including (i) an Enron senior unsecured debt rating below investment grade by any of the three major credit rating agencies concurrent with an Enron stock closing price of $59.78 per share or below in the case of Osprey and $34.13 per share or below in the case of Marlin; (ii) a cross default to Enron senior obligations in excess of $50 million and $100 million for Osprey and Marlin, respectively; and (iii) the requirement that an amount sufficient to redeem the notes be deposited with a trustee 120 days prior to maturity dates of January 15, 2003 and July 15, 2003 for Osprey and Marlin, respectively. As of November 16, 2001 the Enron stock closing price was $9.00 per share.

02101

In the event a Note Trigger Event was to occur, Enron has 21 days to file a registration statement for the issuance of equity to repay the notes and such registration statement has 90 days from the Note Trigger Event to become effective. Any Enron registration statement filed cannot become effective until Enron files its restated audited consolidated financial statements which is not expected until completion of the Special Committee investigation. In the event that Enron does not file its registration statement or the registration statement is not effective during the respective time requirements, Enron must pursue a private placement of equity, if permitted. If Enron cannot timely sell equity in an amount sufficient to repay the notes, Enron is obligated to pay the

01300000000709

difference in cash.

In the event that Enron fails to pay any debt obligations when due, including when such obligations may be accelerated, or is unable to refinance or obtain a waiver of or amendment to such obligations, a series of events would begin which could impact Enron's compliance with the terms of its Revolving Credit Agreements and certain other obligations, including bank debt facilities.

Either as a result of the restructuring plan discussed in Note 2 or to raise cash to repay Enron's obligations discussed above, Enron may sell the assets of Whitewing and/or Atlantic Water Trusts for amounts below their carrying values. The net proceeds from the sale of such assets can be used to repay Enron's obligations discussed above. Accordingly, Enron may be required to record asset writedowns, possibly as early as the fourth quarter of 2001.

9. MINORITY INTERESTS

Enron consolidates a limited partnership (the Limited Partnership), for which the consolidated third party's ownership interest is reflected in minority interests on Enron's balance sheet in the amount of $691 million at September 30, 2001. The Limited Partnership assets include a $690 million note payable from Enron and certain merchant investments, both domestic and international. Enron anticipates the receipt of approximately $250 million from the sale of one of the Limited Partnership's investments, a local gas distribution company in Brazil, upon the closing of the sale which is pending certain regulatory and other approvals. Enron may be required to use the net proceeds upon the closing of the sale, or a portion thereof, to repay a portion of the note payable.

The November 12, 2001 downgrade in Enron's senior unsecured debt rating to BBB- by Standard & Poor's has caused a ratings event related to the Limited Partnership. This ratings event started a nine business day period during which Enron has the right, until November 26, 2001, to post an unsecured letter of credit equal to Enron's note payable, to repay the note payable with the Limited Partnership investing such proceeds in permitted investments, or to purchase the investors' interest in the Limited Partnership. To the extent that Enron does not satisfy this requirement by November 27, 2001, the investors have the right to immediately begin to liquidate the Limited Partnership assets. Additionally, as a result of the rating downgrade, the investors, subject to certain actions, are able to accelerate and assign the note payable. Consistent with the restructuring plan discussed in Note 2, Enron is currently working with the lenders to develop a mutually acceptable amendment or waiver to the transaction documents in order to avoid an early Enron payment obligation.

Either as a result of the restructuring plan discussed in Note 2 or to raise cash to repay Enron's obligation discussed above, Enron may sell the Limited Partnership assets for amounts below their carrying values. The net proceeds from the sale of such assets can be used to repay Enron's obligation. Accordingly, Enron may be required to record asset writedowns, possibly as early as the fourth quarter of 2001.

It is not possible to predict whether Enron will be able to favorably complete the actions described above. In the event that Enron fails to pay any debt obligations when due, including when such obligations may be accelerated,

02102

01300000000710

or is unable to refinance or obtain a waiver of its obligations, a series of events would begin which could impact Enron's compliance with the terms of its Revolving Credit Agreements and certain other obligations, including bank debt facilities.

PART I. FINANCIAL INFORMATION - (CONTINUED)

ITEM 1. FINANCIAL STATEMENTS - (CONTINUED)
ENRON CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. EARNINGS PER SHARE

The computation of basic and diluted earnings per share is as follows (in millions, except per share amounts):

	Third Quarter		Nine S
	2001	2000(b)	2001
Numerator:			
Basic			
Income (loss) before cumulative effect of accounting changes	$(644)	$ 303	$ 20
Preferred stock dividends:			
Second preferred stock	(4)	(5)	(1
Series B Preferred Stock	(16)	(16)	(4
Income (loss) available to common shareholders before cumulative effect of accounting changes	(664)	282	14
Cumulative effect of accounting changes	-	-	1
Income (loss) available to common shareholders	$(664)	$ 282	$ 16
Diluted			
Income (loss) available to common shareholders before cumulative effect of accounting changes	$(664)	$ 282	$ 14
Effect of assumed conversion of dilutive securities(a):			
Second preferred stock	-	5	
Series B Preferred Stock	-	16	
Income (loss) before cumulative effect of accounting changes	(664)	303	14
Cumulative effect of accounting changes	-	-	1
Income (loss) available to common shareholders after assumed			

02103

01300000000711

conversions	$(664)	$ 303	$ 16
Denominator:			
Denominator for basic earnings per share - weighted-average shares	761	729	75
Effect of assumed conversion of dilutive securities(a):			
Preferred stock:			
Second preferred stock	-	35	
Series B Preferred Stock	-	50	
Stock options	-	44	2
Equity instruments	-	-	3
Dilutive potential common shares	-	129	5
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions	761	858	80
Basic earnings (loss) per share:			
Before cumulative effect of accounting changes	$ (0.87)	$0.39	$0.1
Cumulative effect of accounting changes	-	-	0.0
Basic earnings (loss) per share	$ (0.87)	$0.39	$0.2
Diluted earnings (loss) per share:			
Before cumulative effect of accounting changes	$ (0.87)	$0.35	$0.1
Cumulative effect of accounting changes	-	-	0.0
Diluted earnings (loss) per share	$ (0.87)	$0.35	$0.2

(a) For the three months ended September 30, 2001, the dividends and conversion of the second preferred stock and the Series B Preferred Stock, stock options and equity instruments have been excluded from the computation because they are anti-dilutive. For the nine months ended September 30, 2001, the dividends and conversion of the second preferred stock and the Series B Preferred Stock have been excluded from the computation because they are anti-dilutive.

(b) Restated (see Note 3).

PART I. FINANCIAL INFORMATION - (CONTINUED)

ITEM 1. FINANCIAL STATEMENTS - (CONTINUED)
ENRON CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. COMPREHENSIVE INCOME

Comprehensive income (loss) includes the following (in millions):

02104

01300000000712

	Third Quarter		Nine Month Septemb
	2001	2000(a)	2001(a)
Net income (loss)	$(644)	$ 303	$ 225
Other comprehensive income (loss) (net of tax):			
Foreign currency translation adjustment	48	(117)	(301)(b)
Derivative instruments:			
Cumulative effect of accounting changes	-	-	25
Deferred gain on derivative instruments associated with hedges of future cash flows	17	-	(5)
Recognition in earnings of previously deferred losses related to derivative instruments used as cash flow hedges	(34)	-	(55)(c)
SFAS 71 deferral of net gains to regulatory asset	12	-	12
Change in value of available-for-sale investments	(16)	(8)	(5)
Total comprehensive income (loss)	$(617)	$ 178	$(104)

(a) Restated (see Note 3).

(b) Change primarily reflects the decline in value of the Brazilian real and the British Pound.

(c) Includes an after-tax gain of $10 million related to the discontinuation of a cash flow hedge on a forecasted transaction that became probable of not occurring.

The accumulated other comprehensive income at September 30, 2001 was a $1.5 billion reduction in Shareholders' Equity. Of this amount, $1.1 billion relates to currency translation impacts for assets in Brazil.

12. BUSINESS SEGMENT INFORMATION

As discussed in Note 2, management is in the process of dividing Enron into three fundamental groups of businesses - Core, Non-Core and Under Review. The following business segment information does not reflect the results of this on-going evaluation.

As discussed in Note 3, the Consolidated Financial Statements included herein have been adjusted to reflect the impacts of the anticipated restatements based on Enron's current understanding of the relevant facts. The following business segment information reflects the impact of such adjustments.

Enron's business is divided into reporting segments, defined as components of an enterprise about which financial information is available and evaluated regularly by the Office of the Chairman, which serves as the chief operating decision making group.

02105

01300000000713

PART I. FINANCIAL INFORMATION - (CONTINUED)

ITEM 1. FINANCIAL STATEMENTS - (CONTINUED)
ENRON CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In August 2001, after Jeff Skilling resigned from his position as CEO, Ken Lay, Chairman of the Board, assumed the additional responsibilities of CEO. In addition, Greg Whalley and Mark Frevert were promoted to president and chief operating officer and vice chairman, respectively, and joined Mr. Lay in the Office of the Chairman. The Office of the Chairman serves as Enron's chief operating decision maker in allocating resources to and assessing the performance of its business units. In connection with these events, Enron reorganized the manner in which its business units report to the Office of the Chairman. Enron's new reporting segments are Wholesale - Americas, Wholesale - Europe and Other Commodity Markets, Retail Services, Natural Gas Pipelines, Portland General, Global Assets, Broadband Services and Corporate and Other. Year 2000 results in the following table have been restated to reflect this change.

Additionally, beginning in 2001, the commodity-related risk management activities of Retail Services' North American customer contracts were transferred to the Americas segment, consolidating all North American energy commodity risk management activities within one segment. In 2001, Retail Services' business includes origination of new commodity and energy asset management and services contracts, execution of energy asset management and services activity and management of customer relationships. Year 2000 results in the following tables have been updated to reflect this change.

PART I. FINANCIAL INFORMATION - (CONTINUED)

ITEM 1. FINANCIAL STATEMENTS - (CONTINUED)
ENRON CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Millions)	Americas(c)	Europe and Other Commodity Markets	Retail Services(c)
Three Months Ended September 30, 2001			
Unaffiliated revenues(a)	$28,581	$16,401	$ 504
Intersegment revenues(b)	371	7	(3)
Total revenues	$28,952	$16,408	$ 501
Income (loss) before interest, minority interests and			

02106

01300000000714

income taxes	$ 717	$ (21)	$ 13
Nine Months Ended September 30, 2001			
Unaffiliated revenues (a)	$83,859	$49,023	$1,691
Intersegment revenues (b)	1,249	(555)	46
Total revenues	$85,108	$48,468	$1,737
Income (loss) before interest, minority interests and income taxes	$ 1,960	$ 235	$ 99

(In Millions)	Portland General	Global Assets	Broadband Services	a
Three Months Ended September 30, 2001				
Unaffiliated revenues (a)	$ 894	$ 422	$ (125)	
Intersegment revenues (b)	11	2	-	
Total revenues	$ 905	$ 424	$ (125)	
Income (loss) before interest, minority interests and income taxes	$ (17)	$ (268)	$ (357)	
Nine Months Ended September 30, 2001				
Unaffiliated revenues (a)	$2,367	$1,131	$ (25)	
Intersegment revenues (b)	136	3	(1)	
Total revenues	$2,503	$1,134	$ (26)	
Income (loss) before interest, minority interests and income taxes	$ 108	$ (275)	$(494)	

PART I. FINANCIAL INFORMATION - (CONTINUED)

02107

ITEM 1. FINANCIAL STATEMENTS - (CONTINUED)
ENRON CORP. AND SUBSIDIARIES

01300000000715

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Millions)	Americas (c)	Europe and Other Commodity Markets	Retail Services (c)
Three Months Ended September 30, 2000 (e)			
Unaffiliated revenues (a)	$20,374	$ 7,566	$ 514
Intersegment revenues (b)	548	(407)	21
Total revenues	$20,922	$ 7,159	$ 535
Income (loss) before interest, minority interests and income taxes	$ 549	$ 53	$ 27
Nine Months Ended September 30, 2000 (e)			
Unaffiliated revenues (a)	$39,678	$15,578	$1,210
Intersegment revenues (b)	764	(416)	59
Total revenues	$40,442	$15,162	$1,269
Income (loss) before interest, minority interests and income taxes	$ 1,009	$ 265	$ 79

(In Millions)	Portland General	Global Assets	Broadband Services	a
Three Months Ended September 30, 2000 (e)				
Unaffiliated revenues (a)	$ 663	$ 394	$ 162	
Intersegment revenues (b)	66	14	-	
Total revenues	$ 729	$ 408	$ 162	
Income (loss) before interest, minority interests and income taxes	$ 74	$ 19	$ (20)	

02108

Nine Months Ended

01300000000716

September 30, 2000(e)

Unaffiliated revenues(a)	$1,442	$1,136	$ 335
Intersegment revenues(b)	115	14	-
Total revenues	$1,557	$1,150	$ 335
Income (loss) before interest, minority interests and income taxes	$ 241	$ 117	$ (38)

(a) Unaffiliated revenues include sales to unconsolidated affiliates.

(b) Intersegment sales are made at prices comparable to those received from unaffiliated customers and in some instances are affected by regulatory considerations.

(c) The 2000 amounts have been changed to reflect the new segment presentation. In the prior year, Retail Services reported revenues and IBIT of $1,476 million and $30 million, respectively, for the third quarter of 2000. Updated full year 2000 revenues and IBIT were $1,766 million and $173 million, respectively. Operating results in 2001 include servicing charges from Americas for management of Retail Services' risk management activities. These servicing charges are reflective of the applicable level of risk management services provided and have been presented on a basis consistent with how such charges are reported internally.

(d) Includes consolidating eliminations.

(e) Restated (see Note 3).

Total assets by segment are as follows (in millions):

02109

	September 30, 2001	December 2000(a
Americas	$26,735	$31,13
Europe and Other Commodity Markets	14,756	11,81
Retail Services	1,476	1,27
Natural Gas Pipelines	3,457	3,52
Portland General	4,254	4,77
Global Assets	7,593	7,89
Broadband Services	1,277	1,32
Corporate and Other	2,235	3,18
Total Assets	$61,783	$64,92

01300000000717

(a) Restated (see Note 3).

The decrease in assets of the Americas segment is primarily related to the decline in per unit commodity prices and the sale of five peaking power plants. The increase in assets of the Europe and Other Commodity Markets segment is due to the growth of the segment's commodity business.

13. DERIVATIVE INSTRUMENTS

On January 1, 2001, Enron recognized an after-tax non-cash gain of $19 million in earnings and deferred an after-tax non-cash gain of $25 million in "Accumulated Other Comprehensive Income" (OCI), a component of shareholders' equity, and reclassified $277 million from "Long-Term Debt" to "Price Risk Management Liabilities" to reflect the initial adoption of Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). SFAS No. 133 must be applied to all derivative instruments and requires that such instruments be recorded in the balance sheet either as an asset or a liability measured at its fair value through earnings, with special accounting permitted for certain qualifying hedges as described in the following paragraphs.

In the ordinary course of business, Enron enters into derivative instruments, as defined in SFAS No. 133, as part of its normal risk management operations, which are subject to parameters established by Enron's Board of Directors. The adoption of SFAS No. 133 has no impact on the way Enron accounts for its risk management business activities.

On a much more limited basis, Enron's other businesses enter into derivative instruments, such as forwards, swaps and other contracts, to hedge certain non-trading risks, including interest rate risk, commodity price risk and foreign currency exchange rate risk. Enron primarily uses cash flow hedges, for which Enron's objective is to provide protection against variability in cash flows due to an associated variable risk. Enron accounts for such hedging activity by initially deferring the gain or loss related to the fair value changes in derivative instruments in OCI. The deferred change in fair value is then reclassified into income concurrently with the recognition in income of the cash flow item hedged. The net after-tax amount expected to be reclassified from OCI within the next 12 months is approximately $5 million. Enron recognized a loss of approximately $13 million related to ineffectiveness in cash flow hedges. Enron has also entered into a limited number of fair value hedges to protect the fair value of

02110

certain liabilities from variability caused by fluctuations in either interest rates or foreign currency exchange rates. Enron accounts for these hedges by recognizing the fair value of both the derivative instrument and the hedged item into income concurrently. There was no material ineffectiveness in fair value hedges during the first nine months of 2001. Certain of Enron's unconsolidated affiliates entered into net investment hedges to protect against the foreign currency exposure related to foreign operations. Enron recorded an increase of approximately $15 million in OCI related to such hedges in 2001. Enron also holds a limited number of derivative instruments in its non-risk management businesses, which do not meet the requirements of SFAS No. 133 for hedge

01300000000718

accounting, but provide Enron with an economic hedge of an associated risk.

The maximum amount of time over which cash flow exposure in forecasted transactions is hedged, excluding hedges of variable interest rate risk on existing financial instruments, is approximately 20 years. Derivative contracts are entered into with counterparties who are equivalent to investment grade. Accordingly, Enron does not anticipate any material impact to its financial position or results of operations as a result of nonperformance by the third parties on derivative instruments related to non-risk management business activities.

In August 2001, the OPUC issued a general rate order that, among other things, excluded all SFAS No. 133 mark-to-market valuations for determining net variable power costs in setting PGE base rates. This action was further supported by an accounting order issued by the OPUC in June 2001 directing deferral as a regulatory asset or liability under SFAS 71 the effects of SFAS 133 mark-to-market on contracts subject to regulation. As a result, subsequent to August 2000, PGE began recording a regulatory asset or regulatory liability pursuant to SFAS 71 to fully offset the net effects of unrealized gains and losses in earnings and OCI.

PGE's net after-tax amount expected to be reclassified from OCI and to be fully offset by recording a regulatory asset or regulatory liability within the next 12 months is approximately $5 million.

14. NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142). SFAS No. 142, which must be applied to fiscal years beginning after December 15, 2001, modifies the accounting and reporting of goodwill and intangible assets.

The pronouncement requires entities to discontinue the amortization of goodwill, reallocate all existing goodwill among its reporting segments based on criteria set by SFAS No. 142 and perform initial impairment tests by applying a fair-value-based analysis on the goodwill in each reporting segment. Any impairment at the initial adoption date shall be recognized as the effect of a change in accounting principle. Subsequent to the initial adoption, goodwill shall be tested for impairment annually or more frequently if circumstances indicate a possible impairment.

02111

Under SFAS No. 142, entities are required to determine the useful life of other intangible assets and amortize the value over the useful life. If the useful life is determined to be indefinite, no amortization will be recorded. For intangible assets recognized prior to the adoption of SFAS No. 142, the useful life should be reassessed. Other intangible assets are required to be tested for impairment in a manner similar to goodwill.

At September 30, 2001, Enron's goodwill related to consolidated entities was approximately $3.5 billion. Additionally, unconsolidated equity affiliates of Enron have approximately $1.9 billion of goodwill. Estimated annual

01300000000719

amortization of such goodwill is approximately $195 million, of which approximately $65 million relates to unconsolidated equity affiliates. Enron is in the process of evaluating the application of SFAS No. 142 in light of recent events discussed in Note 2.

In August 2001, the FASB issued SFAS 143, "Accounting for Asset Retirement Obligations." SFAS No. 143, which must be applied to fiscal years beginning after June 15, 2002, addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Enron is in the process of evaluating the impact of SFAS No. 143 on the financial statements.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144, which must be applied to fiscal years beginning after December 15, 2001, addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. Enron is in the process of evaluating the impact of SFAS No. 144 on the financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ENRON CORP. AND SUBSIDIARIES

EXPLANATORY NOTE

As explained in a November 8, 2001 Form 8-K filed by Enron Corp. (Enron) with the Securities and Exchange Commission (SEC), Enron will be filing restated consolidated financial statements for the fiscal years ended December 31, 1997 through 2000 and for the first and second quarters of 2001 but it has not yet done so. As a result, the previously issued financial statements for these periods and the audit reports covering the year-end financial statements for 1997 through 2000 should not be relied upon. In addition, as discussed in Note 2 to the Consolidated Financial Statements, Enron's Board of Directors has formed a Special Committee to conduct an independent investigation and review of transactions between Enron and certain related parties. The Special Committee has retained the law firm of Wilmer, Cutler & Pickering (Wilmer, Cutler) as its counsel. Wilmer, Cutler has retained Deloitte & Touche LLP to provide related accounting advice to the law firm. The Special Committee began its review on October 26, 2001. Management believes that, based on information currently available to it, the consolidated financial statements set forth herein were compiled in accordance with generally accepted accounting principles and fairly depict the financial condition and results of operations of Enron, and include adjustments designed to capture the anticipated restatements. Information gathered during the Special Committee's investigation, however, may impact the unaudited results set forth herein, including the adjustments designed to reflect the necessary restatements as well as the information set forth in the November 8, 2001 Form 8-K. In addition, Enron has been advised by Arthur Andersen LLP, Enron's independent auditors, that, due to their need to complete review procedures and the ongoing Special Committee investigation, Arthur Andersen LLP is unable at this time to finalize its review of Enron's consolidated financial statements set forth herein in accordance with established professional standards and procedures for conducting such reviews,

02112

01300000000720

as established by generally accepted auditing standards, which review is required by Rule 10-01(d) of Regulation S-X.

RECENT EVENTS

As discussed in "Liquidity, Capital Resources and Outlook" below, following Enron's announcement of its third quarter 2001 results on October 16, 2001 there was a significant decrease in Enron's common share price and subsequent decreases in the long-term credit ratings of Enron's debt. This situation resulted in the loss of investor confidence and significantly affected Enron's ability to raise capital. Additionally, on November 9, 2001, Enron and Dynegy Inc. (Dynegy) announced the execution of a definitive merger agreement between the two companies. As a result of the Dynegy merger agreement and the loss of investor confidence, Enron has initiated an action plan for restructuring its businesses. The key aspects of the action plan involve (i) concentrating primarily on Enron's core businesses; (ii) taking aggressive steps to rationalize the existing cost structure; (iii) accelerating the process of divesting non-core businesses and assets; (iv) restructuring scheduled maturities of debt and other obligations; (v) completing the investigation by the Special Committee with respect to related party transactions; (vi) reviewing and strengthening Enron's corporate governance; and (vii) expanding certain disclosures with a focus on increased transparency. Management and the

Board have not completed nor approved a restructuring plan. Such restructuring plan is currently being prepared and, therefore, Enron is unable to estimate the timing of implementation or the financial impacts. Enron's fourth quarter 2001 results of operations will likely be negatively impacted by severance, restructuring and other charges resulting from the repositioning of many of Enron's businesses.

In order to focus on Enron's core businesses and rationalize their cost structure, management is in the process of dividing Enron into three fundamental groups of businesses - Core, Non-Core and Under Review. For a description of each group of businesses, see "Liquidity, Capital Resources and Outlook" below.

The recent deterioration in Enron's credit rating has caused a negative impact on Enron's projected 2001 fourth quarter profitability. This is primarily the result of a reduced level of transaction activity by Enron's trading counterparties, particularly longer-term transactions. However, it is too early to determine the exact impact these events will have on Enron's fourth quarter 2001 operating results. Additionally, the fourth quarter of 2001 will likely be negatively impacted by severance, restructuring and other charges resulting from the repositioning of many of Enron's businesses consistent with the restructuring plan as well as potential writedowns as discussed in "Liquidity, Capital Resources and Outlook - Unconsolidated Equity Affiliates" below.

RESULTS OF OPERATIONS - THIRD QUARTER 2001 VS. THIRD QUARTER 2000

02113

The following review of Enron's results of operations should be read in conjunction with the Consolidated Financial Statements. The Consolidated

01300000000721

Financial Statements included herein have been adjusted to reflect the anticipated impacts of the restatements discussed in Note 3. For the impacts on Enron's Consolidated Financial Statements for the years ended December 31, 1997 through 2000 and for the first and second quarters of 2001, see Note 3 to the Consolidated Financial Statements. While these restatements reflect Enron's current understanding of the relevant facts, it is possible that the Special Committee's investigation will identify additional or different information concerning these matters and Enron cannot predict what impact the information gathered by the Special Committee may have on the financial information included in this report. As a result, Enron will not issue amendments to its annual reports on Forms 10-K for the years ended December 31, 1997 through 2000, or its quarterly reports on Forms 10-Q for the quarterly periods ended March 31, 2001 and June 30, 2001 to reflect the anticipated restatements of Enron's Consolidated Financial Statements until the Special Committee has completed its investigation.

CONSOLIDATED NET INCOME

Enron reported a loss of $644 million in the third quarter of 2001 compared to $303 million of earnings in the third quarter of 2000. The significant decrease relates to losses on investing activities discussed in "Corporate and Other", the impairments by Azurix Corp. discussed in "Global Assets" and charges recorded by Broadband Services. Enron's business is divided into eight reporting segments.

Wholesale - Americas. The Wholesale - Americas segment (Americas) consists of Enron's gas and power market-making operations and merchant energy activities in North and South America.

Wholesale - Europe and Other Commodity Markets. The Wholesale - Europe and Other Commodity Markets segment (Europe and Other) includes Enron's European gas and power operations and Enron's other commodity businesses, such as metals, coal, crude and liquids, weather, forest products and steel.

Retail Services. Retail Services is extending Enron's energy expertise and capabilities to end-use retail customers in the industrial and commercial business sectors to manage their energy requirements and reduce their total energy costs.

Natural Gas Pipelines. The Natural Gas Pipelines segment includes Enron's interstate natural gas pipelines, primarily Northern Natural Gas Company (Northern), Transwestern Pipeline Company (Transwestern), Enron's 50% interest in Florida Gas Transmission Company (Florida Gas) and Enron's interests in Northern Border Partners, L.P. and EOTT Energy Partners, L.P. (EOTT).

02114

Portland General. This segment consists of Portland General Electric, an electric utility in the northwestern U.S.

Global Assets. The Global Assets segment includes energy-related assets that are not part of Enron's wholesale or retail energy operations. Major assets of this segment include Elektro, an electric utility in Brazil; Dabhol, a power plant in India; natural gas pipelines in South America; Enron Renewable Energy

01300000000722

Corp. (EREC), which develops and constructs wind-generated power projects; and Enron's investment in Azurix Corp.

Broadband Services. Enron's broadband services business (Broadband Services) provides customers with broadband services, including network intermediation services.

Corporate and Other. Corporate and Other includes the operations of Enron's methanol and MTBE plants as well as overall corporate activities of Enron.

INCOME BEFORE INTEREST, MINORITY INTERESTS AND INCOME TAXES

The following table presents income (loss) before interest, minority interests and income taxes (IBIT) for each of Enron's operating segments (in millions):

	Third Quarter	
	2001	2000
Americas	$ 717	$ 549
Europe and Other	(21)	53
Retail Services	13	27
Natural Gas Pipelines	85	83
Portland General	(17)	74
Global Assets	(268)	19
Broadband Services	(357)	(20)
Corporate and Other	(818)	(106)
Income (loss) before interest and taxes	$(666)	$ 679

WHOLESALE SERVICES BUSINESS

Enron's Wholesale Services business is comprised of two segments, Americas and Europe and Other (collectively Wholesale Services). Wholesale Services builds its business through the creation of networks involving selective asset ownership, contractual access to third-party assets and market-making activities. Each market in which it operates utilizes these

02115

components in a slightly different manner and is at a different stage of development. This network strategy has enabled Enron to establish a leading position in its markets. Activities may be integrated into a bundled product offering for Enron's customers.

Wholesale Services manages its portfolio of contracts and assets in order to maximize value, minimize the associated risks and provide overall liquidity.

01300000000723

In doing so, it uses portfolio and risk management disciplines, including offsetting or hedging transactions, to manage exposures to market price movements (commodities, interest rates, foreign currencies and equities). Additionally, Wholesale Services manages its liquidity and exposure to third-party credit risk through monetization of its contract portfolio or third-party insurance contracts.

Additionally, Wholesale Services invests in debt and equity securities of energy-related businesses, which may also utilize its products and services. With these merchant investments, Enron's influence is much more limited relative to assets developed or constructed. Earnings from these activities, which are accounted for on a fair value basis and are included in revenues, result from changes in the market value of the securities. Wholesale Services uses risk management disciplines, including hedging transactions, to manage the impact of market price movements on its merchant investments.

AMERICAS

Significant components of Americas' results are as follows (in millions):

	Third Quarter	
	2001	2000
Revenues	$28,952	$20,922
Cost of sales	28,550	20,197
Gross margin	402	725
Operating expenses	145	168
Depreciation and amortization	54	22
Equity in earnings	515	43
Other, net	(1)	(29)
IBIT	$ 717	$ 549

Americas markets, transports and provides energy commodities as reflected in the following table (including intercompany amounts):

02116

Third Quarter	
2001	2000

01300000000724

Physical Volumes (BBtue/d)(a):		
Gas	26,659	25,253
Power(b)	31,507	17,777
Total	58,166	43,030
Power Volumes Marketed (Thousand MWh)(c)	289,853	163,556
Financial Settlements (Notional)(Bbtue/d)	247,467	163,995

(a) Billion British thermal units equivalent per day.

(b) Represents electricity volumes, converted to BBtue/d.

(c) Thousand megawatt-hours.

Gross margin of Americas, excluding the impact of a change in value of Enron's contingent obligation to Whitewing (Whitewing Obligation) discussed in Note 8 to the Consolidated Financial Statements, increased $260 million in the third quarter of 2001 as compared to the third quarter of 2000, primarily as a result of increased earnings from both gas and power marketing operations, partially offset by a decline in the value of merchant investments. Gas and power marketing operations benefited from price volatility in the third quarter of 2001. In the third quarter of 2001, the Whitewing Obligation resulted in a decrease in revenues of approximately $583 million with a corresponding increase in equity in earnings of unconsolidated affiliates.

Operating expenses decreased $2[illegible] million in the third quarter of 2001 as compared to the same period in 2000, primarily as a result of the sale of certain Houston Pipeline Company assets in the second quarter of 2001. Depreciation and amortization increased $32 million primarily as a result of increased amortization related to intangible assets acquired in the second quarter of 2001 and other assets and depreciation associated with computer-related equipment placed into service in 2001.

Equity in earnings, excluding the impact of the Whitewing Obligation, decreased $111 million in the third quarter of 2001 as compared to the same period of 2000 primarily as a result of the decline in the value of merchant investments held by unconsolidated equity affiliates. Other, net in the third quarter of 2000 included charges related to losses on transactions in foreign currencies, partially offset by interest income.

02117

EUROPE AND OTHER

Significant components of Europe and Other's results are as follows (in millions):

01300000000725

	Third Quarter	
	2001	2000
Revenues	$16,408	$7,159
Cost of sales	16,174	6,900
Gross margin	234	259
Operating expenses	218	208
Depreciation and amortization	21	19
Equity in earnings	(7)	(5)
Other, net	(9)	26
Income (loss) before interest and taxes	$ (21)	$ 53

Europe and Other markets and provides energy and other commodities as reflected in the following tables (including intercompany amounts):

	Third Quarter	
	2001	2000
Physical Volumes (BBtue/d)(a):		
Gas	9,338	3,595
Power(b)	11,306	1,080
Crude oil and liquids	9,410	5,754
Total	30,054	10,429
Power Volumes Marketed (Thousand MWh)(c)	104,006	9,932
Financial Settlements (Notional)(Bbtue/d)	71,930	48,179
Other Commodity Volumes:		
Crude oil and liquids (MM Bbl)	157	105
Coal (thousand tons)	21,770	9,942
Weather (notional value $MM)	304	164
LNG (BBtue)	8,874	-
Metals (thousand tons)	2,362	969
Forest products (thousand tons)	899	101
Steel (thousand tons)	648	-

(a) Billion British thermal units equivalent per day.

(b) Represents electricity volumes, converted to BBtue/d.

(c) Thousand megawatt-hours.

02118

Gross margin of Europe and Other decreased $25 million in the third quarter of 2001 as compared to the third quarter of 2000, primarily as a result of lower earnings from European power marketing operations, an adjustment to

reflect an increase in credit reserves in the crude oil and liquids marketing business and the settlement of certain construction related receivables for less than book value subsequent to September 30, 2001 but prior to the filing date of the Form 10-Q (these amounts were not reflected in Enron's announcement of its third quarter 2001 results on October 16, 2001), partially offset by increased earnings from the European gas marketing operations and steel, coal and liquids marketing.

Operating expenses for Europe and Other increased $10 million in the third quarter of 2001 as compared to the same period of 2000 primarily due to the expansion into new markets and the growth of the European operations.

PART I. FINANCIAL INFORMATION - (CONTINUED)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (CONTINUED)
ENRON CORP. AND SUBSIDIARIES

Other, net in the third quarter of 2001 included charges related to losses on transactions in foreign currencies partially offset by interest income. Other, net in the third quarter of 2000 primarily reflected interest income.

RETAIL SERVICES

Retail Services sells or manages the delivery of natural gas, electricity, liquids and other commodities to industrial and commercial customers located in North America and Europe. Retail Services also provides full energy management services. This integrated product includes the management of commodity delivery, energy information and energy assets, and price risk management activities.

Significant components of Retail Services' results are as follows (in millions):

	Third Quarter	
	2001	2000
Revenues	$ 501	$ 535
Cost of sales	261	406
Gross margin	240	129
Operating expenses	142	115
Depreciation and amortization	10	10
Equity losses and impairment of New Power Holdings, Inc.	(76)	(15)
Other, net	1	38
IBIT	$ 13	$ 27

02119

Revenues decreased $34 million in the third quarter of 2001 compared to

01300000000727

the third quarter of 2000 primarily as a result of lower retail gas sales partially offset by an increase in long-term energy contracts originated in 2001 and the monetization of interests in a merchant asset for a gain of $21 million. Gross margin increased $111 million in the third quarter of 2001 compared to the third quarter of 2000 due to long-term energy contracts originated in 2001 and the gain associated with the monetization of a merchant asset discussed above. Operating expenses increased $27 million primarily as a result of risk management support service expenses in 2001 and higher computer system-related expenditures. Equity losses for both periods reflect Retail Services' portion of losses of New Power Holdings, Inc. (NPW), formerly The New Power Company. In the third quarter of 2001, Retail Services recorded a $58 million charge which is included in equity losses to reduce its carrying value in its investment in NPW. Other, net in the third quarter of 2000 consisted primarily of gains associated with Retail Services' monetization of a portion of its interest in NPW.

NATURAL GAS PIPELINES

The following table summarizes total volumes transported for each of Enron's interstate natural gas pipelines.

	Third Quarter	
	2001	2000
Total Volumes Transported (BBtu/d)(a)		
Northern Natural Gas	2,770	3,009
Transwestern Pipeline	1,823	1,746
Florida Gas Transmission	1,927	1,649
Northern Border Pipeline	2,295	2,420

(a) Reflects 100% of each entity's throughput volumes.

Significant components of Natural Gas Pipelines' results are as follows (in millions):

02120

	Third Quarter	
	2001	2000
Net revenues	$ 136	$ 132
Operating expenses	74	74
Depreciation and amortization	17	17

01300000000728

Equity in earnings	18	28
Other, net	22	14
IBIT	$ 85	$ 83

Revenues, net of cost of sales (net revenues) of Natural Gas Pipelines increased $4 million in the third quarter of 2001 compared to the third quarter of 2000 primarily due to higher transportation rates and volumes at Transwestern. Equity in earnings decreased $10 million in the third quarter of 2001 as compared to the same period in 2000 primarily due to lower operating results from Florida Gas and the monetization of Enron's investment in EOTT. In 2001, other, net consisted primarily of a gain related to the expiration of an Enron guarantee to fund the EOTT partnership. Other, net for the third quarter of 2000 included a gain related to the sale of compressor-related equipment.

PORTLAND GENERAL

Statistics for Portland General for the third quarter of 2001 and 2000 are as follows:

02121

	Third Quarter	
	2001	2000
Electricity Sales (Thousand MWh)(a)		
Residential	1,432	1,444
Commercial	1,870	1,964
Industrial	1,207	1,249
Total Retail	4,509	4,657
Wholesale	4,062	5,703
Total Electricity Sales	8,571	10,360
Average Billed Revenue (cents per kWh)	9.51	6.89
Resource Mix		
Coal	16%	9%
Combustion Turbine	16	14
Hydro	4	4
Total Generation	36	27
Firm Purchases	58	63
Secondary Purchases	6	10
Total Resources	100%	100%

01300000000729

Average Variable Power Cost (Mills/kWh)(b)	119.3	48.8
Retail Customers (end of period, thousands)	732	722

(a) Thousand megawatt-hours.

(b) Mills (1/10 cent) per kilowatt-hour.

Significant components of Portland General's results are as follows (in millions):

	Third Quarter	
	2001	2000
Revenues	$ 905	$ 729
Purchased power and fuel	822	522
Net revenues	83	207
Operating expenses	68	85
Depreciation and amortization	32	59
Other, net	-	11
Income (loss) before interest and taxes	$ (17)	$ 74

Net revenues decreased $124 million in the third quarter of 2001 compared to the third quarter of 2000. The decrease was due to increased power costs resulting from general market conditions, including lower hydroelectric generation. Portland General entered into power contracts in prior periods to ensure adequate supply for the recent quarter at prices that were significantly higher than actual settled prices during the third quarter of 2001. Although the rate mechanism in place anticipated and substantially mitigated the effect of the higher purchased power costs, only the amount in excess of a defined baseline was recoverable from ratepayers. Increased power cost recovery was incorporated into Portland General's new fifteen-month rate structure, which became effective October 1, 2001 and included an average 40 percent rate increase.

02122

Operating expenses decreased primarily as a result of lower maintenance costs and lower regulatory and overhead expenses. Depreciation and amortization decreased in 2001 primarily as a result of a favorable energy efficiency rate mechanism adjustment, partially offset by increased regulatory amortization.

01300000000730

Third quarter 2001 other, net included the impact of a decline in the value of investments. Other, net in 2000 consisted primarily of a gain on the sale of a generation-related asset.

On October 8, 2001, Enron entered into an agreement with Northwest Natural Gas Company (NW Natural) for the sale of Portland General for $1.9 billion, comprised of $1.55 billion in cash, $200 million in NW Natural preferred stock and common stock purchase units, $50 million in NW Natural common stock and the assumption of Enron's $75 million balance on its customer benefits obligation, which was stipulated in its 1996 agreement to purchase Portland General. In addition to the purchase price, NW Natural will assume approximately $1.1 billion in Portland General debt and preferred stock. The proposed transaction, which is subject to customary regulatory approvals, is expected to close by the fourth quarter of 2002. Enron currently believes that the after-tax gain on the sale of Portland General will not be material. However, certain regulatory and other contingencies could negatively impact Enron's current estimate. Enron's carrying amount of Portland General as of September 30, 2001 was $1.6 billion. Income before interest, minority interest and income taxes for Portland General was $108 million and $241 million for the nine month periods ended September 30, 2001 and 2000, respectively.

GLOBAL ASSETS

Significant components of Global Assets' results are as follows (in millions):

	Third Quarter	
	2001	2000
Revenues	$ 424	$ 408
Cost of sales	286	244
Operating expenses	107	126
Depreciation and amortization	46	50
Equity in earnings (losses)	(263)	22
Other, net	10	9
Income (loss) before interest and taxes	$(268)	$ 19

Revenues increased $16 million in the third quarter of 2001 compared to the third quarter of 2000 due to an increase in project revenues at EREC, partially offset by a decrease in revenues from Elektro which had curtailed power sales due to the reduction in available hydro-generated power. Cost of sales increased $42 million in the third quarter of 2001 compared to the third quarter of 2000 due to an increase in costs at EREC, partially offset by a decrease in costs at Elektro. Operating expenses decreased due to reduced developmental activities partially offset by higher costs in EREC's European operations.

Equity in earnings (losses) for the third quarter of 2001, reflect the recognition of a loss of $287 million related to asset impairments by Atlantic Water Trust (the parent of Azurix Corp.), an equity method investment. These impairments primarily reflect Azurix's planned disposition of its North American and certain South American service-related businesses. See

02123

01300000000731

PART I. FINANCIAL INFORMATION - (CONTINUED)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (CONTINUED)
ENRON CORP. AND SUBSIDIARIES

"Unconsolidated Equity Affiliates" below for a discussion of Atlantic Water Trust.

BROADBAND SERVICES

Enron's network services intermediation business allows customers to manage unexpected fluctuation in the price, supply and demand of network-related requirements, including bandwidth and storage. The Enron Intelligent Network (the EIN), a nationwide fiber optic network, which connects 25 pooling points in North America, Europe and Japan, provides the infrastructure for Broadband Services' products.

Significant components of Broadband Services' results are as follows (in millions):

	Third Quarter	
	2001	2000
Revenues	$(125)	$ 162
Cost of sales	8	9
Gross margin	(133)	153
Operating expenses	135	123
Depreciation and amortization	84	52
Equity in earnings	(4)	-
Other, net	(1)	2
Loss before interest and taxes	$(357)	$ (20)

In the third quarter of 2001, Broadband Services recorded charges totaling $277 million due to the continued weak market conditions in the broadband and communications sectors. The charges related to the content services business ($160 million), costs associated with restructuring Broadband Services' business ($83 million) and the write down of the value of certain broadband-related long-lived assets and excess network equipment to net realizable value ($34 million). The amount related to the content services business included the write-off of the value of Broadband Services' investment in content services entities, the impairment of related assets and a valuation adjustment on a derivative instrument associated with the content systems business. The adjustment to the derivative instrument was reflected in revenue resulting in negative revenue for 2001. Gross margin for the third quarter 2001 also reflects continued weakness in market conditions which negatively impacted results of operations. Third quarter 2000 gross margin benefited from the significant increase in the market value of Broadband Services' merchant investments.

CORPORATE AND OTHER

02124

Corporate and Other realized a loss before interest, minority interests and taxes of $818 million in the third quarter of 2001 compared to a loss of

01300000000732

$106 million in the same period of 2000.

In September 2001, as a result of deterioration in the credit quality of the Raptor SPEs caused by a decline in NPW's stock price, the increase in Raptor's exposure under derivative contracts with Enron and the increasing dilutive effect on Enron's earnings per share calculation, Enron acquired, for approximately $35 million, LJM's interests in the Raptor SPEs which were created in 2000 to hedge certain of Enron's merchant and other investments. See Notes 3 and 4 to the Consolidated Financial Statements. Enron recorded charges totaling $710 million ($462 million after tax) related to the acquisition of the Raptor SPEs and a charge of $48 million ($31 million after-tax) to write down Enron's investment in NPW warrants acquired in connection with the termination of the Raptor SPEs.

INTEREST AND RELATED CHARGES, NET

Interest and related charges, net is reported net of interest capitalized of $22 million and $3 million for the third quarter of 2001 and 2000, respectively. The net expense decreased $58 million in the third quarter of 2001 as compared to the same period of 2000, primarily due to decreased debt levels and lower interest rates resulting from general market conditions within the U.S.

INCOME TAX EXPENSE

Income taxes decreased during the third quarter of 2001 as compared with the same period of 2000 primarily as a result of pretax losses due to charges related to the asset impairments by Azurix, the restructuring of Broadband Services and the losses associated with the Raptor SPEs. The projected effective tax rate for 2001 is lower than the statutory rate mainly due to differences between the book and tax basis of certain assets and stock sales.

02125

RESULTS OF OPERATIONS - NINE MONTHS ENDED SEPTEMBER 30, 2001 VS. NINE MONTHS ENDED SEPTEMBER 30, 2000

The following review of Enron's results of operations should be read in conjunction with the Consolidated Financial Statements. The Consolidated Financial Statements included herein have been adjusted to reflect the anticipated impacts of the restatements discussed in Note 3 to the Consolidated

01300000000733

Financial Statements. For the impacts on Enron's Consolidated Financial Statements for the years ended December 31, 1997 through 2000 and for the first and second quarters of 2001, see Note 3 to the Consolidated Financial Statements. While these restatements included herein reflect Enron's current understanding of the relevant facts, it is possible that the Special Committee's investigation will identify additional or different information concerning these matters and Enron cannot predict what impact the information gathered by the Special Committee may have on the financial information included in this report. As a result, Enron will not issue amendments to its annual reports on Forms 10-K for the years ended December 31, 1997 through 2000, or its quarterly reports on Forms 10-Q for the quarterly periods ended March 31, 2001 and June 30, 2001 to reflect the anticipated restatements of Enron's Consolidated Financial Statements until the Special Committee has completed its investigation.

CONSOLIDATED NET INCOME

Enron reported net income of $225 million for the first nine months of 2001 compared to $797 million during the same period in 2000. The significant decrease relates to losses on investing activities discussed in Corporate and Other, the impairments by Azurix Corp. discussed in Global Assets and charges recorded by Broadband Services.

INCOME BEFORE INTEREST, MINORITY INTERESTS AND INCOME TAXES

The following table presents IBIT for each of Enron's operating segments (in millions):

	Nine Months Ended September 30,	
	2001	2000
Americas	$1,960	$1,009
Europe and Other	235	265
Retail Services	99	79
Natural Gas Pipelines	295	289
Portland General	108	241
Global Assets	(275)	117
Broadband Services	(494)	(38)
Corporate and Other	(947)	(154)
IBIT	$ 981	$1,808

PART I. FINANCIAL INFORMATION - (CONTINUED)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (CONTINUED)
ENRON CORP. AND SUBSIDIARIES

02126

01300000000734

AMERICAS

Significant components of Americas' results are as follows (in millions):

	Nine Months Ended September 30,	
	2001	2000
Revenues	$85,108	$40,442
Cost of sales	83,137	38,969
Gross margin	1,971	1,473
Operating expenses	610	513
Depreciation and amortization	132	71
Equity in earnings	718	118
Other, net	13	2
IBIT	$ 1,960	$ 1,009

Americas markets, transports and provides energy commodities as reflected in the following table (including intercompany amounts):

	Nine Months Ended September 30,	
	2001	2000
Physical Volumes (BBtue/d) (a):		
Gas	26,787	23,152
Power (b)	25,642	14,287
Total	52,429	37,439
Power Volumes Marketed (Thousand MWh) (c)	700,007	391,459
Financial Settlements (Notional) (Bbtue/d)	228,900	128,266

(a) Billion British thermal units equivalent per day.

(b) Represents electricity volumes, converted to BBtue/d.

(c) Thousand megawatt-hours.

02127

Gross margin of Americas, excluding the impact of a change in value of Enron's contingent obligation to Whitewing (Whitewing Obligation) discussed in Note 8 to the Consolidated Financial Statements, increased $1,271 million in the first nine months of 2001 as compared to the first nine months of 2000, primarily as a result of increased earnings from both power and gas marketing operations. The sale of five peaking power plants in 2001 favorably impacted

01300000000735

gross margin from power marketing. The power and gas intermediation businesses both benefited from price volatility in the 2001. Gross margin from merchant investments was lower in the first nine months of 2001 as compared to the same period of 2000 primarily due to a decline in the value of investments in 2001 and a significant increase in the value of power-related investments in 2000. The Whitewing Obligation resulted in a decrease in revenues of approximately $773 million with a corresponding increase in equity in earnings.

Operating expenses increased by $97 million in the first three quarters of 2001 compared to the same period in 2000 primarily due to the growth of Americas' commodity intermediation business. Depreciation and amortization increased $61 million primarily as a result of increased amortization related to intangible assets acquired in the second quarter of 2001 and other assets and depreciation associated with computer equipment placed into service in 2001.

Equity in earnings, excluding the impact of the Whitewing Obligation, decreased $173 million in the first nine months of 2001 as compared to the same period of 2000 primarily as a result of the decline in the value of merchant investments held by unconsolidated equity affiliates combined with increases in the value of merchant investments during the first nine months of 2000.

EUROPE AND OTHER

Significant components of Europe and Other's results are as follows (in millions):

	Nine Months Ended September 30,	
	2001	2000
Revenues	$48,468	$15,162
Cost of sales	47,524	14,455
Gross margin	944	707
Operating expenses	683	427
Depreciation and amortization	65	50
Equity in earnings	9	3
Other, net	30	32
IBIT	$ 235	$ 265

Europe and Other markets, transports and provides energy and other commodities as reflected in the following table (including intercompany amounts):

02128

01300000000736

	Nine Months Ended September 30,	
	2001	2000
Physical Volumes (BBtue/d)(a):		
Gas	8,438	3,192
Power(b)	7,798	1,086
Crude Oil and Liquids	8,776	5,640
Total	25,012	9,918
Power Volumes Marketed (Thousand MWh)(c)	212,906	29,777
Financial Settlements (Notional)(Bbtue/d)	64,672	40,782
Other Commodity Volumes:		
Crude Oil and Liquids (MM Bbl)	434	300
Coal (thousand tons)	67,209	28,643
Weather (notional value $MM)	779	512
LNG (BBtue)	17,664	-
Metals (thousand tons)	6,904	2,946
Forest Products (thousand tons)	2,094	182
Steel (thousand tons)	887	-

(a) Billion British thermal units equivalent per day.

(b) Represents electricity volumes, converted to BBtue/d.

(c) Thousand megawatt-hours.

Gross margin of Europe and Other increased $237 million in the first nine months of 2001 as compared to the first nine months of 2000, primarily as a result of increased earnings from European power and gas marketing operations and steel, coal and liquids marketing partially offset by lower earnings from

Enron's metals marketing operations, an adjustment to reflect an increase in credit reserves in the crude oil and liquids marketing business and the settlement of certain construction related receivables for less than book value subsequent to September 30, 2001 but prior to the filing date of the Form 10-Q (these amounts were not reflected in Enron's announcement of its third quarter 2001 results on October 16, 2001).

02129

01300000000737

Operating expenses for Europe and Other increased $256 million in the first nine months of 2001 as compared to the same period of 2000 and depreciation and amortization increased $15 million primarily due to the expansion into new markets and the growth of the European operations.

Equity in earnings in the first nine months of 2001 increased as compared to the same period of 2000 primarily due to the earnings from an affiliate formed in 2001 to hold Enron's investment in forest product-related assets. Other, net in both 2001 and 2000 primarily consisted of interest income.

RETAIL SERVICES

Significant components of Retail Services' results are as follows (in millions):

	Nine Months Ended September 30,	
	2001	2000
Revenues	$1,737	$1,269
Cost of sales	1,084	935
Gross margin	653	334
Operating expenses	474	284
Depreciation and amortization	29	27
Equity in losses and impairments of NPW	(104)	(32)
Other, net	53	88
IBIT	$ 99	$ 79

Revenues increased $468 million in the first nine months of 2001 compared to the same period in 2000 primarily as a result of long-term energy contracts originated in 2001 and the growth of Retail Services' European operations. Gross margin increased $319 million in the first nine months of 2001 compared to the same period in 2000 due to long-term energy contracts originated in 2001 and the monetization of interests in a merchant asset for a gain of $21 million. Operating expenses increased $190 million primarily as a result of risk management support service expenses in 2001 and higher employee and computer system-related expenditures. Equity losses for both periods reflect Retail Services' portion of losses of NPW and in 2001 a charge of $58 million to reduce the carrying value of its investment in NPW. Other, net in 2001 and 2000 consisted primarily of gains associated with Retail Services' monetization of a portion of its interest in NPW.

02130

01300000000738

NATURAL GAS PIPELINES

The following table summarizes total volumes transported for each of Enron's interstate natural gas pipelines.

	Nine Months Ended September 30,	
	2001	2000
Total Volumes Transported (BBtu/d)(a)		
Northern Natural Gas	3,139	3,464
Transwestern Pipeline	1,847	1,639
Florida Gas Transmission	1,578	1,601
Northern Border Pipeline	2,362	2,438

(a) Reflects 100% of each entity's throughput volumes.

Significant components of Natural Gas Pipelines' results are as follows (in millions):

	Nine Months Ended September 30,	
	2001	2000
Net revenues	$ 500	$ 499
Operating expenses	236	232
Depreciation and amortization	51	50
Equity in earnings	48	45
Other, net	34	27
IBIT	$ 295	$ 289

Revenues, net of cost of sales (net revenues) of Natural Gas Pipelines in the first nine months of 2001 were comparable to the prior period. In 2001, increased revenues generated by Transwestern from transportation and operational gas sales and increased storage revenues received by Northern, were offset by lower sales of gas storage inventory by Northern. Operating expenses, including depreciation expense, in the first nine months of 2001 increased primarily as a result of higher gas prices and other costs associated with the volumes transported by Transwestern and other pipeline expenses. Equity in earnings increased $3 million in the first nine months of 2001 compared to the same period in 2000 primarily due to higher operating results from EOTT and Florida Gas. In 2001, other, net consisted primarily of a gain related to the expiration of an Enron guarantee to fund the EOTT partnership. In 2000, other, net consisted of gains related to an energy commodity contract and the sale of compressor-related equipment.

02131

01300000000739

PART I. FINANCIAL INFORMATION - (CONTINUED)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (CONTINUED)
ENRON CORP. AND SUBSIDIARIES

PORTLAND GENERAL

Statistics for Portland General for the first nine months of 2001 and 2000 are as follows:

	Nine Months Ended September 30,	
	2001	2000
Electricity Sales (Thousand MWh)(a)		
Residential	5,151	5,285
Commercial	5,475	5,605
Industrial	3,546	3,653
Total Retail	14,172	14,543
Wholesale	9,836	14,893
Total Electricity Sales	24,008	29,436
Average Billed Revenue (cents per kWh)	9.97	5.18
Resource Mix		
Coal	15%	10%
Combustion Turbine	17	10
Hydro	6	6
Total Generation	38	26
Firm Purchases	56	66
Secondary Purchases	6	8
Total Resources	100%	100%
Average Variable Power Cost (Mills/kWh)(b)	113.3	32.6
Retail Customers (end of period, thousands)	732	722

(a) Thousand megawatt-hours.

(b) Mills (1/10 cent) per kilowatt-hour.

Significant components of IBIT are as follows (in millions):

02132

01300000000740

	Nine Months Ended September 30,	
	2001	2000
Revenues	$2,503	$1,557
Purchased power and fuel	2,028	976
Net revenues	475	581
Operating expenses	229	239
Depreciation and amortization	138	152
Other, net	-	51
IBIT	$ 108	$ 241

Net revenues decreased $106 million in the first nine months of 2001 compared to the same period in 2000. The decrease was due to increased power costs resulting from general market conditions, including lower hydroelectric generation. Portland General entered into power contracts in prior periods to ensure adequate supply for the recent quarter at prices that were significantly higher than actual settled prices during the third quarter of 2001. Although the rate mechanism in place anticipated and substantially mitigated the effect of the higher purchased power costs, only the amount in excess of a defined baseline was recoverable from ratepayers. Increased power cost recovery was incorporated into Portland General's new fifteen-month rate structure, which became effective October 1, 2001 and included an average 40 percent rate increase.

Operating expenses decreased primarily as a result of lower maintenance costs and lower regulatory and overhead expenses. Depreciation and amortization decreased in 2001 primarily as a result of a favorable energy efficiency rate mechanism adjustment, partially offset by increased regulatory amortization. In 2000, other, net consisted primarily of a gain on the sale of a generation-related asset and was favorably impacted by certain regulatory events.

GLOBAL ASSETS

Significant components of Global Assets' results are as follows (in millions):

02133

	Nine Months Ended September 30,

01300000000741

	2001	2000
Revenues	$1,134	$1,150
Cost of sales	719	669
Operating expenses	352	364
Depreciation and amortization	134	134
Equity in earnings (losses)	(240)	112
Other, net	36	22
Income (loss) before interest and taxes	$ (275)	$ 117

Revenues decreased $16 million in the first nine months of 2001 compared to the same period in 2000 due to a decrease in revenues from Elektro which had curtailed power sales due to the reduction in available hydro-generated power, partially offset by an increase in project revenues at EREC. Cost of sales increased $50 million in the first nine months of 2001 compared to the same period in 2000 due to an increase in costs at EREC, partially offset by a decrease in costs at Elektro. Operating expenses decreased due to reduced developmental activities, partially offset by higher costs in EREC's European operations.

Equity in earnings (losses) for the nine months ended September 30, 2001 reflects the recognition in the third quarter 2001 of a loss of $287 million related to asset impairments by Atlantic Water Trust (the parent of Azurix Corp.), an equity method investment. These impairments primarily reflect Azurix's planned disposition of its North American and certain South American service-related businesses. See "Unconsolidated Equity Affiliates" below for a discussion of Atlantic Water Trust. Equity earnings in 2000 consisted of a gain from the monetization of a power plant by an equity method affiliate.

BROADBAND SERVICES

Significant components of Broadband Services' results are as follows (in millions):

02134

	Nine Months Ended September 30,	
	2001	2000
Revenues	$ (26)	$ 335
Cost of sales	59	64
Gross margin	(85)	271
Operating expenses	290	249
Depreciation and amortization	114	63

01300000000742

Equity in earnings	(1)	1
Other, net	(4)	2
Loss before interest and taxes	$(494)	$ (38)

In the third quarter of 2001, Broadband Services recorded charges totaling $277 million due to the continued weak market conditions in the broadband and communications sectors. The charges related to the content services business ($160 million), costs associated with restructuring Broadband Services' business ($83 million) and the write down of the value of certain broadband-related long-lived assets and excess network equipment to fair value less estimated costs to sell ($34 million). The amount related to the content services business included the write-off of the value of Broadband Services' investment in content services entities, the impairment of related assets and a valuation adjustment on a derivative instrument associated with the content systems business. The cumulative adjustments to the derivative instrument were reflected in revenues resulting in negative revenues for 2001. Gross margin for the nine months ended September 30, 2001 also reflects continued weaknesses in market conditions which negatively impacted results of operations. Gross margin for 2000 primarily reflects earnings from sales of excess dark fiber, an increase in the market value of Broadband Services' merchant investments and an increase in the value of the derivative instrument associated with the content systems business.

CORPORATE AND OTHER

Corporate and Other realized a loss before interest, minority interests and taxes of $947 million in the first nine months of 2001 compared to a loss of $154 million for the same period in 2000.

In September 2001, as a result of deterioration in the credit quality of the Raptor SPEs caused by a decline NPW's stock price, the increase in Raptor's exposure under derivative contracts with Enron and the increasing dilutive effect on Enron's earnings per share calculation, Enron acquired, for approximately $35 million, LJM's interests in the Raptor SPEs which were created in 2000 to hedge certain of Enron's merchant and other investments. See Notes 3 and 4 to the Consolidated Financial Statements. Enron recorded charges totaling $710 million ($462 million after tax) related to the acquisition of the Raptor SPEs and a charge of $48 million ($31 million after-tax) to write down Enron's investment in NPW warrants acquired in connection with the termination of the Raptor SPEs.

INTEREST AND RELATED CHARGES, NET

Interest and related charges, net, is reported net of interest capitalized of $45 million and $28 million for the first nine months of 2001 and 2000, respectively. Net expense decreased $13 million in the first nine months of 2001 as compared to the same period of 2000, primarily due to lower interest rates resulting from general market conditions within the U.S.

02135

01300000000743

INCOME TAX EXPENSE

Income taxes decreased during the first three quarters of 2001 as compared with the same period of 2000 primarily as a result of pretax losses related to the asset impairments recorded by Azurix Corp., the restructuring of Broadband Services and the losses associated with the Raptor SPEs. The projected effective tax rate for 2001 is lower than the statutory rate mainly due to differences between the book and tax basis of certain assets and stock sales.

Enron recorded tax benefits in shareholders' equity related to stock options exercised by employees of approximately $174 million in the first nine months of 2001.

CUMULATIVE EFFECT OF ACCOUNTING CHANGES

On January 1, 2001, Enron recognized an after-tax non-cash gain of $19 million in earnings and deferred an after-tax non-cash gain of $25 million in "Accumulated Other Comprehensive Income," a component of shareholders' equity, and reclassified $277 million from "Long-Term Debt" to "Other Liabilities" to reflect the initial adoption of Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). SFAS No. 133 must be applied to all derivative instruments and requires that such instruments be recorded in the balance sheet either as an asset or a liability measured at its fair value through earnings, with special accounting permitted for certain qualifying hedges.

NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142). SFAS No. 142, which must be applied to fiscal years beginning after December 15, 2001, modifies the accounting and reporting of goodwill and intangible assets.

The pronouncement requires entities to discontinue the amortization of goodwill, reallocate all existing goodwill among its reporting segments based on criteria set by SFAS No. 142 and perform initial impairment tests by applying a fair-value-based analysis on the goodwill in each reporting segment. Any impairment at the initial adoption date shall be recognized as the effect of a change in accounting principle. Subsequent to the initial adoption, goodwill shall be tested for impairment annually or more frequently if circumstances indicate a possible impairment.

Under SFAS No. 142, entities are required to determine the useful life of other intangible assets and amortize the value over the useful life. If the useful life is determined to be indefinite, no amortization will be recorded. For intangible assets recognized prior to the adoption of SFAS No. 142, the useful life should be reassessed. Other intangible assets are required to be tested for impairment in a manner similar to goodwill.

At September 30, 2001, Enron's goodwill related to consolidated entities was approximately $3.5 billion. Additionally, unconsolidated equity affiliates of Enron have an additional approximately $1.9 billion of goodwill. Estimated annual amortization of such goodwill is approximately $195 million, of which approximately $65 million relates to unconsolidated equity affiliates. Enron is in the process of evaluating the application of SFAS No. 142 in light of the recent events discussed above.

02136

In August 2001, the FASB issued SFAS 143, "Accounting for Asset Retirement Obligations." SFAS No. 143, which must be applied to fiscal years beginning after June 15, 2002, addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Enron is in the process of evaluating the impact of SFAS No. 143 on the financial statements.

01300000000744

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144, which must be applied to fiscal years beginning after December 15, 2001, addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. Enron is in the process of evaluating the impact of SFAS No. 144 on the financial statements.

FINANCIAL CONDITION

CASH FLOWS

(In Millions)	Nine Months Ended September 30, 2001	2000
Cash provided by (used in):		
Operating activities:		
Operating activities excluding net margin deposit activity	$ 1,596	$ (414)
Net margin deposit activity	(2,349)	541
Operating activities	$ (753)	$ 127
Investing activities	$(1,366)	$(3,580)
Financing activities	$ 1,880	$ 3,873

Cash used in operating activities totaled $753 million in the first nine months of 2001 as compared to cash provided by operating activities of $127 million in the same period last year. Cash used in operating activities in the first nine months of 2001 reflects cash provided by operations and price risk management activities, offset by net cash used related to margin deposit activity. Excluding net margin deposit activity, cash provided by operating activity was $1,596 million. Enron received significant cash deposits as credit collateral during the fourth quarter of 2000 resulting from volatility in the power and gas markets. During the first nine months of 2001, net deposits of $2,349 million were returned as general price levels in the commodity prices have declined. Net cash provided by operating activities in the first nine months of 2000 primarily reflects earnings and proceeds from the sale of merchant assets and investments, partially offset by cash used in acquiring merchant assets and investments and working capital requirements.

02137

01300000000745

Cash used in investing activities totaled $1,366 million in the first nine months of 2001 as compared to $3,580 million in the same period of 2000. Cash used in the first nine months of 2001 reflects investments in unconsolidated equity affiliates and capital expenditures. Investments in unconsolidated equity affiliates in 2001 include the acquisition of a company whose assets include a newsprint mill and related assets, a power generation related entity and the purchase of all publicly traded shares of Azurix Corp. Capital expenditures in 2001 related to Wholesale Services' energy network.

Cash provided by financing activities totaled $1,880 million in the first nine months of 2001 as compared to $3,873 million during the same period of 2000. The first nine months of 2001 include the net issuances of short- and long-term debt of $2,522, partially offset by payments of dividends.

LIQUIDITY, CAPITAL RESOURCES AND OUTLOOK

Following Enron's announcement of its third quarter 2001 results on October 16, 2001, there was a significant decrease in Enron's common share price and subsequent decreases in the credit ratings of Enron's long-term debt to BBB- and Baa3 (the lowest level of investment grade) with a warning that further downgrades were possible. This situation resulted in a loss of investor confidence and significantly affected Enron's ability to raise capital.

Maintaining an investment grade credit rating is a critical element in maintaining liquidity for Enron's wholesale business which, together with the natural gas pipeline operations and the retail business, comprise Enron's core businesses discussed below. As a part of their standard contractual arrangements, Enron and its trading counterparties regularly post cash deposits or letters of credit to collateralize a portion of their trading obligations. A downgrade to below investment grade could lead to a substantial increase in the level of cash required for collateral and margin deposits with Enron's wholesale trading partners. Additionally, Enron and its subsidiaries have outstanding surety bonds and other instruments related to construction projects and other performance obligations. Under certain circumstances, the issuers of such sureties may request collateral.

LIQUIDITY ACTIONS. Enron has implemented a financial strategy to restore investor confidence and will continue its initiatives in this regard. Enron has taken the following steps to assure its customers and investors that it can fulfill its commitments in the ordinary course of business:

- Enron borrowed approximately $3.0 billion from its committed lines of credit to repay outstanding and expiring commercial paper obligations of approximately $1.9 billion and to provide immediate cash liquidity. This action to convert Enron's committed lines of credit to cash was done to eliminate any doubt as to their availability in the future;

- In an effort to further enhance short-term liquidity, on November 13, 2001, Enron (through its wholly-owned subsidiary) obtained $550 million in a new secured line of credit from JP Morgan Chase Bank (Chase) and Citicorp North America, Inc. (Citicorp), secured by Enron's Transwestern Pipeline Company assets. Enron anticipates

02138

01300000000746

obtaining $450 million in a new secured line of credit on or about November 20, 2001, from Chase and Citicorp secured by Northern's assets. These proceeds will be used to further supplement short-term liquidity and to retire maturing obligations;

- On November 13, 2001, Enron received a $1.5 billion equity infusion in the form of a preferred stock investment in Northern from Dynegy Inc. (Dynegy) in connection with the merger agreement signed between Enron and Dynegy;

- Enron anticipates the receipt of over $800 million in net proceeds from asset sales scheduled to close by year-end. However, the closings of these sale transactions are pending certain regulatory and other approvals that will impact whether such transactions close and the ultimate timing of the closings. Of the net proceeds, $250 million, or a portion thereof, may be required to repay an obligation that may become a demand obligation due to a recent credit rating downgrade discussed below and in "Impact of Recent Events" and "Minority Interests" below.

Enron is engaged in discussions with various institutions about investing in Enron equity. Enron is diligently pursuing a program to raise an incremental $500 million to $1 billion of private equity from these sources in the near future. There can be no assurance, however, that such program will be successful. Depending on the terms and amounts of such investments, Enron may be required to increase its authorized capital, which would require the approval of its shareholders.

RESTRUCTURING PLAN. As a result of the Dynegy merger agreement and the loss of investor confidence, Enron has initiated an action plan for restructuring its business. The key aspects of the action plan involve (i) concentrating primarily on its core businesses; (ii) taking aggressive steps to rationalize the existing cost structure; (iii) accelerating the process of divesting non-core businesses and assets; (iv) restructuring scheduled maturities of debt and other obligations; (v) completing the investigation by the Special Committee and its advisors with respect to related party transactions; (vi) reviewing and strengthening Enron's corporate governance; and (vii) expanding certain disclosures with a focus on increased transparency. Management and the Board have not completed nor approved a restructuring plan. Such restructuring plan is currently being prepared and, therefore, Enron is unable to estimate the timing of implementation or the financial impacts. Enron's fourth quarter 2001 results of operations will likely be negatively impacted by severance, restructuring and other charges resulting from the repositioning of many of Enron's businesses.

In order to focus on Enron's core businesses and rationalize their cost structure, management is in the process of dividing Enron into three fundamental groups of businesses - Core, Non-Core and Under Review. Following is a description of each group of businesses:

02139

- Core Businesses are the consistent franchise businesses for which

01300000000747

Enron has a distinct competitive advantage. These businesses, collectively, generate significant earnings and cash flows. These businesses include:

- o Gas and power businesses in North America and Europe;
- o Coal businesses in North America and Europe;
- o Retail businesses in North America and Europe; and
- o Natural gas pipeline businesses.

o Non-Core businesses are businesses that do not provide value to Enron's core businesses. These primarily are part of Enron's global assets and broadband services segments. Enron has approximately $8 billion invested in these businesses and the return from these investments is below acceptable rates. Accordingly, Enron is developing a plan to exit these businesses in an orderly fashion. Enron expects that the sale of these non-core businesses will generate cash proceeds that will be used to repay debt. Should the exit strategy, currently being prepared, result in a lower value than Enron's current carrying value, then Enron may be required to record related asset writedowns, possibly as early as the fourth quarter of 2001.

o Businesses Under Review are businesses that Enron believes have strong future prospects; however, under the restructuring program, Enron is in the process of looking closely at the capital requirements and near-term growth prospects of these businesses. These businesses are primarily Enron's wholesale businesses outside of power and gas, which include both energy-related and industrial markets activities. The in-

depth assessment of each of these businesses will be completed very quickly to determine the resources Enron intends to expend in these areas.

IMPACT OF RECENT EVENTS. The recent deterioration in Enron's credit rating has caused a negative impact on Enron's projected 2001 fourth quarter profitability. This is primarily the result of a reduced level of transaction activity by Enron's trading counterparties, particularly longer-term transactions. It is too early to determine the impact these events will have on Enron's fourth quarter 2001 operating results. Additionally, the fourth quarter of 2001 will likely be negatively impacted by severance, restructuring and other charges resulting from the repositioning of many of Enron's businesses consistent with the restructuring plan, as well as potential writedowns as discussed in "Unconsolidated Equity Affiliates" below.

02140

Enron has various financial arrangements which require Enron to maintain specified credit ratings. The November 12, 2001 downgrade in Enron's senior unsecured debt rating to BBB- by Standard & Poor's has caused a ratings event related to a $690 million note payable that, absent Enron posting collateral, will become a demand obligation on November 27, 2001. See "Minority Interests" below for a description of this obligation. Consistent with the restructuring plan discussed above, Enron is currently working with the lenders to develop a

01300000000748

mutually acceptable amendment or waiver to the transaction documents in order to avoid an early Enron payment obligation.

In the event Enron loses its investment grade credit rating and Enron's stock price is below a specified price, a note trigger event would occur. This could require Enron to repay, refinance or cash collateralize additional facilities totaling $3.9 billion, which primarily consist of $2.4 billion of debt in Osprey Trust (Osprey) and $915 million of debt in Marlin Water Trust (Marlin). For a description of the Marlin and Osprey Trusts, both of which are unconsolidated affiliates, and related debt obligations, see "Unconsolidated Equity Affiliates" below. In the event a Note Trigger Event occurs, Enron must either issue equity in an amount sufficient to repay the notes or Enron is obligated to pay the difference in cash.

In the event that Enron fails to pay any debt obligations when due, including when such obligations may be accelerated, or is unable to refinance or obtain a waiver of such obligations, a series of events would begin which could impact Enron's compliance with the terms of its Revolving Credit Agreements certain other obligations, including bank debt facilities.

It is not possible to predict whether any or all of the actions described above (including the sale of non-core businesses and assets and the refinancing or waiver of Enron obligations that may become immediately payable upon scheduled maturities or due to an acceleration event) will be adequate to maintain Enron's investment grade credit rating or enable Enron to refinance or otherwise restructure its debt obligations that become due. An adverse outcome with respect to any of these matters would likely have a material adverse impact on Enron's ability to continue as a going concern.

NEAR TERM MATURITIES OF DEBT AND OTHER SIGNIFICANT OBLIGATIONS. As discussed above, a key aspect of Enron's restructuring plan is restructuring scheduled maturities of debt and the obligations discussed below in "Unconsolidated Equity Affiliates" and "Minority Interests." The following summarizes the maturities of debt and these obligations by quarter through 2002 as of November 16, 2001 (in millions), assuming no accelerations as a result of events of default:

02141

	Outstanding Balance		Matu		
	September 30, 2001	November 16, 2001	Remaining 4Q 2001	1Q	2Q
Short-Term Debt	$6,434	$6,564(a)	$2,140(a)(b)	$ 72	$2,
Long-Term Debt	6,544	7,782	-	-	
Unconsolidated Equity Affiliates(e)	-	1,819	-	-	
Minority					

01300000000749

Interests(f)	691	690	690(f)	-

(a) Short-term debt includes $1,267 million related to Enron's zero coupon convertible senior notes that mature in 2021. Of this amount, $94 million is included as a maturity in the fourth quarter of 2001 which reflects the convertible redemption value of the notes at November 16, 2001 based on Enron's then current stock price. The remaining amount has been included as a maturity in the third quarter of 2002, assuming closing of the Dynegy merger as currently structured, at which time the holder of the notes may request Enron to repurchase the notes at issue price plus accrued original issue discount through repurchase date.

(b) Includes $1,026 million of demand notes payable to unconsolidated equity affiliates (including $616 million due to Whitewing, see (e) below) under long-term revolving credit agreements for cash management purposes which can be requested as needed by the unconsolidated equity affiliates.

(c) Includes $1.75 billion of amounts borrowed under the revolving credit agreements.

(d) Includes $550 million borrowed under the new secured lines of credit discussed above.

(e) As discussed in "Unconsolidated Equity Affiliates" below, in the event that Enron has not repaid its obligations to Osprey and Marlin prior to their respective maturity dates of January 15, 2003 and July 15, 2003, Enron is required to deposit an amount sufficient to redeem the notes 120 days prior to the maturity dates. As such, the $2.4 billion deposit requirement related to the Osprey obligation less $616 million of demand notes due to Whitewing included in short-term debt has been reflected as a scheduled maturity in the third quarter of 2002.

(f) As discussed below in "Minority Interests," absent Enron repaying the note, posting collateral or obtaining a waiver from the lenders, a $690 million note payable will become a demand obligation on November 27, 2001.

As discussed in "Liquidity Actions" above, on November 19, 2001, Enron closed a $450 million new secured line of credit which will mature in the fourth quarter of 2002.

CASH LIQUIDITY. As reflected on its Consolidated Balance Sheet as of September 30, 2001, Enron had $1.0 billion in cash and cash equivalents. Of this amount, $656 million related to domestic cash managed by Enron's corporate treasury department. At November 16, 2001, Enron had $1.2 billion of domestic cash managed by Corporate treasury. Cash inflows during this period primarily consisted of net collections from business operations and trade settlements, the borrowing from committed lines of credit, obtaining new secured lines of credit, the equity infusion from Dynegy and receipt of collateral deposits from trading partners. Cash outflows during this period primarily consisted of operating costs of business operations and trade settlements, repaying expiring commercial paper obligations and maturing short- and long-term debt and payment of collateral deposits to trading partners.

CREDIT LINES. As a result of Enron's loss of investor confidence discussed above, Enron exited the commercial paper market for its short-term liquidity needs and borrowed under its committed lines of credit (approximately $3.0 billion) to repay outstanding and expiring commercial paper obligations of approximately $1.9 billion and to provide additional cash liquidity. Of its $3.3 billion in committed credit lines, at November 16, 2001, Enron had unused commercial paper lines of credit of $103 million.

02142

01300000000750

PART I. FINANCIAL INFORMATION - (CONTINUED)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (CONTINUED)
ENRON CORP. AND SUBSIDIARIES

CREDIT RATINGS. Enron's credit ratings at September 30, 2001 and the date of this filing are as follows:

	Moody's		Standard & Poor's		
Debt Instrument	September 30, 2001	Current	September 30, 2001	Current	Sep
Senior unsecured debt	Baa1	Baa3	BBB plus	BBB minus	BB
Subordinated debt	Baa2	Ba1	BBB	BBB minus	BB
Commercial paper	P-2	Not Prime	A-2	A-3	F2

Additionally, each of the above rating agencies have issued warnings that further downgrades are possible.

UNCONSOLIDATED EQUITY AFFILIATES. Summarized below is a description related to two of Enron's unconsolidated equity affiliates for which Enron has committed to issue equity to satisfy obligations of these equity affiliates. As discussed above, Enron's current common share stock price, liquidity situation and credit ratings may significantly impact Enron's ability to satisfy these obligations solely with equity issuances.

Whitewing Associates L.P. Whitewing is an entity formed by Enron and various investors, investing through an entity named Osprey, to acquire and own energy-related assets and other investments. Osprey is capitalized with approximately $2.4 billion in debt and $220 million in equity. The Osprey debt is supported by the assets within Whitewing, which include Enron Mandatorily Convertible Junior Preferred Stock, Series B (which is convertible into 50 million shares of Enron common stock), and a contingent obligation of Enron to issue additional shares, if needed, to retire such debt obligation. In the event that the sale of equity is not sufficient to retire such obligations, Enron is liable for the shortfall.

At November 16, 2001, Whitewing held assets with a book value of approximately $4.7 billion. This includes approximately $1.3 billion in energy related projects in Europe and South America, including European power plants, and an electric distribution company in Brazil, approximately $600 million of merchant investments, approximately $600 million in demand notes due from Enron and other assets of $100 million. The merchant portfolio includes both private and publicly traded entities and consists of oil and gas investments, power generation and energy investments and technology related and other investments. In addition, Whitewing holds Mandatorily Convertible Junior Preferred Stock, Series B, mentioned above, and a contingent obligation of Enron to issue additional shares, if needed, which together have a combined book value of approximately $2.1 billion. This contingent obligation is in the form of a derivative instrument. As such, both Enron and Whitewing account for this contingent obligation at fair value. As a result, Enron recognizes losses

02143

01300000000751

associated with this obligation as a reduction of "Revenues" in the accompanying consolidated income statement. However, the loss is offset as Enron recognizes its share of Whitewing's earnings through "Equity in Earnings of Unconsolidated Affiliates" in the accompanying consolidated income statement. As of September 30, 2001, the amount due Whitewing under such derivative totaled approximately $1.0 billion and is included in "Other Liabilities" in the accompanying consolidated balance sheet. Such

amount has increased by approximately $600 million as a result of the decline in Enron's common stock price subsequent to September 30, 2001 through November 16, 2001. Based on the subsequent decline in the Enron stock price through November 16, 2001, there would currently exist an approximate $700 million charge to earnings due to the shortfall in the recovery of Enron's book investment. Enron is currently evaluating the fair value of Whitewing's other assets mentioned above in conjunction with the restructuring plan discussed above which will impact the amount of any writedown of Enron's investment in Whitewing, possibly as early as the fourth quarter.

Atlantic Water Trust. Atlantic Water Trust is an entity formed by Enron and unrelated institutional investors, investing through an entity named Marlin Water Trust (Marlin), for the purpose of acquiring and holding an interest in Azurix Corp. (Azurix). The primary asset of Azurix is Wessex Water Services Ltd. (Wessex), a regulated water utility in the UK. Atlantic Water Trust currently owns 67% of Azurix, with Enron owning the remaining 33%. Marlin was capitalized with approximately $915 million in debt and $125 million in equity. The Marlin debt is supported by the assets of Atlantic Water Trust and Enron's contingent obligation to cause the sale of Enron equity to retire such obligations. In the event that the sale of equity is not sufficient to retire such obligations, Enron is liable for the shortfall.

Description of Trigger Events. Osprey and Marlin's debt obligations contain certain "Note Trigger Events" to protect the note holders, including (i) an Enron senior unsecured debt rating below investment grade by any of the three major credit rating agencies concurrent with an Enron stock closing price of $59.78 per share or below in the case of Osprey and $34.13 per share or below in the case of Marlin; (ii) a cross default to Enron senior obligations in excess of $50 million and $100 million for Osprey and Marlin, respectively; and (iii) the requirement that an amount sufficient to redeem the notes be deposited with a trustee 120 days prior to maturity dates of January 15, 2003 and July 15, 2003 for Osprey and Marlin, respectively. As of November 16, 2001 the Enron stock closing price was $9.00 per share.

02144

In the event a Note Trigger Event was to occur, Enron has 21 days to file a registration statement for the issuance of equity to repay the notes and such registration statement has 90 days from the Note Trigger Event to become effective. Any Enron registration statement filed cannot become effective until Enron files its restated audited consolidated financial statements which is not expected until completion of the Special Committee investigation. In the event that Enron does not file its registration statement or the registration statement is not effective during the respective time requirements, Enron must pursue a private placement of equity, if permitted. If Enron does not sell equity in an amount sufficient to repay the notes, Enron is obligated to pay the difference in cash.

01300000000752

In the event that Enron fails to pay any debt obligations when due, including when such obligations may be accelerated, or is unable to refinance or obtain a waiver of such obligations, a series of events would begin which could impact Enron's compliance with the terms of its Revolving Credit Agreements and certain other obligations, including bank debt facilities.

Either as a result of the restructuring plan discussed above or to raise cash to repay Enron's obligations discussed above, Enron may sell the assets of Whitewing and/or Atlantic Water Trusts for amounts below their carrying values. The net proceeds from the sale of such assets can be used to repay Enron's obligations discussed above. Accordingly, Enron may be required to record asset writedowns, possibly as early as the fourth quarter of 2001.

MINORITY INTERESTS. Enron consolidates a limited partnership (the Limited Partnership), for which the consolidated third party's ownership interest is reflected in minority interests on Enron's balance sheet in the amount of $691 million at September 30, 2001. The Limited Partnership assets include a $690 million note payable from Enron and certain merchant investments, both domestic and international. Enron anticipates the receipt of approximately $250 million from the sale of one of the Limited Partnership's investments, a local gas distribution company in Brazil, upon the closing of the sale which is pending certain regulatory and other approvals.

The November 12, 2001 downgrade in Enron's senior unsecured debt rating to BBB- by Standard & Poor's has caused a ratings event related to the Limited Partnership. This ratings event started a nine business day period during which Enron has the right, until November 26, 2001, to post an unsecured letter of credit equal to Enron's note payable, to repay the note payable with the Limited Partnership investing such proceeds in permitted investments, or to purchase the investors' interest in the Limited Partnership. To the extent that Enron does not satisfy this requirement by November 27, 2001, the investors have the right to immediately begin to liquidate the Limited Partnership assets. Additionally, as a result of the rating downgrade, the investors, subject to certain actions, are able to accelerate and assign the note payable. Consistent with the restructuring plan discussed above, Enron is currently working with the lenders to develop a mutually acceptable amendment or waiver to the transaction documents in order to avoid an early Enron payment obligation.

02145

Either as a result of the restructuring plan discussed above or to raise cash to repay Enron's obligation discussed above, Enron may sell the Limited Partnership assets for amounts below their carrying values. The net proceeds from the sale of such assets can be used to repay Enron's obligation. Accordingly, Enron may be required to record asset writedowns, possibly as early as the fourth quarter of 2001.

It is not possible to predict whether Enron will be able to favorably complete the actions described above. In the event that Enron fails to pay any debt obligations when due, including when such obligations may be accelerated, or is unable to refinance or obtain a waiver of its obligations, a series of events would begin which could impact Enron's compliance with the terms of its Revolving Credit Agreements and certain other obligations, including bank debt

01300000000753

facilities.

CAPITALIZATION

As discussed above in "Liquidity, Capital Resources and Outlook," since September 30, 2001, Enron has borrowed from committed lines of credit and new secured lines of credit and received an equity infusion

from Dynegy. These events have increased Enron's debt as a percentage of total capitalization.

Total capitalization at September 30, 2001 was $25.9 billion. Debt as a percentage of total capitalization increased to 50.2% at September 30, 2001 as compared to 44.3% at December 31, 2000. The increase in the ratio reflects increased debt levels, including the issuance in January 2001 of $1.25 billion of notes payable and increased net short-term borrowings in 2001 and the transactions with LJM discussed in Note 4 to the Consolidated Financial Statements and the impact of the decline in value of certain foreign currencies.

FINANCIAL RISK MANAGEMENT

Enron's Wholesale segments, Americas and Europe and Other, offer price risk management services primarily related to commodities associated with the energy sector (natural gas, crude oil, natural gas liquids and electricity). Enron's other businesses also enter into forwards, swaps and other contracts primarily for the purpose of hedging the impact of market fluctuations on assets, liabilities, production and other contractual commitments. Enron utilizes value at risk measures that assume a one-day holding period and a 95% confidence level.

Summarized below illustrates the value at risk for each component of market risk (in millions):

02146

	September 30, 2001	December 31, 2000
Total Market Risk:		
Commodity price	$60	$ 66
Interest rate	1	-
Foreign currency exchange rate	-	-
Equity	59	59
Non-Trading Market Risk:		
Commodity price	5	2
Interest rate	7(a)	-
Foreign currency exchange rate	9	8
Equity	2	7

01300000000754

(a) This increase is a result of contracts to hedge interest rate risks associated with Yen-denominated notes issued by Enron during 2000.

PART I. FINANCIAL INFORMATION - (CONTINUED)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (CONTINUED)
ENRON CORP. AND SUBSIDIARIES

INFORMATION REGARDING FORWARD LOOKING STATEMENTS

This Report and the Form 10-K include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical facts contained in these documents are forward-looking statements. Forward-looking statements include, but are not limited to, statements relating to expansion opportunities for the Transportation Services, extension of Enron's business model to new markets and industries, transaction volumes in the U.S. power market, commencement of commercial operations of new power plants and pipeline projects, completion of the sale of certain assets, growth in the demand for retail energy outsourcing solutions, completion of the merger with Dynegy and effectiveness of Enron's action plan for restructuring its businesses including restructuring scheduled maturities of debt and other obligations and other efforts to assure adequate liquidity. When used in this document, the words "anticipate," "believe," "estimate," "expects," "intend," "may," "project," "plan," "should" and similar expressions are intended to be among the statements that identify forward-looking statements. Although Enron believes that its expectations reflected in these forward-looking statements are based on reasonable assumptions, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements herein include Enron's ability to maintain an investment grade credit rating; Enron's ability to implement its action plan for restructuring its businesses outlined in this Form 10-Q; Enron's ability to complete its merger with Dynegy, as well as the sale of certain assets; developments in and the outcome of pending litigation including securities class action litigation; the effectiveness of Enron's risk management activities; willingness of counterparties to engage in financial risk management and other contracts with Enron without requiring collateral for obligations or increasing existing collateral requirements; the ability of counterparties to financial risk management instruments and other contracts with Enron to meet their financial commitments to Enron; and Enron's ability to access the capital markets and equity markets during the periods covered by the forward-looking statements, which will depend on general market conditions and Enron's ability to maintain the credit ratings for its unsecured senior long-term debt obligations; success in marketing natural gas and power to wholesale customers; the ability of Enron to penetrate new retail natural gas and electricity markets (including energy outsourcing markets) in the United States and foreign jurisdictions; the timing, extent and market effects of deregulation of energy markets in the United States, including the current energy market conditions in California, and in foreign jurisdictions; other regulatory developments in the United States and in foreign countries, including tax legislation and regulations; political developments in foreign countries; the extent of efforts by governments to privatize natural gas and electric utilities and other industries; the timing and extent of changes in commodity prices for crude oil, natural gas, electricity, foreign currency and interest rates; the timing and success of Enron's efforts to develop international power,

02147

01300000000755

pipeline and other infrastructure projects.

PART II. OTHER INFORMATION
ENRON CORP. AND SUBSIDIARIES

ITEM 1. Legal Proceedings

See Part I. Item 1, Note 6 to Consolidated Financial Statements entitled "Litigation and Other Contingencies," which is incorporated herein by reference.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

Exhibit 10 Amendment No. 3 to Employment Agreement between Enron Corp. and Kenneth L. Lay effective August 13, 2001.

(b) Reports on Form 8-K

Current Report on Form 8-K filed November 8, 2001, containing information concerning (i) requirement of prior year financial statements to be restated, (ii) the Special Committee appointed by Enron's Board of Directors to review transactions between Enron and related parties and (iii) transactions between Enron and other Enron employees.

Current Report on Form 8-K filed November 13, 2001, containing information concerning credit facility commitment letters for Transwestern Pipeline Company and Northern Natural Gas Company.

Current Report on Form 8-K filed November 14, 2001, containing information concerning the proposed merger between Enron Corp. and Dynegy Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENRON CORP.
(Registrant)

02148

Date: November 19, 2001

By: Richard A. Causey

Richard A. Causey
Executive Vice President and Chief

01300000000756

Accounting Officer
(Principal Accounting Officer)

EXHIBIT INDEX

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

Exhibit 10 Amendment No. 3 to Employment Agreement between Enron Corp. and Kenneth L. Lay effective August 13, 2001.

02149

01300000000757

Carleton, Norman

From: Schultheiss, Heidilynne
Sent: Monday, October 29, 2001 10:01 AM
To: Carleton, Norman; Nickoloff, Peter
Subject: Enron Seeks Additional Financing

October 29, 2001

Enron Seeks Additional Financing

By RICHARD A. OPPEL Jr.

DALLAS, Oct. 28 - The Enron Corporation, still struggling to reassure investors it can weather a financial crisis over complicated transactions involving its former chief financial officer, is seeking $1 billion to $2 billion in additional financing from banks, an industry official said today.

Last week, Enron, the nation's largest energy-trading concern, used about $3 billion in available credit lines and spent about $2 billion to pay off commercial paper. Now, by obtaining even more financing, Enron is hoping to convince investors and other energy-trading firms that it will not face a cash squeeze that could lead trading partners to refuse to extend credit or do business with it.

Enron's board, which has been holding meetings by telephone over the last two weeks to monitor the company's financial situation, held another meeting this afternoon. "The board is meeting frequently and will announce any actions when appropriate," an Enron spokesman said.

Two weeks ago, Enron disclosed that its shareholder equity had been reduced by $1.2 billion because of deals with investment partnerships involving its former chief financial officer, Andrew S. Fastow, who was ousted last week. The company also disclosed about $1 billion in separate write- offs, and it said last week that the Securities and Exchange Commission had made an inquiry into its financial accounting.

Enron hopes to maintain its investment-grade credit rating, which is crucial to ensuring that other energy traders continue to do business with it. Lately, Enron's bonds have been trading at prices more like junk bonds, and two major credit-rating agencies are considering whether to downgrade the company's rating.

Copyright 2001 The New York Times Company <http://www.nytimes.com/subscribe/help/copyright.html> | Privacy Information <http://www.nytimes.com/info/help/privacy.html>

<http://www.nytimes.com/RealMedia/ads/click_lx.ads/www.nytimes.com/printer-friendly/17217/Right3/nytcir54-nyt3/CBO38458-GIFmanread.gif/68736368756C746865697373>

02644

01300000001253

<http://www.nytimes.com/RealMedia/ads/click_lx.ads/www.nytimes.com/printer-friendly/17217/Right3/nytcir54-nyt3/CBO38458-GIFmanread.gif/68736368756C746865697373>

02645

01300000001254

From: Schultheiss, Heidilynne
Sent: Monday, October 29, 2001 10:03 AM
To: Carleton, Norman; Nickoloff, Peter
Subject: Plumbing Mystery of Deals by Enron

October 28, 2001

Plumbing Mystery of Deals by Enron

AT the heart of the sudden collapse in investor confidence in the Enron Corporation are unusual trades it entered into with partnerships led by its chief financial officer, Andrew S. Fastow, beginning in the summer of 1999. Because they were transactions among related parties, the company was required to disclose them, but the disclosures raised as many questions as they answered. Following are some questions that investors are asking, and the currently available answers.

Q. Why did Enron enter into the deals?

A. Enron's first disclosures, in 1999, gave no reason. In later reports, it said it was seeking to "hedge certain merchant investments and other assets," by which it apparently meant investments in technology and telecommunications companies.

Q. How did those investments do?

A. It looks as if they plunged in value, although there is no clear disclosure on that.

Q. Why can't that be discerned?

A. The company never said just what the investments were. And the transactions with the partnerships were complicated, involving a variety of derivative securities, Enron stock and various promissory notes. Enron's financial disclosures do not provide enough information to understand the arrangements completely.

Q. Why were they so complicated?

A. One reason may have been to use accounting rules to its advantage. One accounting rule dictates that companies may not record profits or losses on transactions in their own stock. If a company sells its shares at $10 each and then buys them back - whether for $1 or $50 - there is no gain or loss. But shareholder equity does go up or down on the balance sheet - in that case reflecting how much extra cash the company took in, or paid out, on the transactions. Enron's transactions appear to have been structured to fall under that rule.

Q. Who made money from these transactions?

A. Enron reported some profits along the way from the deals, although not all of the profits were spelled out in its quarterly filings. And it appears that the partnerships distributed money to investors.

Q. If the deals began in 1999, why all the uproar now?

A. Many investors and analysts were not curious about them when everything seemed to be going well. As long as Enron was exceeding its forecasted profits each quarter, they were willing to assume that what was not being disclosed was not really important.

Q. When were concerns raised with Enron?

A. The complaints grew as Enron's share price fell earlier this year. By this summer, Enron decided that Mr. Fastow would sell his stake in the partnerships. Then, because the partnerships would no longer be considered related to Enron, the company would no longer have to disclose anything about the transactions. But investors

02646

01300000001255

were still worried, and Enron later closed out its deals with the partnerships.

Q. How did Enron do?

A. Badly. It took a $35 million loss, which, given the size of the transactions involved and the previous profits taken, was not very much. But it also reduced shareholder equity by $1.2 billion.

Q. How did that happen?

A. That, like so much else, is not clear. But it looks as if the partnership owed Enron that much money, could not pay and was let off the hook by Enron. In return, Enron terminated "previously recorded contractual obligations to deliver Enron shares in future periods." Enron treated that like a share buyback, even though the shares in question had not been issued, and determined that there was no need to treat it as a loss that would reduce reported earnings.

Q. Is that legal under the accounting rules?

A. Presumably it is. But Enron's limited disclosures make it impossible to say for sure. Enron may have discovered ways to use the accounting rules to enable it to keep losses off income statements, while leaving profits on them. That may become clearer when the Securities and Exchange Commission, which has begun preliminary inquiries, completes its work. FLOYD NORRIS

Copyright 2001 The New York Times Company <http://www.nytimes.com/subscribe/help/copyright.html> | Privacy Information <http://www.nytimes.com/info/help/privacy.html>

02647

01300000001256