CONFIDENTIAL

Testimony of Jeanne Shaheen, Governor of New Hampshire
Before the Energy and Power Subcommittee of the House Commerce Committee
September 24, 1997
Summary of Testimony

- New Hampshire families and businesses pay the highest average retail electric rates in the country. We believe those rates can be lowered through competition.
- We know from experience that competition in the electric industry will work. In May 1996, New Hampshire implemented a two-year pilot program so that we could test how competition would work. The pilot program is providing insight into how customer choice can be successfully implemented.
- The implementation of full statewide competition and customer choice in the electric industry in New Hampshire is now at a standstill because of a lawsuit brought by our state's largest utility - in federal court, based in part on federal statutory claims. The utility claims that New Hampshire is preempted from introducing competition by the Federal Power Act, the Public Utility Holding Company Act of 1935, and the Public Utility Regulatory Policies Act of 1978.
- Congress can play a role in opening up competition in the electric industry by freeing my state and the other states from federal laws that are blocking competition. Don't tell us how to do it -- each state is different and will no doubt want to fashion competition to meet each state's own needs. In particular, do not tell states how to address the so-called stranded costs of electric utilities. Congress should pass legislation that helps states to advance their own efforts at restructuring the electric industry, e.g. federal legislation that makes it clear that states can implement customer choice and competition under the Federal Power Act.

Testimony of Jeanne Shaheen, Governor of New Hampshire
Before the Energy and Power Subcommittee of the House Commerce Committee
September 24, 1997

Thank you, Mr. Chairman. I appreciate this opportunity to appear before you. I also want to thank you for devoting so much time to the issue before us today. Few other issues can rival the restructuring of the electric industry in terms of its scope and the enormous benefits it could bring to the lives of ordinary Americans.

Today I am here to testify as the governor of New Hampshire about the difficulties states like New Hampshire face as we try to pry open the window of electric power competition that has been jammed shut by the nation's powerful electric industry.

I want to stress that this is not a partisan issue. I sit before you as the Democratic governor of a very Republican state where this issue is a top priority for the vast majority of businesses and families. In New Hampshire, we pay the highest average retail rates in the country. Before being elected governor, I worked closely as a Democratic state senator with a bipartisan group of legislators to lead the fight to enact legislation to restructure the electric industry in New Hampshire because I believed competition was the best way to lower electric rates.

However, the implementation of competition and customer choice in the electric industry in New Hampshire is now at a standstill because of a lawsuit brought by our state's largest utility – in federal court, based in part on federal statutory claims.

This is immensely frustrating, because we know from experience that competition in the electric industry will work. In 1995, my colleagues in the New Hampshire legislature and I worked to pass a bill to create a two-year pilot program so that we could test how competition would work and incorporate what we learned from that pilot in our state plan for electric restructuring.

That pilot program began in May 1996. It is the first program of its kind in the country. It is open to all customer classes, serving large commercial and industrial customers, hospitals, schools, small business owners and ordinary residential customers. Customers participating in the pilot program are experiencing savings on their electric bills in the range of twenty percent.

I know from my travels around the state that people in the pilot program have enjoyed the lower rates and want full competition and customer choice. Contrary to the scare tactics that have been used by some utilities, the lights have stayed on for every single customer. In fact, not one customer has experienced any degradation in reliability or service quality. As a result of the pilot, we're gaining firsthand experience as we develop policies for full statewide implementation.

In 1996, the New Hampshire legislature passed a watershed state restructuring bill that I helped craft. Under that legislation full competition and customer choice was scheduled to begin in the first six months of 1998. Our Public Utilities Commission was given wide latitude to craft a statewide restructuring plan for open competition. After a lengthy hearings process, our state Public Utilities Commission issued its restructuring plan this past February 28th.

The very next business day, our state's largest utility, Public Service Company of New Hampshire, and its parent company, the Connecticut-based Northeast Utilities, ran straight to the federal courthouse to block competition from going forward. The fate of New Hampshire's state plan for competition in the electric industry is now in the hands of a federal district court judge in Rhode Island, who has stopped our state plan from going forward by granting a temporary restraining order, which is still in place today.

These utilities are relying in significant part on federal laws to stop our state plan from going forward. Indeed, the first count in their federal complaint is entitled: "Federal Preemption of Jurisdiction Over Retail Wheeling." Their second count is entitled: "Federal Preemption of the Authority to Order PSNH To File a Tariff with FERC." Their third count is entitled: "Federal Preemption of State Regulation Inconsistent with FERC-approved Rates." And their fourth count is entitled: "Preemption by the Public Utilities Regulatory Policies Act of 1978."

Now, I'm no lawyer, but I am the governor of one of our fifty sovereign states, and something is wrong when a powerful utility from another state can use federal laws in a federal court to stop my state from implementing competition. The will of an entire state -- of the legislature, of the governor, of the state public utilities commission, of the people -- has been thwarted on this issue by a federal court.

So, I think there is a role for Congress to play in opening up competition in the electric industry - Congress can free my State of New Hampshire and the other states from federal laws that can be used by uncooperative utilities to block competition.

Don't tell us how to implement competition -- each state is different and will no doubt want to fashion competition to meet each state's individual needs. If federal legislation is enacted, it should reflect an appropriate degree of deference to state policymakers. To do otherwise would risk imposing a cookie-cutter approach on problems that warrant individual examination, discussion, and debate at the state level.

In particular, do not tell states how to address the so-called stranded costs of electric utilities. My state believes that stranded costs should be fairly and equitably shared between ratepayers and utility shareholders. I know that there are a number of bills on electric restructuring pending in the House as well as in the United States Senate, and some would tell states how to address retail stranded costs. Mr. Chairman, I am aware that the legislation you are sponsoring preserves the authority of the states to deal with stranded costs as appropriate. That is the right way to go, and I thank you for recognizing that. The issue of retail stranded costs should be addressed by state policymakers and not through federal legislation.

Rather, if Congress decides to act, it should pass legislation that helps states to advance their own efforts at restructuring the electric industry. For example, federal legislation should make it clear both that the Federal Power Act does not prohibit states from implementing customer choice and competition and that states have exclusive jurisdiction over the rates, terms and condition of retail transmission, distribution and electric power sales. Congress should also make it clear that states have the authority to impose non-bypassable wires charges to support the recovery of stranded costs, as well as state-sponsored energy efficiency, renewable energy, environmental protection, and universal service programs, including low-income assistance programs.

Congress also should act to foster the development of model national disclosure standards so that customers can have the accurate and verifiable information needed to make meaningful power supply choices, while permitting regional initiatives to move forward, such as that underway in New England.

We know from the experience with our pilot program that competition can work. Once all of our consumers are free to choose, the marketplace will respond with better service, better products, and better rates. There is no technical reason why consumers should not be able to choose the electrical service that serves them best. Open competition will not require any change in how electricity is made, transmitted, or delivered. No new construction is needed. No wires need to be laid. No digging is required.

The only reason New Hampshire citizens might not be able to shop for the best bargain in electricity is that our largest utility is using a federal court to stop them. I urge you to act to remove any federal obstacles that are blocking states like mine from implementing full competition in the electric industry.

Thank you again for the opportunity to speak here today.

ENRON

750 17th Street, N.W., Fourth Floor, Washington, D.C. 20006-4607

First Class

Address Correction Requested

[redacted]

To:

Mr. Larry Sommers
Department of State
1500 Pennsylvania Ave., NW
Room 3326
Washington, DC 20220

McInerney, Roberta

From: Hammond, Donald
Sent: Thursday, February 15, 2001 10:25 AM
To: Carleton, Norman; DeMarco, Edward; Ellis, Dina; Huffman, Lucy; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawranne
Cc: Tishuk, Brian; Robbins, Eric; Paulus, Michael; Sutton, Gary; Huffman, Lucy; McGivern, Tom; Nickoloff, Peter; Schultheiss, Heidilynne; Gross, Jared
Subject: RE: Bankruptcy Reform Mark-up Hearing

Norman,

[(b)(5)]

Don

-----Original Message-----
From: Carleton, Norman
Sent: Thursday, February 15, 2001 10:07 AM
To: Hammond, Donald; DeMarco, Edward; Ellis, Dina; Huffman, Lucy; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawranne
Cc: Tishuk, Brian; Robbins, Eric; Paulus, Michael; Sutton, Gary; Huffman, Lucy; McGivern, Tom; Nickoloff, Peter; Schultheiss, Heidilynne; Gross, Jared
Subject: RE: Bankruptcy Reform Mark-up Hearing

Don,

[(b)(5)]

[(b)(5)]

Norman

-----Original Message-----
From: Hammond, Donald
Sent: Thursday, February 15, 2001 8:26 AM
To: DeMarco, Edward; Ellis, Dina; Huffman, Lucy; Carleton, Norman; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawranne
Cc: Tishuk, Brian; Robbins, Eric
Subject: RE: Bankruptcy Reform Mark-up Hearing

Ed,

[(b)(5)]

Don

-----Original Message-----
From: DeMarco, Edward
Sent: Thursday, February 15, 2001 8:22 AM
To: Hammond, Donald; Ellis, Dina; Huffman, Lucy; Carleton, Norman; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawranne
Cc: Tishuk, Brian; Robbins, Eric
Subject: FW: Bankruptcy Reform Mark-up Hearing

FYI

-----Original Message-----
From: Robbins, Eric
Sent: Wednesday, February 14, 2001 5:45 PM
To: DeMarco, Edward
Cc: Tishuk, Brian
Subject: Bankruptcy Reform Mark-up Hearing

H.R. 333, the "Bankruptcy Abuse Prevention and Consumer Protection Act 2001" was reported out of the House Judiciary Committee on Wednesday, February 14, 2001. During the mark-up hearing, eighteen amendments were offered with all but one amendment failing to pass. Voting occurred largely along party lines. The only amendment that passed was a technical amendment offered by Chairman Sensenbrenner. Only one Republican crossed party lines to vote for one of the seventeen other amendments that failed.

Representative Bachus (R-AL) assured the committee that he was committed to working with Representative Oxley from the Financial Services Committee on commercial bankruptcy provisions and netting requirements.

McInerney, Roberta

From: Carleton, Norman
Sent: Wednesday, August 29, 2001 11:15 AM
To: Fisher, Peter; Roseboro, Brian; Bair, Sheila; Nickoloff, Peter; Schultheiss, Heidilynne; DeMarco, Edward; Hughes, Gerry; Gross, Jared; Smith, Amy; Sutton, Gary; Ellett, Martha; Gabilondo, Jose; McInerney, Roberta; Lori Sanatamorena (E-mail)
Subject: Status of Retail Swap Study and the Enron Issue

[(b)(5)]

McInerney, Roberta

From: Carleton, Norman
Sent: Wednesday, August 29, 2001 2:41 PM
To: Fisher, Peter; Roseboro, Brian; Bair, Sheila; Nickoloff, Peter; Schultheiss, Heidilynne; DeMarco, Edward; Hughes, Gerry; Gross, Jared; Smith, Amy; Sutton, Gary; Ellett, Martha; Gabilondo, Jose; McInerney, Roberta; Lori Sanatamorena (E-mail); Novey, Michael; Eichner, Matthew; Hammer, Viva
Subject: More on the Enron Issue

[(b)(5)]

Thoughts?

McInerney, Roberta

From: Gabilondo, Jose
Sent: Tuesday, October 30, 2001 12:38 PM
To: Aufhauser, David
Cc: McInerney, Roberta; Bieger, Peter
Subject: Preliminary thoughts on Enron

[(b)(5)]

Sutton, Gary

From:	Carleton, Norman
Sent:	Monday, September 10, 2001 11:34 AM
To:	Bair, Sheila; DeMarco, Edward; Eichner, Matthew; Ellett, Martha; Fisher, Peter; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Hughes, Gerry; Nickoloff, Peter; Novey, Michael; Roseboro, Brian; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary
Subject:	Retail Swaps - Telephone Call from Elizabeth Fox

[(b)(5)]

Sutton, Gary

From: Carleton, Norman
Sent: Saturday, September 08, 2001 1:10 PM
To: Bair, Sheila; DeMarco, Edward; Eichner, Matthew; Ellett, Martha; Fisher, Peter; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Hughes, Gerry; Nickoloff, Peter; Novey, Michael; Roseboro, Brian; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary
Subject: Discussion with Ken Raisler about Enron Product

On Friday, September 7, I discussed the retail energy swap issue with Ken Raisler. He is a partner at Sullivan & Cromwell who represents Enron. In the mid 1980s, he was the general counsel of the CFTC.

I asked Ken if Enron opposed state regulation of retail energy derivatives if the CFTC were to grant an exemption for this product. The first answer to this question was yes, but that answer was modified as we further discussed the issue.

I asked Ken if he thought that there was a preemption argument that could be made because of CFTC exclusive jurisdiction. He said he thought there was. He said Enron would not make such a legal argument because it is regulated in some states as a utility company, but that others might make such an argument.

I told Ken that the Treasury had not come to a conclusion about the retail energy swap issue but that we were unlikely to support a result that would mean no federal regulation and would not allow state governments to regulate this product if they chose to do so. He asked me what regulatory issues might be of concern. I answered that such issues as advertising, pricing, and assurances that the company offering the product had the financial ability to meet its obligations might be subjects that governments would be concerned about. Ken said he thought that this was a reasonable position.

I asked Ken whether he thought that the CFTC could exempt retail energy swaps from the exclusive jurisdiction provision of the CEA, thus precluding any arguments about state jurisdiction. He said he thought that might be possible.

At the end of the conversation, Ken indicated he would talk to his client about the issues I had raised.

[(b)(5)]

Please call me if you want more details on this.

Sutton, Gary

From:	Carleton, Norman
Sent:	Saturday, September 08, 2001 1:07 PM
To:	Bair, Sheila; DeMarco, Edward; Eichner, Matthew; Ellett, Martha; Fisher, Peter; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Hughes, Gerry; Nickoloff, Peter; Novey, Michael; Roseboro, Brian; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary
Subject:	Retail Swaps Study Group Meeting -- September 6

[(b)(5)]

[(b)(5)]

Sutton, Gary

From: Carleton, Norman
Sent: Wednesday, August 29, 2001 2:41 PM
To: Fisher, Peter; Roseboro, Brian; Bair, Sheila; Nickoloff, Peter; Schultheiss, Heidilynne; DeMarco, Edward; Hughes, Gerry; Gross, Jared; Smith, Amy; Sutton, Gary; Ellett, Martha; Gabilondo, Jose; McInerney, Roberta; Lori Sanatamorena (E-mail); Novey, Michael; Eichner, Matthew; Hammer, Viva
Subject: More on the Enron Issue

[(b)(5)]

Thoughts?

Sutton, Gary

From: Ellett, Martha
Sent: Wednesday, August 29, 2001 11:59 AM
To: Carleton, Norman
Cc: Gabilondo, Jose; Sutton, Gary
Subject: RE: Status of Retail Swap Study and the Enron Issue

[(b)(5)]

Martha

-----Original Message-----
From: Carleton, Norman
Sent: Wednesday, August 29, 2001 11:15 AM
To: Fisher, Peter; Roseboro, Brian; Bair, Sheila; Nickoloff, Peter; Schultheiss, Heidilynne; DeMarco, Edward; Hughes, Gerry; Gross, Jared; Smith, Amy; Sutton, Gary; Ellett, Martha; Gabilondo, Jose; McInerney, Roberta; Lori Sanatamorena (E-mail)
Subject: Status of Retail Swap Study and the Enron Issue

[(b)(5)]

[(b)(5)]

Any thoughts or recommendations? I will send around a separate note discussing the Enron issue in more detail.

Sutton, Gary

From:	Carleton, Norman
Sent:	Wednesday, August 29, 2001 11:15 AM
To:	Fisher, Peter; Roseboro, Brian; Bair, Sheila; Nickoloff, Peter; Schultheiss, Heidilynne; DeMarco, Edward; Hughes, Gerry; Gross, Jared; Smith, Amy; Sutton, Gary; Ellett, Martha; Gabilondo, Jose; McInerney, Roberta; Lori Sanatamorena (E-mail)
Subject:	Status of Retail Swap Study and the Enron Issue

[(b)(5)]

Gabilondo, Jose

From:	Gabilondo, Jose
Sent:	Tuesday, September 04, 2001 2:17 PM
To:	McGinnies, William
Subject:	FW: FOIA:Boston Globe request

Bill -

Another energy FOIA as mentioned below...

José

-----Original Message-----

From:	Flanagan, Rosemary
Sent:	Tuesday, September 04, 2001 1:16 PM
To:	Gabilondo, Jose
Subject:	RE: FOIA:Boston Globe request

[(b)(5)]

-----Original Message-----

From:	Gabilondo, Jose
Sent:	Thursday, August 30, 2001 11:29 AM
To:	Flanagan, Rosemary
Subject:	FOIA:Boston Globe request

Rosemary,

[(b)(5)]

José

Conley, Robert

From: Conley, Robert
Sent: Tuesday, September 25, 2001 3:13 PM
To: Tran, Luyen; Altheim, Stephen; Demopulos, Abigail
Cc: Crawford, Todd; Budington, Michele; Paulson, Sara; 'cbrookins@worldbank.org'
Subject: Enron IFC energy project in Dominican Rep

Two senior reps of Enron met with Bill today on a project funded by IFC that involves a power purchase agreement that the G of DR is not honoring. The project may default to lenders by 12/15 if agreement is not reached with the Gov't. The Enron reps plan to meet with State and Carole Brookins on the project.

Bill asked to get information on the pipeline at the MDBs for the DR (WB, IFC, IDB, IIC). In particular, Bill wants to know what (if any) projects are disbursing. Thanks.

0050000000418

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ACTION

MEMORANDUM FOR DEPUTY ASSISTANT SECRETARY SCHUERCH

FROM: Joseph B. Eichenberger,
Director,
Office of Multilateral Development Banks

SUBJECT: Proposed EBRD Investment in Golden Telecom

ACTION FORCING EVENT:

EBRD Management will seek approval at the upcoming Board meeting on September 7, 1999 to invest up to $35 million in the IPO of Golden Telecom on the NASDAQ.

RECOMMENDATION:

That we instruct the USED at the EBRD to vote "no" on the proposed investment as we do not believe a company listed on a developed country stock exchange requires IFI support.

Agree WS   Disagree ________   Let's Discuss ______

AUG 31 1999

DISCUSSION:

EBRD proposes to invest up to $35 million in Golden Telecom as part of a $150-$200 million IPO and then list the shares on the NASDAQ. Golden Telecom is a wholly owned subsidiary of Global TeleSystems, GTS, a pan-European telecommunications group listed on the NASDAQ and EASDAQ markets, as well as the Frankfurt Stock Exchange with a market capitalization of approximately $6 billion. GTS would retain a majority share in Golden Telecom and sell a minority stake in its CIS telecom group, which in the past accounted for the majority of GTS' financials, through the proposed IPO.

We recommend opposing the proposed investment. [(b)(5)]

[(b)(5)]

BACKGROUND:

[(b)(5)]

OUSED VIEWS:

[(b)(5)]

Cc: **Jan Piercy, U.S. Director, IFC**

Proposed EBRD Investment in Golden Telecom IPO, Sept 7, 1999

Drafted by:
JCetina JC

Cleared by:
GClapp GC 2/27

From: Steve Radelet
To: Dom13.DOPO8(EICHENBERGERJ, StewartEK), GottliebG
Date: 3/31/00 10:07pm
Subject: Enron and Ass.Sec of Energy Trip -Reply

Geoff: Good work, nice readout. Please call both the WB and IMF ED's office on this first thing Monday morning. Try to talk directly to relevant WB staffers if you can. I have been trying to get info from the IMF since Thursday w/o luck. I will find out during staff on Monday morning who else has an interest in this (e.g., MDB office, counsel) and we can discuss at around 11:00 or so after staff. Try to get info from WB and IMF by then. Thanks.

>>> Geoffrey Gottlieb 03/31/00 07:46pm >>>
ACTION: On a conference call Friday nightm the Assistant Secretary of Energy Goldwyn notified us that he will be visiting Nigeria next week as a follow-up to Sec. Richardson's trip two weeks ago. [(b)(5)]

We need to provide guidance to his office no later than 1:00pm Monday.

[(b)(5)]

Please call me if you have further questions.

CC: Dom13.DOPO8(budingtonm),

From: Geoffrey Gottlieb
To: EICHENBERGERJ, StewartEK
Date: 3/31/00 7:46pm
Subject: Enron and Ass.Sec of Energy Trip

ACTION: On a conference call Friday nightm the Assistant Secretary of Energy Goldwyn notified us that he will be visiting Nigeria next week as a follow-up to Sec. Richardson's trip two weeks ago. [(b)(5)]

We need to provide guidance to his office no later than 1:00pm Monday.

[(b)(5)]

Please call me if you have further questions.

CC: Radelets, budingtonm

From: Geoffrey Gottlieb
To: Dom13.DOPO8(BARBERE, EICHENBERGERJ), KUHLOWM
Date: 3/2/00 2:05pm
Subject: Closure on Enron

[(b)(5)]

>>> Margaret Kuhlow 03/02/00 01:41pm >>>
Thanks all for handling this quickly and looks like positively. mlk

>>> Ed Barber 03/02/00 01:22pm >>>
Joe -- Thanks. I thought your fixes were right on, and Geoff has forwarded them to State. -- Ed

>>> Joe Eichenberger 03/02/00 09:58am >>>
[(b)(5)]

CC: Dom13.DOPO8(gelperna, StewartEK),

From: Joe Eichenberger
To: GottliebG
Date: 3/2/00 9:58am
Subject: Nigeria Cable

[(b)(5)]

CC: KuhlowM, BarberE, StewartEK

EK -
Recorded.
Thanks for all
the work.
Joe

From: Geoffrey Gottlieb
To: Dom13.DOPO8(stewartek, walshh), KUHLOWM
Date: 3/1/00 6:51pm
Subject: State on Enron, etc. meeting? -Reply

[(b)(5)]

>>> Margaret Kuhlow 03/01/00 06:21pm >>>
[(b)(5)]

Thanks, mlk

CC: Dom13.DOPO8(eichenbergerj, gelperna),

From: Ed Barber
To: Dom13.DOPO8(BEASLEYM, BudingtonM, CROWEB, GREWEM, ...
Date: 2/29/00 7:49pm
Subject: An NWT dispute in Nigeria -Reply -Reply -Reply -Reply

[(b)(5)]

>>> Geoffrey Gottlieb 02/29/00 06:23pm >>>
[(b)(5)]

Geoff

>>> Maureen Grewe 02/29/00 06:05pm >>>
Elizabeth and Helen -- can you get us your views on this?

[(b)(5)]

>>> Mary Beasley 02/29/00 04:20pm >>>
You need to speak to Eliz Stewart on this. She is our procurement expert.

>>> Geoffrey Gottlieb 02/29/00 03:13pm >>>
[(b)(5)]

Thanks.

Geoff

CC: Dom13.DOPO8(StewartEK), ex.mail("eweisman@IMF.org"...

From: Ed Barber
To: Dom13.DOPO8(BEASLEYM, budingtonm, CROWEB, GREWEM, ...
Date: 2/29/00 3:52pm
Subject: An NWT dispute in Nigeria -Reply

[(b)(5)]

>>> Geoffrey Gottlieb 02/29/00 03:13pm >>>
[(b)(5)]

Thanks.

Geoff

CC: ex.mail("eweisman@IMF.org"), radelets

From: Helen Walsh
To: Dom13.DOPO8(BARBERE, BEASLEYM, BudingtonM, CROWEB,...
Date: 2/29/00 6:41pm
Subject: An NWT dispute in Nigeria -Reply -Reply -Reply -Reply

[(b)(5)]

>>> Geoffrey Gottlieb 02/29/00 06:23pm >>>

[(b)(5)]

Geoff

>>> Maureen Grewe 02/29/00 06:05pm >>>
Elizabeth and Helen -- can you get us your views on this?

[(b)(5)]

>>> Mary Beasley 02/29/00 04:20pm >>>
You need to speak to Eliz Stewart on this. She is our procurement expert.

>>> Geoffrey Gottlieb 02/29/00 03:13pm >>>

[(b)(5)]

Thanks.

Geoff

CC: Dom13.DOPO8(StewartEK), ex.mail("eweisman@IMF.org"...

From: Mary Beasley
To: BARBERE, BudingtonM, CROWEB, GREWEM, KUHLOWM, LEEN...
Date: 2/29/00 4:20pm
Subject: An NWT dispute in Nigeria -Reply

2-0455

Geoffrey Gottlieb.

You need to speak to Eliz Stewart on this. She is our procurement expert.

>>> Geoffrey Gottlieb 02/29/00 03:13pm >>>

[(b)(5)]

Thanks.

Geoff

CC: ex.mail."eweisman@IMF.org", StewartEK

00500000000906

From: Mary Beasley
To: BARBERE, BudingtonM, CROWEB, GREWEM, KUHLOWM, LEEN...
Date: 2/29/00 4:20pm
Subject: An NWT dispute in Nigeria -Reply

You need to speak to Eliz Stewart on this. She is our procurement expert.

>>> Geoffrey Gottlieb 02/29/00 03:13pm >>>
[(b)(5)]

Thanks.

Geoff

CC: ex.mail."eweisman@IMF.org", StewartEK

Janice
b. Anso. 2/23/00 ?

INITIAL OBSERVATIONS

Draft Power Purchase Agreement of 17 October 1999 for Electric Generating Facilities in Lagos, Nigeria between Enron Nigeria Power Holdings Ltd. ("Enron") and Lagos State Government, National Electric Power Authority of Nigeria and Federal Republic of Nigeria ("PPA").

[(b)(5)]

Jenice
6. Anso. 2/23/00 ?

INITIAL OBSERVATIONS

Draft Power Purchase Agreement of 17 October 1999 for Electric Generating Facilities in Lagos, Nigeria between Enron Nigeria Power Holdings Ltd. ("Enron") and Lagos State Government, National Electric Power Authority of Nigeria and Federal Republic of Nigeria ("PPA").

[(b)(5)]

[illegible]

Joe

Enron & Nigeria
power sector issues

Bill is raising with M. Kimball
at 11 AM ~~today~~

I sent Bill the ET
article -

Janice has "listened only"
to Enron last week.

Janice just sent me
the Kimball memo - too
late for Bill's 11 AM.

Elizabeth

Truman =
sd not have any
openings —

DEPARTMENT OF THE TREASURY
OFFICE OF AFRICAN NATIONS
FAX: (202) 622-1432

DATE: ________________

PAGES INCLUDING COVER SHEET ________

TO: Eliz Stewart FAX NO. 2-2505

OFFICE/PHONE: ______________________________

FROM:

___ **EDWIN L. BARBER III, DIRECTOR**

___ **ETHEL R. McKOY, DEPUTY DIRECTOR**

___ GRACE Y. SONE - 622-0332

✓ GEOFFREY GOTTLIEB - 622-0455

___ ELIZABETH URBANAS - 622-0182

___ BONNIE M. BARNES, SECRETARY

IF YOU HAVE ANY QUESTIONS, PLEASE CALL ON (202) 622-1730

MESSAGE:

This is the draft cable I mentioned – the first two pages (paragraphs 3-8) are the original draft. The third page is a later draft of the last paragraph w/ more neutral language (paragraph 8). (I started making changes) I convinced State to hold off + will get more info tonight and tomorrow. Thanks for your help + I agree w/ all of what you said. Please continue to advise.

Geoff

PS - I just got the WB observations [illegible]

0050000000921

[(b)(5)]

[(b)(5)]

Action ASAP

3

[(b)(5)]

INITIAL OBSERVATIONS

Draft Power Purchase Agreement of 17 October 1999 for Electric Generating Facilities in Lagos, Nigeria between Enron Nigeria Power Holdings Ltd. ("Enron") and Lagos State Government, National Electric Power Authority of Nigeria and Federal Republic of Nigeria ("PPA").

[(b)(5)]

Davis, Michele

From:	Bair, Sheila
Sent:	Monday, January 14, 2002 4:35 PM
To:	Davis, Michele
Subject:	RE: for Secretary's speech TOMORROW

I'm sorry I didn't get back to you. I've been in meetings all afternoon. In any event, you obviously didn't need me. This is great.

I would slightly rework the second para as follows:

[(b)(5)]

-----Original Message-----

From:	Davis, Michele
Sent:	Monday, January 14, 2002 1:41 PM
To:	Bair, Sheila
Subject:	for Secretary's speech TOMORROW

[(b)(5)]

Nichols, Robert

From: Adams, Tim
Sent: Monday, January 14, 2002 6:05 PM
To: Davis, Michele
Cc: Nichols, Robert
Subject: Congressional Hearings on Enron

Michele -- to prepare for the onslaught of document requests and hearings, David Aufhuaser and John Duncan are setting up a prep/response team. We need your help. Can you assign someone (or multiple somones) from your office to help us pull articles, build timelines, monitor the press, etc? Thanks

Nichols, Robert

From: Fleck, Carole [CFleck@aarp.org]
Sent: Thursday, January 10, 2002 4:05 PM
To: 'robert.nichols@do.treas.gov'

Hi Robert,
I'm a reporter for the AARP Bulletin, working for Suzy Crowley. Could you call me please, 202/434-3346, about today's Bush announcement that Treasury will be looking into pension rules in light of Enron? If I could talk to you today, that'd be great -- I'm outa here at 5. If not today, will you please call me tomoro at home. [(b)(6)]
Thanks,
Carole Fleck

Nichols, Robert

From: Quinn, Katie
Sent: Tuesday, January 08, 2002 2:54 PM
To: Nichols, Robert; Davis, Michele
Subject: enron

Michele and Rob,

Do you happen to know what entity within Treasury would be responsible for examining Enron. I know the Secretary made some comment to the press about a reveiw of the regulations involved in that case.
The question has come up because I received a call from PSI, the Permanent Subcommittee on Investigations. They have launched a major congressional investigations into this matter and are interested in Treasury's role.

Any direction you can provide would be appreciated.

Kate Quinn
Deputy Assistant Secretary
(Enforcement)
Office of Legislative Affairs
Department of the Treasury
(202) 622-0725
katie.quinn@do.treas.gov

Nichols, Robert

From: Fratto, Tony
Sent: Wednesday, November 28, 2001 3:38 PM
To: Nichols, Robert; Holahan, Betsy
Cc: Davis, Michele
Subject: ENRON questions

Importance: High

Ari took a question regarding Enron today and referred questions to Treasury and said that Treasury is monitoring the situation.

Michele has cleared a quote to use in response to reporter inquiries:

> **"We are monitoring the credit markets, as we do every day."**

In response to follow-up questions about evidence of risk in the markets or unusual activity:

> **"The markets always fluctuate. We haven't seen anything extraordinary."**

Further questions about energy and Enron should be referred to FERC or CFTC.

Nichols, Robert

From: Nichols, Robert
Sent: Friday, January 11, 2002 7:32 AM
To: 'Kathleen Day'
Subject: RE: THE SECRETARY ON A TV NEAR YOU...TUNE IN!

fun!

Rob Nichols
Deputy Assistant Secretary for Public Affairs
Department of the Treasury
(202) 622-2910

-----Original Message-----
From: Kathleen Day [mailto:dayk@washpost.com]
Sent: Thursday, January 10, 2002 6:48 PM
To: Robert.Nichols@do.treas.gov
Subject: Re: THE SECRETARY ON A TV NEAR YOU...TUNE IN!

thanks. fyi i'm also now doing enron stuff

00800000000471

Nichols, Robert

From: Nichols, Robert
Sent: Thursday, January 10, 2002 5:46 PM
To: Davis, Michele
Subject: another ENRON callFW:

Rob Nichols
Deputy Assistant Secretary for Public Affairs
Department of the Treasury
(202) 622-2910

-----Original Message-----
From: Fleck, Carole [mailto:CFleck@aarp.org]
Sent: Thursday, January 10, 2002 4:05 PM
To: 'robert.nichols@do.treas.gov'
Subject:

Hi Robert,
I'm a reporter for the AARP Bulletin, working for Suzy Crowley. Could you call me please, 202/434-3346, about today's Bush announcement that Treasury will be looking into pension rules in light of Enron? If I could talk to you today, that'd be great -- I'm outa here at 5. If not today, will you please call me tomoro at home, [(b)(6)]
Thanks,
Carole Fleck

Nichols, Robert

From: Nichols, Robert
Sent: Tuesday, January 08, 2002 3:26 PM
To: Quinn, Katie
Subject: RE: enron

sec has the lead

Rob Nichols
Deputy Assistant Secretary for Public Affairs
Department of the Treasury
(202) 622-2910

-----Original Message-----
From: Quinn, Katie
Sent: Tuesday, January 08, 2002 2:54 PM
To: Nichols, Robert; Davis, Michele
Subject: enron

Michele and Rob,

Do you happen to know what entity within Treasury would be responsible for examining Enron. I know the Secretary made some comment to the press about a reveiw of the regulations involved in that case.
The question has come up because I received a call from PSI, the Permanent Subcommittee on Investigations. They have launched a major congressional investigations into this matter and are interested in Treasury's role.

Any direction you can provide would be appreciated.

Kate Quinn
Deputy Assistant Secretary
(Enforcement)
Office of Legislative Affairs
Department of the Treasury
(202) 622-0725
katie.quinn@do.treas.gov

Nichols, Robert

From: Nichols, Robert
Sent: Tuesday, January 08, 2002 2:54 PM
To: Quinn, Katie
Subject: RE: enron

not sure
will attempt to find out

Rob Nichols
Deputy Assistant Secretary for Public Affairs
Department of the Treasury
(202) 622-2910

-----Original Message-----
From: Quinn, Katie
Sent: Tuesday, January 08, 2002 2:54 PM
To: Nichols, Robert; Davis, Michele
Subject: enron

Michele and Rob,

Do you happen to know what entity within Treasury would be responsible for examining Enron. I know the Secretary made some comment to the press about a reveiw of the regulations involved in that case.
The question has come up because I received a call from PSI, the Permanent Subcommittee on Investigations. They have launched a major congressional investigations into this matter and are interested in Treasury's role.

Any direction you can provide would be appreciated.

Kate Quinn
Deputy Assistant Secretary
(Enforcement)
Office of Legislative Affairs
Department of the Treasury
(202) 622-0725
katie.quinn@do.treas.gov

ROB NICHOLS
DEPUTY ASSISTANT SECRETARY (PA)
TELEPHONE LOG – NOVEMBER 2001
1:08 PM

Wednesday, November 28, 2001, pg 1

[OUTSIDE SCOPE]

3:23	393-6883	David Invanovich, Houston Chronicle, REF: ENRON going bankrupt

[OUTSIDE SCOPE]

ROB NICHOLS
DEPUTY ASSISTANT SECRETARY (PA)
TELEPHONE LOG – JANUARY 2002
1:05 PM

Friday, January 11, 2002, pg 2

[OUTSIDE SCOPE]

1:35	513-2267	Pam Fessler Natl Pub Radio, called again, REF: wants to confirm what's on the wires statement today on ENRON & Peter Fisher; also wanted to know if there are any press releases (also on Rob's call list)

[OUTSIDE SCOPE]

Strickler, Marie

From: Strickler, Marie
Sent: Tuesday, January 15, 2002 11:00 AM
To: Strickler, Marie
Subject: CNBC TV Investing - MSN Money.htm

CNBC TV Investing - MSN Money ...

Strickler, Marie

From: Strickler, Marie
Sent: Tuesday, January 15, 2002 11:20 AM
To: Davis, Michele
Subject: PHONE CALLS

[OUTSIDE SCOPE]

11:06	393-4340	Bob Novack- Pls call re the Secy's connection with Mr. Wirth & Mr. Lay in the Kyoto Treaty
11:14	861-4032	Jeff Birnbaum, Fortune Mag, REF: ENRON

Strickler, Marie

From: Strickler, Marie
Sent: Tuesday, January 15, 2002 1:17 PM
To: Davis, Michele
Subject: #2 - Phone Calls

[OUTSIDE SCOPE]

11:14	861-4032	Jeff Birnbaum, Fortune Mag, REF: ENRON

[OUTSIDE SCOPE]

12:20	434-0980	Pete Spiegel, FT - Please call re Enron
12:43	201-346-5825	Andrew Conti, CNBC - would like to request interview w/Secretary on Enron
12:55	628-9029	Darren Gersh - would like interview w/the Secretary today or tomorrow or when convenient on Enron

[OUTSIDE SCOPE]

Strickler, Marie

From: Strickler, Marie
Sent: Tuesday, January 15, 2002 6:23 PM
To: Davis, Michele
Subject: #3 - Phone Calls

2:05	703-683-9733	Christine Hall, cnsnews.com - would like to speak with someone in the GC's office re standards of conduct for government employees (political & career) who receive calls such as the Enron calls

[OUTSIDE SCOPE]

Strickler, Marie

From:	Strickler, Marie
Sent:	Tuesday, January 15, 2002 1:17 PM
To:	Davis, Michele
Subject:	#2 - Phone Calls

11:10	776-9464	Pete Yost - would like to talk with you about getting copies of Congressional correspondence to Treasury and the responses re Enron
11:14	861-4032	Jeff Birnbaum, Fortune Mag, REF: ENRON

[OUTSIDE SCOPE]

12:20	434-0980	Pete Spiegel, FT - Please call re Enron
12:43	201-346-5825	Andrew Conti, CNBC - would like to request interview w/Secretary on Enron
12:55	628-9029	Darren Gersh - would like interview w/the Secretary today or tomorrow or when convenient on Enron

[OUTSIDE SCOPE]

From: Sharer, James
Sent: Tuesday, January 15, 2002 4:43 PM
To: _DL_Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman; Lundsager, Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea
Subject: Financial Markets Night Report 1/15/02

[(b)(5)]

Jan15PM.pdf

Strickler, Marie

From: Holahan, Betsy
Sent: Thursday, January 10, 2002 5:10 PM
To: Lee, Sharon; Fratto, Tony; Bradshaw, Tara; Scolinos, Tasia; Strickler, Marie; Alvarado, Carmen
Cc: Davis, Michele; Nichols, Robert
Subject: RE: Good Night

GN

Greg Ip of WSJ doing something short on proposed changes to rules regarding the collection of race and gender data by lenders (talking to Sheila on background)

CNBC called to say they booked someone else for their Enron piece

Gotten calls on pension rules review - wires, TX papers

Got a few calls on Sheila's new DAS for Financial Institutions and GSE Policy (Rep. Baker's AA)

-----Original Message-----
From: Lee, Sharon
Sent: Thursday, January 10, 2002 5:00 PM
To: Fratto, Tony; Bradshaw, Tara; Scolinos, Tasia; Holahan, Betsy; Strickler, Marie; Alvarado, Carmen
Cc: Lee, Sharon; Davis, Michele; Nichols, Robert
Subject: Good Night

Please let me know when you get a chance. Also, please remember to update Michele of any important press items.

Alvarado, Carmen

From: Davis, Michele
Sent: Monday, January 14, 2002 9:40 AM
To: Alvarado, Carmen
Subject: STatements from Friday

Here is the statement that Al Hunt's office was looking for -- please send this to her -- it is everything that I said on Friday.

Statement by Michele Davis, Assistant Secretary of the Treasury (Public Affairs):

Following Ken Lay's call to the Secretary, the president of Enron called Undersecretary Fisher. Undersecretary Fisher spoke with president of Enron 6 to 8 times in late October and early November.

The calls were informational. The Undersecretary's job is to monitor the effect of any major development on the capital markets. In that role, he is in contact with people in the markets everyday to be aware of their concerns.

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 its banks. Undersecretary Fisher inferred that he was being asked to encourage the banks to extend credit. He made no such calls.

LATER STATEMENT
:
Robert Rubin of Citigroup called Peter Fisher on November 8 and asked Fisher what he thought of the idea of Fisher placing a call to rating agencies to encourage them to work with Enron's bankers to see if there is an alternative to an immediate downgrade.

Fisher responded that he didn't think it advisable to make such a call.

Rubin said he thought that was a reasonable position.

Fisher made no such call.

Scolinos, Tasia

From: Popkin, Jim (NBC) [Jim.Popkin@nbc.com]
Sent: Friday, January 11, 2002 2:21 PM
To: 'Tasia.Scolinos@do.treas.gov'
Subject: RE: enron

She just called, so many thanks.
--Jim

-----Original Message-----
From: Tasia.Scolinos@do.treas.gov [mailto:Tasia.Scolinos@do.treas.gov]
Sent: Friday, January 11, 2002 2:12 PM
To: jim.popkin@nbc.com
Subject: enron

Jim -

Michele is taking all of the calls on Enron. I just sent her an email asking her to call you about this issue. If you need to reach her you can get her at 622-2910.

Tasia

Scolinos, Tasia

From: Holahan, Betsy
Sent: Wednesday, December 05, 2001 5:28 PM
To: Lee, Sharon; Fratto, Tony; Bradshaw, Tara; Scolinos, Tasia; Strickler, Marie; Alvarado, Carmen
Cc: Davis, Michele; Nichols, Robert
Subject: RE: Good Night

GN

Washington Post is doing a story on predatory lending and wanted to find out what Sheila has been saying on it. I referred the reporter to her recent speeches, on the web site, for Sheila's description of best practices. Wall St. Journal writing Enron/derivatives story for Friday.

-----Original Message-----
From: Lee, Sharon
Sent: Wednesday, December 05, 2001 5:16 PM
To: Fratto, Tony; Bradshaw, Tara; Scolinos, Tasia; Holahan, Betsy; Strickler, Marie; Alvarado, Carmen
Cc: Lee, Sharon; Davis, Michele; Nichols, Robert
Subject: Good Night

[(b)(6)] However, please let me know when you get a chance. Also, please remember to update Michele of any important press items.

Bradshaw, Tara

From: Allen Maureen C [Maureen.C.Allen@irs.gov]
Sent: Wednesday, January 16, 2002 9:37 AM
To: Washington Linda J; Walas Carolyn; Charles A. Lacijan (E-mail); Charles L. Kolbe (E-mail); Goss Denise L TIGTA; Desler Anne C; George E. Farr (E-mail); Hart Dale F; Rosenker Heather B; Joelle Jordan (E-mail); Karen Hastie Williams (E-mail); Bassette Loretta J; Lrlevitan (E-mail); Loor Marlene; Steve Nickles (E-mail); Tara Bradshaw (E-mail); Taylor Gloria L
Cc: Heschel Jerald H; Grant Caryl S; Dixon Teri J; 'Rothbacher Ruth A'; Boykin Linda D; Lemons Terry L; Olson Nina E
Subject: RE: IN THE NEWS: 1/15/02
Importance: High

Could we follow up with Tom Herman?

This is terrific coverage of the Taxpayer Advocate Service, yet I can't help recalling a discussion several months ago in which I learned that the Taxpayer Advocate Service criteria for accepting a case beyond its insolubility over time -- and rightly so; they would be inundated!

The article doesn't indicate that Tom knows that taxpayers with long-standing problems have another alternative. Everyday Tax Solutions, a face/face appointment between an IRS decision-maker and the taxpayer or his/her representative, is available at every taxpayer assistance center in America...at the taxpayer's convenience.

The Field Assistance organization has replaced the old "Problem Solving Day" with Everyday Tax Solutions, and it is a perfect complement to the work of the Advocate.

-----Original Message-----
From: Washington Linda J
Sent: Tuesday, January 15, 2002 2:20 PM
To: Carolyn Walas (E-mail); Charles A. Lacijan (E-mail); Charles L. Kolbe (E-mail); Denise L. Goss (E-mail); Desler, Anne; George E. Farr (E-mail); Hart, Dale; Heather B. Rosenker (E-mail); Joelle Jordan (E-mail); Karen Hastie Williams (E-mail); Loretta J. Bassette (E-mail); Lrlevitan (E-mail); Marlene Loor (E-mail); Maureen C. Allen (E-mail); Steve Nickles (E-mail); Tara Bradshaw (E-mail); Taylor, Gloria

Subject: IN THE NEWS: 1/15/02

Today`s Contents

IRS news clips

1. Tom Herman on Taxes * THE WALL STREET JOURNAl

THE WALL STREET JOURNAL

January 15, 2002

Tom Herman on Taxes

Consider Taking a New Route When Dealing With the IRS

By TOM HERMAN
Staff Reporter of THE WALL STREET JOURNAL

Welcome to Tom Herman on Taxes, a weekly column available exclusively in The Wall Street Journal Online. Mr. Herman, the Journal's tax expert, answers questions from our readers on personal taxes and how taxes impact financial planning.

If you've been trying to resolve a long-running dispute with the Internal Revenue Service and have been getting nowhere by going through normal channels, consider another route.

A little-known unit of the IRS, the Taxpayer Advocate Service, headed by Nina E. Olson, sometimes can be surprisingly helpful in lifting struggling taxpayers out of bureaucratic quicksand.

Asking the IRS for help with the IRS may sound like a waste of time, at best. But accountants, lawyers and other tax advisers generally praise it.

What prompted me to write about this subject was a recent reader question about how to reach Ms. Olson, the IRS's National Taxpayer Advocate, whom I mentioned in a recent column about a report she sent Congress listing the 23 most serious problems facing taxpayers.

In her report, Ms. Olson says the top five most serious problems taxpayers have with the IRS are: 1) trouble with accessing the agency's customer service toll-free telephone service; 2) the tax law's multiple definitions of a "qualifying child"; 3) difficulty in determining earned-income tax-credit eligibility; 4) inaccurate answers to queries made on IRS customer service toll-free lines, or differing answers to the same question; and 5) difficulty in documenting earned-income tax credit eligibility.

For a copy of her report, as well as reports from previous years, go to www.irs.gov/ind_info/2001_tas.pdf.

The Taxpayer Advocate Service has two general goals. One is to help taxpayers clear up disputes that haven't been resolved through the usual processes. The other is to recommend "systemic solutions to make the tax process easier for everyone."

Relying on the Taxpayer Advocate Service won't work for everyone with complaints about the IRS. For example, it can't help represent you in court. The IRS Web site underscores the point that this "is not a substitute for established IRS procedures or the formal appeals process," and that this unit "cannot reverse legal or technical tax determinations." But it may be able to help with such common problems as lost refunds, mistaken penalties, erroneous notices and other miscellaneous snafus that bureaucrats seem uninterested in fixing.

In some cases, it may even be able to issue a formal order blocking the IRS from seizing your pay or property. "In certain situations, enforcement action may be suspended while your case is being reviewed," the IRS says. "The Taxpayer Advocate resolves the majority of cases administratively. Even when hardship is not a factor, the Advocate is often able to help resolve the taxpayer's problem."

While the Taxpayer Advocate Service isn't new, Congress gave it more power in 1998. Last year, the service handled more than 270,000 cases -- coming mostly from taxpayers, tax "practitioners," and as referrals from IRS operating divisions and congressional offices. About 40% of those cases arose from four IRS program areas: earned income tax credit audits, processing of claims or amended returns, processing of refunds, and initial processing of original paper or electronic individual returns.

No paper tiger, the Taxpayer Advocate has been a vocal critic of the IRS in the past. In her most recent report to Congress, Ms. Olson writes: "Only 14% of our inventory is composed of hardship cases. A small percentage of taxpayers contact us because they either don't like the way the tax law has been applied to their situation, or because they feel that their side of the issue did not get a fair hearing. Most taxpayers contact us because the IRS does not offer timely or appropriate taxpayer assistance."

Before coming to the IRS in March of last year, Ms. Olson was a lawyer specializing in representing taxpayers in tax disputes. She also founded and served as executive director of the Community Tax Law project, a low-income taxpayer clinic in Richmond, Va.

The IRS describes Ms. Olson's post as "an independent voice inside the IRS." Some readers may wonder about her independence and her relationships within the IRS. In her recent report to Congress, Ms. Olson writes: "Some may believe an advocate for the taxpayer must inevitably be the adversary of others throughout the IRS. This is not the case. The Taxpayer Advocate Service and its views were and are represented on a wide range of IRS teams and task forces, covering matters such as disaster relief, due process in collections and innocent spouse cases."

Take Action

If you've been battling the IRS for years and want to reach Ms. Olson, visit the Taxpayer Advocate Service Web site at (www.irs.gov/ind_info/advocate.html), or write to her at IRS National Taxpayer Advocate, Internal Revenue Service, 1111 Constitution Ave., N.W., Room 3031, Washington, DC 20224.

The Taxpayer Advocate Web site also offers several ways to phone the Taxpayer Advocate Service, including a toll-free phone line, (877) 777-4778. You also can call, write or visit the nearest office for your state -- see Publication 1546, "The Taxpayer Advocate Service of the IRS" for a list of local offices (ftp.fedworld.gov/pub/irs-pdf/p1546.pdf).

To bring a case to the attention of the Taxpayer Advocate Service, you'll be asked to fill out Form 911, "Application for Taxpayer Assistance Order" (ftp.fedworld.gov/pub/irs-pdf/f911.pdf). If you try it, I'd be interested in your reactions, as I'm sure I'll be writing about this topic again.

2. Tax Policy: BUSH URGES TAX CUTS BE MADE PERMANENT AFTER PLANNED EXPIRATION OF TAX RELIEF LAW* BNA

The Bureau of National Affairs, Inc., Daily Tax Report

January 15, 2002, Tuesday

10 DTR G-1 (2002)

LENGTH: 1121 words

SECTION: TAX, BUDGET & ACCOUNTING

TITLE: **Tax Policy: BUSH URGES TAX CUTS BE MADE PERMANENT AFTER PLANNED EXPIRATION OF TAX RELIEF LAW**

AUTHOR: By Nancy Ognanovich

TEXT:
President Bush Jan. 14 officially called for making last year's package of tax cuts permanent, saying in a speech that he wants the provisions of the S 1.35 trillion tax relief package to be extended indefinitely after that law expires at the end of 2010.

While Democrats are calling for scaling back the tax relief package, Bush said in an address on his economic proposals that he has decided to argue over the next several months that the tax cuts should be permanent.

"There's going to be a debate when we go back to Washington about tax relief," Bush said during the start of a two-day, three-state trip to build support for his legislative agenda. "But I've made up my mind, the tax relief plan we passed -- which you're beginning to feel the effects of -- is going to be permanent."

Bush said he still plans to reintroduce his economic stimulus plan with provisions to extend unemployment benefits for displaced workers and to help the unemployed maintain health insurance. However, the president suggested the stimulus -- which is expected to be included in the FY 2003 budget sent to Congress early next month -- also will include language to make last year's tax cuts permanent.

"Americans don't want an unemployment check," Bush said during an address to the employees of the John Deere Harvester Works in Moline, Ill. "Americans want a permanent paycheck, and that's got to be the mission of any good stimulus package."

Bush's comments came amid reports that Sen. Edward Kennedy (D-Mass.), the president's ally on recently enacted education reform legislation, may call for scaling back the tax relief package during an address planned for Jan. 16. They also followed comments from Senate Majority Leader Thomas Daschle (D-S.D.) raising concerns about the impact tax cuts have had on the disappearance of anticipated federal budget surpluses.

'Repeal' of Tax Cut Criticized.

The tax cuts enacted under Pub. L. No. 107-16, the tax relief package passed last year, would terminate after 2010. Current estimates on the size and length of the returning federal budget deficit by the Office of Management and Budget and others reflect assumptions that the tax cuts will not be renewed after that date.

However, a proposal by the White House to extend those tax cuts after that time would likely increase deficit projections. The White House already has indicated that the budget blueprint that Bush sends to Congress for FY 2003 will reflect a new deficit.

In his comments in Illinois and in Missouri later in the day, Bush did not address the difficulty the administration will face if it pushes to make the tax cuts permanent. But the president suggested his bottom line in the upcoming debate will be to maintain the tax relief package enacted to date.

Bush reiterated his view that recession and war both justify deficit spending.

"The worst thing to do is, in the face of this recession, is to not let people have their tax break," Bush said. "It doesn't make any economic sense. And that's why we're not going to let them ... repeal this tax cut."

In terms of the economic stimulus plan, the president told farmers in Aurora, Mo., that he will work with Democrats and Republicans to provide assistance for the unemployed. But he said he will also continue to push for provisions to accelerate depreciation for equipment, give tax relief to low-income workers, and otherwise speed up tax relief.

Lindsey: Stimulus an 'Insurance Policy.'

With many economists expressing doubt about how stimulative the president's plan actually will be, White House officials now are characterizing the proposal as an insurance plan for the U.S. economy.

Lawrence Lindsey, director of the National Economic Council, said in comments Jan. 12 that he now believes the preconditions for an expansion are in place but the stimulus package is still needed.

"We have very lean inventories -- that is usually the key to the beginning of an economic expansion -- but ... what is needed is that we have an insurance policy," Lindsey said on CNN's Novak, Hunt & Shields. "And the insurance policy, quite frankly, is what the president suggested pass, the one that passed the House twice, that was stalled in the Senate, because we shouldn't take any chances here. This is the opportunity for the economy to be revived. The preconditions are there. Let's not have another year of slow growth."

Lindsey, who accompanied Bush on his trip to Illinois and Missouri, downplayed a recent analysis of the House-passed stimulus by the Congressional Budget Office that said key provisions such as ending the corporate alternative minimum tax would have only a small impact at best on the economy (5 DTR G-2, 1/8/02). Lindsey said he does not believe any changes in the stimulus package should be undertaken.

"Almost every private-sector forecast ... [has] estimated what the president proposed as being exactly what the economy needs, as was the first tax cut," Lindsey said. "It is retail sales that have held this economy together. Retail sales, I think, were the result of the tax cut that the president proposed. What we're proposing now to do is to extend that into the investment side, because it is investment that is lagging right now."

Lindsey said "there's nothing in particular" wrong with Daschle's alternate proposals for stimulating the economy, which include tax breaks for businesses that expand and add workers. However, he said "one-shot" remedies usually are not effective.

"The first thing we know is that one-time, short deals don't work," Lindsey said in addressing Daschle's plan. "You need long-term incentives. And what we're proposing is bringing those rates down as part of a long-term incentive. A three-year incentive to invest -- that's a long-term incentive. Back in the '70s we tried a lot of these one-shot, one-year deals. The economic evidence is clear. They don't work."

Lindsey also suggested that the extra spending that Daschle is proposing for homeland security, health and science research, and more will not be as carefully targeted as the extra spending the president will propose for many of the same categories in his budget.

Lindsey said OMB has subjected the spending proposals for homeland security and other areas to a cost-benefit test. And even if the extra spending in the FY 2003 budget will contribute to the deficit, he said the longer term budget outlook should be good.

"We're spending money cost-effectively," Lindsey said. "We are going to be returning to budget surplus in the not-too-distant future."

3. Bush Pledges to Restore Confidence in Economy; President Says Success Tied to War on Terror
*** The Washington Post**

The Washington Post

January 15, 2002, Tuesday, Final Edition

SECTION: A SECTION; Pg. A04

LENGTH: 688 words

HEADLINE: **Bush Pledges to Restore Confidence in Economy; President Says Success Tied to War on Terror**

BYLINE: Mike Allen, Washington Post Staff Writer

DATELINE: AURORA, Mo., Jan. 14

BODY:

Unveiling his second-year economic agenda in stops at farm towns along the Mississippi River, President Bush promised today to restore Americans' confidence in the listless economy. He acknowledged, however, that a full recovery depends on making people feel safer from terrorism.

Bush said a cornerstone of his plan is to preserve the tax cuts that are scheduled to be phased in between now and Dec. 31, 2010, even as Sen. Edward M. Kennedy (D-Mass.) plans to launch a drive on Wednesday to roll them back.

Several elements of Bush's $ 1.35 trillion tax cut are not scheduled to take effect until the final year, including the estate tax repeal and the full $ 1,000 child tax credit. Bush has said he considers any postponement of the later phases to be a tax increase. "Now, there's going to be a debate when we go back to Washington about tax relief," Bush said this morning at a John Deere tractor factory in East Moline, Ill.

"But I've made up

my mind. The tax relief plan we passed, which you're now beginning to feel the effects of, is going to be permanent."

In fact, the entire tax cut package is scheduled to expire in 10 years, although many analysts predict that a future Congress and president will extend its main components.

Bush's reference to a coming debate was a shot at Kennedy, who plans to give a speech Wednesday at the National Press Club in which he will call for postponing tax cuts scheduled to take effect in 2004 and beyond. A congressional source said today that Kennedy will argue those parts of the tax cut package "overwhelmingly benefit the wealthy."

Kennedy estimates that his proposal would save the government $ 350 billion over the 10-year period. The senator will propose that the savings go to increased funding for education, a prescription drug benefit for Medicare and protection of Social Security.

Bush, however, told farmers at a feed mill here that a crucial way to stimulate growth during a recession is to let people keep more of their own money. "That's Economics 101 -- except, it sounds like some of them hadn't taken the course in Washington," he said.

Still, Bush lavished praise on Kennedy, crediting him with helping win passage of the education bill signed last week. "Never did I dream that I would say good things about him," Bush said today, drawing laughter. "Never did he dream that I would say good things about him."

Bush, expressing concern for workers who have lost their jobs or fear they will, announced a five-point plan that highlights the economic aspect of all his other domestic priorities: homeland security, education, trade, energy and an economic stimulus package that includes a speeding up of tax cuts scheduled to take effect over the next decade.

Alluding to the war on terrorism, he said: "At this moment in history, the best thing I can do, along with my administration, in order to build the confidence of the American people, is to prevent the evil ones from hitting us again."

At the earlier stop in Illinois, Bush said there is "no question the attacks on America on 9-11 have affected our confidence."

"But the more the American citizen realizes that our federal government, in combination with state government and local authorities, are working day in and day out to prevent any other kind of attack, confidence will return," he said.

The president turned his eye unabashedly toward 2004 as he opened a two-day trip, meeting with Iowa political leaders and stopping in several swing states. Bush's appearances now feature campaign-style banners saying "Working for America."

The trip was designed partly to reassure farmers who were dismayed by the administration's decision last year to stick with its free enterprise principles and oppose a farm bill that would have continued hefty subsidies. Bush said he will support a bill that is "generous and affordable."

Bush found a way to make his call for open markets palatable here in the Farm Belt. Referring to the Russian president, he said, "We've got to get my friend [Vladimir] Putin to be buying John Deere products."

4. Enron Tax Strategy Opposed by Clinton Draws Attention of Government Officials * THE WALL STREET JOURNAL

THE WALL STREET JOURNAL

January 15, 2002

Politics & Policy

Enron Tax Strategy Opposed by Clinton Draws Attention of Government Officials

By JOHN D. MCKINNON
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON -- Government officials are examining whether Enron Corp.'s extensive use of a controversial tax strategy, once opposed by the Clinton administration, contributed to its financial problems.

The tax strategy drew fire in 1996 and 1997 as a potentially improper way to reduce taxes while masking company debt. Initially, it promised a kind of accounting alchemy. It allowed a company to borrow money from a subsidiary and treat the transaction as debt that generates interest deductions for tax purposes -- but as equity for its shareholders.

But the Clinton administration failed to get Congress to block it, and the Internal Revenue Service dropped a legal challenge to Enron's use of the strategy, known generically as "trust-preferred securities." The strategy has been widely marketed and used: Goldman Sachs Group Inc. pioneered the product with an investment known as MIPS, or Monthly Income Preferred Shares or Securities. Other firms quickly followed with similar products, with different names and slightly different forms.

A spokeswoman for Goldman said the company underwrote an early Enron MIPS deal but, in general, has had little involvement with the company. As the strategy was initially marketed during the 1990s, a corporation typically formed a subsidiary that issued preferred shares paying a fixed, regular amount to investors. The subsidiary then lent the proceeds to the corporation.

For tax purposes, the corporation could deduct interest paid on the debt, arguing that the preferred shareholders owned the subsidiary. But for financial-accounting purposes, the corporation could argue that it controlled the subsidiary; hence, it could treat the loan more like an asset.

Defenders of the strategy said that in recent years, tighter accounting rules have required clearer disclosure of the debt on a company's books, although certain aspects of the strategy still carry advantages over conventional loans for purposes of ratings agencies.

The Houston energy-trading firm didn't respond to requests for comment on its use of the strategy, which became hugely popular with banks, insurance companies and utilities, among others. One advantage is that such arrangements often allow interest payments to be deferred for five years.

But the deals initially raised red flags among regulators. The Clinton administration asked Congress in 1996 and again in 1997 to limit the strategy's use in many situations. Securities firms and businesses lobbied intensely to defeat the proposal. The Internal Revenue Service challenged Enron's use of it with two subsidiaries: Enron Capital LLC, a Turks and Caicos entity, and Enron Capital Resources LP, a Delaware limited partnership. In both cases, the IRS didn't allow Enron to take the interest deductions.

Enron responded in April 1998, filing a petition in the U.S. Tax Court to overturn the IRS's decision. The litigation became the test case for the investments and briefly roiled the financial and accounting industries.

"The case will be closely watched because the MIPS structure has been used by taxpayers to raise billions of dollars in capital that is meant to be treated as debt for tax purposes but not entirely as debt by ratings agencies such as Moody's and Standard & Poors," accounting firm Ernst & Young LLP wrote to its clients in June 1998. A number of observers predicted the IRS would fail in its challenge. The IRS eventually conceded the key issues in the Enron case and issued technical advice to taxpayers allowing use of trust-preferred transactions to justify deductions in many circumstances. The ruling was "likely an outgrowth of the favorable settlement in Enron v. Commissioner," Ernst & Young wrote.

Energy price swings and the company's use of off-balance-sheet partnerships appear to have contributed substantially to Enron's problems. But government officials also are interested in Enron's use of trust-preferred products. They said that at least $900 million or so shows up in the company's latest annual report. Ed Kleinbard, a lawyer in New York who assisted the Securities Industry Association in responding to IRS audits of companies that used the trust-preferred vehicle, said that in the current regulatory environment, use of the trust-preferred strategies is legitimate. "I don't think of this as an example of the system gone awry," he said.

-- Michael Schroeder contributed to this article.

5. Pensions: GRASSLEY EXPLORING PROTECTIONS FOR RETIREMENT PLAN PARTICIPANTS * BNA

The Bureau of National Affairs, Inc., Daily Tax Report

January 15, 2002, Tuesday

10 DTR G-2 (2002)

LENGTH: 600 words

SECTION: TAX, BUDGET & ACCOUNTING

TITLE: **Pensions: GRASSLEY EXPLORING PROTECTIONS FOR RETIREMENT PLAN PARTICIPANTS**

TEXT:
Sen. Charles Grassley (R-Iowa), ranking member of the Finance Committee, said Jan. 14 he is pursuing whether Congress should tighten up protections for retirement plan participants in light of Enron Corp.'s collapse.

Millions of taxpayers have hundreds of billions of dollars invested in employer-sponsored retirement plans that receive favored treatment under the federal tax code, Grassley noted in a news release.

"The Committee on Finance has the primary responsibility, under its jurisdiction, for making sure retirement plans comply with the tax code and other laws," he said. "Our committee also has the responsibility to fix any weaknesses that might leave retirement plan participants in trouble if their employer goes under."

While all the details of the Enron retirement plans are not yet known, Grassley said, some areas already are emerging as targets for scrutiny.

Five Areas Targeted.

Specific areas Grassley is looking into are:

-- Company Stock. Under current rules, a company can restrict a retirement plan participant from selling the match received in company stock through an employee stock ownership plan. Enron employees' company stock matches were restricted, Grassley noted. The senator said he is researching whether employees should be able to change this investment choice prior to an arbitrary age.

-- Mandated Purchases of Company Stock. Current law allows a plan sponsor to compel employees to purchase up to 10 percent of employer stock as a condition of participating in a 401(k) plan. Grassley said he thinks this rule should be eliminated.

-- Fiduciary Rules. These rules ensure that companies properly invest and handle retirement plan money, including spending the money for the exclusive benefit of their employees. Grassley said he wants to learn whether Enron officials violated their fiduciary duties and, in general, whether Congress should change the existing rules.

-- Black-Outs. A black-out or lockdown occurs when a plan is shut down for a period of time to allow, for example, change to another plan administrator. Enron had such a black-out, although the length of time is disputed, Grassley said. The senator said he wants to get the facts on this because it may coincide with the decline in the company's stock value.

-- Mandated Diversification of Stocks in Retirement Plans. Some legislation has been introduced to mandate that employees hold no more than a certain percentage of stock in their 401(k) plan. Diversification in one part of the plan should indicate that all investments should be mandated, Grassley said. He added that he has an open mind, but thinks mandates are not desirable nor particularly feasible.

Grassley said he is pursuing these ideas with experts from outside groups and agencies such as the Treasury Department, the Labor Department, and the Pension Benefit Guaranty Corporation.

"The tax code smiles on retirement plans, for good reason," Grassley said. "Tax breaks encourage employers to set up retirement plans and employees to take part in those plans. If employers find it easy to break the rules, then Congress has to rewrite the rule book. Otherwise, employees counting on a secure retirement might be left out in cold."

In addition to the retirement plan track, Grassley said he is part of an effort to look into whether Enron used certain tax vehicles that might have masked the company's financial condition.

Text of Grassley's news release is in BNA TaxCore.

6. U.S. Loses Trade Case to Europeans on Offshore Tax Havens * The New York Times

The New York Times

January 15, 2002, Tuesday, Late Edition - Final

SECTION: Section C; Page 1; Column 2; Business/Financial Desk

LENGTH: 690 words

HEADLINE: **U.S. Loses Trade Case to Europeans on Offshore Tax Havens**

BYLINE: By DAVID E. ROSENBAUM with ELIZABETH OLSON

DATELINE: WASHINGTON, Jan. 14

BODY:

The United States lost its final appeal today in a dispute with Europe over tax policies. The ruling is considered all but certain to renew trans-Atlantic trade tensions and could cost American companies billions of dollars in higher taxes.

Affirming earlier rulings, an appeals panel of the World Trade Organization, the Geneva-based group that regulates trade, held that the offshore tax havens allowed by United States tax law amounted to an illegal trade subsidy and must be scrapped. The dispute between the United States and the European Union over tax havens has been going on for years, but negotiations were suspended while the case was before the appeals board.

Robert B. Zoellick, the United States trade representative, said that today's ruling was not unexpected but that he was "disappointed by the outcome."

"We will be consulting closely with Congress and affected U.S. interests regarding next steps," he added.

The next step is for a W.T.O. arbitration panel to determine the level of trade sanctions the Europeans will be allowed to impose. That will probably occur in April.

Under American law, exporters can avoid paying taxes on some overseas sales by channeling profits through subsidiaries in places like Guam and the Virgin Islands. This saves American companies -- including giants like General Electric, General Motors, Microsoft and Boeing -- more than $4 billion a year in taxes.

In dollar terms, that makes this the largest trade case in history.

The European Union contends that the tax breaks give American exporters an unfair edge in international commerce. The United States holds that the tax advantage is no greater than comparable tax breaks in Europe. European companies, for example, do not have to pay value-added taxes on exported goods. There is no difference between the Clinton and Bush administrations' positions on the issue.

Many academic tax experts have argued for years that it was bad policy to lower companies' taxes simply because they have subsidiaries overseas. But lawmakers have accepted the argument that tax havens are necessary to allow American companies to compete in international trade, and the law has strong support in both parties in Congress.

Companies will continue to receive the breaks unless the law is changed.

United States trade authorities say they think that the European Union brought this case primarily out of bitterness against Washington for using the W.T.O. to pry open European markets for bananas and hormone-treated beef. But European officials say that is not the case, and they point in particular to the advantage the tax break gives Boeing in its competition with the European consortium Airbus Industrie for global aircraft sales.

The W.T.O. first ruled against the United States in February 2000. In response, Congress tinkered with the law that fall. But the European Union said the new law was no better than the old one, and last August, the World Trade Organization agreed. Today's ruling came on an appeal of the decision last August.

"Now it is up to the U.S. to comply with the W.T.O.'s findings to settle this matter once and for all," said Pascal Lamy, trade commissioner of the European Union.

The Europeans have threatened to impose tariffs as high as 100 percent on a broad list of American goods including iron, steel and aircraft. If that were to happen, the United States would surely retaliate with stiff sanctions of its own.

But few people who follow trade matters expect an all-out trade war. "Trans-Atlantic trade is so vast and so beneficial that neither side can afford a breakdown," an American trade official said today.

The issue, therefore, is what concessions Washington will have to make to mollify the Europeans and comply with world trade rules.

"The United States respects its W.T.O. obligations, which serve America's interests," Mr. Zoellick said, "and we intend to continue to cooperate with the E.U. in order to manage and resolve this dispute. This is an especially sensitive dispute that, at its core, raises questions of a level playing field with regard to tax policy."

7. WTO Rules Against U.S. Tax Breaks, Opening the Way for EU Retaliation * THE WALL STREET JOURNAL

THE WALL STREET JOURNAL

January 15, 2002

Business and Finance - Europe

WTO Rules Against U.S. Tax Breaks, Opening the Way for EU Retaliation

By GEOFF WINESTOCK and NEIL KING JR.
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON -- The World Trade Organization ruled against a U.S. law that gives big tax breaks to American exporters, a decision that could open the way for the European Union to impose billions of dollars in retaliatory duties.

An appeals panel of the Geneva-based WTO ordered the U.S. to repeal $4 billion of tax breaks for American exporters who operate through offshore subsidiaries, or face possible sanction. If the U.S. fails to comply, the matter goes to an arbitration panel, which would set the level of penalties the Europeans can impose. U.S. trade officials said April is the earliest that the new duties could be imposed.

So far, the Bush administration has shown little desire to amend the law to ease European concerns.

The EU faces the difficult decision of how to exploit its victory. Few expect swift retaliation no matter what the arbitration board decides.

Analysts say the EU is likely to use the decision as leverage to make the U.S. moderate its policies in other areas, especially a possible move by President Bush to impose protective tariffs on foreign steel imports.

"There is no reason for the Europeans to rush for retaliation," Gary Hufbauer, a trade specialist at the Institute for International Economics in Washington, said. "This is an important bargaining chip, but for now the EU is likely to hold it in reserve."

If the U.S. imposes a new set of steel tariffs, a decision Mr. Bush must make by early March, the EU could respond with duties on selected U.S. goods from steel-producing states such as Pennsylvania or Indiana, Mr. Hufbauer said.

U.S. Trade Representative Robert Zoellick said the administration was "disappointed," but not surprised by the ruling.

"This is an especially sensitive dispute that, at its core, raises questions of a level playing field with regard to tax policy," Mr. Zoellick said in a written statement.

The decision, however was welcomed by European Trade Commissioner Pascal Lamy, who called on the U.S. to comply rapidly with the WTO's findings.

All signs pointed to continued discussions on the issue between Washington and Brussels, though the atmosphere could get chilly very quickly if Mr. Bush moves to protect the U.S. steel industry.

U.S. companies have much at stake, particularly General Electric Corp. and Boeing Corp., the biggest beneficiaries of the tax-break program. The Clinton administration sought to revise the so-called foreign sales corporations program in 2000, after the WTO made a preliminary ruling that the program violates rules that outlaw export subsidies and distorts world markets. But lobbying in Congress produced a law that handed even bigger breaks to U.S. exporters.

Meanwhile, the European Commission, the EU's executive arm, has staked its credibility on the case and has received support from some European companies, especially Airbus, which argues that the tax breaks help its archrival Boeing.

But many European companies are ambivalent about the U.S. tax breaks because they have subsidiaries in the U.S. that benefit from them. European consumers will protest any trade sanctions that make goods there more expensive. The EU also wants to avoid a spat that could make it hard to cooperate closely with the U.S. in completing the new round of world trade talks that was launched last year.

Some EU member governments, such as Belgium and Spain, are also reluctant to press too hard on the issue because the U.S. is threatening to take action against tax breaks for their companies, which the U.S. says are also in breach of world trade rules.

8. **EU Says WTO Rejects U.S. Tax Law, Permitting Sanctions Claim * Bloomberg**

BLOOMBERG

January 14, 2002

EU Says WTO Rejects U.S. Tax Law, Permitting Sanctions Claim

Geneva, Jan. 14 (Bloomberg) -- The European Union said it won World Trade Organization clearance to impose trade sanctions against U.S. companies after the WTO ruled that a U.S. tax break violates global export-subsidy rules.

The 15-nation EU must now decide whether to press for as much as $4 billion in damages, which would be the highest in the WTO's seven-year history. The case affects hundreds of exporters including Boeing Co., Microsoft Corp., Eastman Kodak Co., Archer Daniels Midland Co. and General Electric Co.

``Going down the road of retaliation is in no-one's interests," says John Weekes, former Canadian ambassador to the WTO who now chairs the trade practice of APCO, a public affairs company. ``It's incumbent on them both to find a solution."

The threat of European sanctions adds to trade tensions at a time when the economy on both sides of the Atlantic is slowing. The EU is also seeking to head off U.S. quotas and tariffs on steel imports, while the U.S. is considering a WTO complaint against European restrictions on genetically modified foods.

``We have made a point of handling this dispute in a very reasonable manner," EU Trade Commissioner Pascal Lamy said in a faxed statement. ``Now it is up to the U.S. to comply with the WTO's findings."

Sanctions

The WTO is expected to rule around the end of March on the final level of sanctions that the EU could apply. The EU has argued that $4.04 billion is the size of the tax law's application to U.S. companies' global exports, not just to the share that go to Europe.

Richard Mills, spokesman for U.S. Trade Representative Robert Zoellick, declined to make an immediate comment, saying the Bush administration will put out a statement ``soon."

U.S. officials have said that they would oppose any sanctions award of that size. Zoellick last year said the penalties would be like a ``nuclear bomb" on the U.S. trade relationship with the EU.

A WTO dispute panel found last August that even after an overhaul, a U.S. law that allows companies to shield income from taxes on a range of sales is an illegal export subsidy to hundreds of companies.

Several U.S. lawmakers, including California Republican Bill Thomas, who chairs the tax-writing House Ways and Means Committee, have said they would prefer to move to a ``territorial" system such as Europe's. That would mean that only domestic earnings are

subject to tax, although certain foreign profits are taxed.

Global Taxes

All U.S. taxpayers -- including foreign and domestic companies -- are eligible for tax breaks under the revised law, allowing them to protect much of their income earned outside the country from U.S. tax, as long as they have paid tax overseas on

their earnings.

Currently, the U.S. employs a ``global" tax system, in theory subjecting company earnings all over the world to tax. U.S. law then excludes some categories of earnings, a policy the WTO said was illegal.

The new law, known as the Extraterritorial Income Act, was passed in November 2000 after the U.S. missed an earlier deadline. It replaces the original Foreign Sales Corporation law.

Kenneth Dam, U.S. deputy Treasury secretary, said in November the ruling sets a standard for taxing corporate income earned abroad that calls into question the tax systems of many countries, including those in the EU.

9. IRS Tax-Shelter Victory Won't Be Overturned by U.S. High Court * BLOOMBERG

BLOOMBERG

January 14, 2002

IRS Tax-Shelter Victory Won't Be Overturned by U.S. High Court

Washington, Jan. 14 (Bloomberg) -- The U.S. Supreme Court stayed out of a battle over corporate tax shelters, rejecting an appeal by a real estate company accused of trying to dodge the Internal Revenue Service by diverting loan payments overseas.

The high court action is a boost to the IRS, which suffered courtroom setbacks recently on its claims that Compaq Computer Corp., United Parcel Service Inc. and American Home Products Corp. used illegal tax shelters. The agency says such shelters are a multibillion-dollar problem.

The justices left intact a $1.2 million assessment against Del Commercial Properties Inc., a Canadian company that manages U.S. real estate. The Bush administration urged the court not to hear the company's appeal.

Courts ``have had no problem disposing of taxpayer claims in cases such as the present one, in which there is a transparent lack of nontax business purpose," the government argued.

A federal appeals court in Washington upheld the assessment. That ruling ``may cripple tax planning," Del Commercial contended in its unsuccessful appeal.

``A basic premise of modern corporate finance is the use of numerous steps and/or intermediaries in a transaction with an underlying commercial purpose in order to reduce or eliminate tax liability," said the company, which hired Harvard law professor Laurence Tribe to make its case at the high court.

The fight centered on $14 million in loans made by Royal Bank of Canada to one of Del Commercial's Canadian parent companies in 1990. The IRS says that money was immediately passed through four affiliates before landing in Del Commercial's accounts.

Del Commercial repaid much of the money, plus interest, to the Dutch affiliate that was the last to touch the loan money.

The IRS says that was a ruse designed to avoid the duty of U.S. taxpayers to withhold taxes owed by their foreign lenders. A treaty in effect at the time exempted lenders based in the Netherlands from those taxes.

The case is Del Commercial Properties v. Commissioner of
Internal Revenue, 01-681.

10. THIRD-PARTY DESIGNEE BOX ON NEW FORM 1040 AVAILABLE * Tax Notes Today

Tax Notes Today

JANUARY 15, 2002 TUESDAY

DEPARTMENT: Official Announcements, Notices, and News Releases; IRS News Releases

CITE: 2002 TNT 10-13

LENGTH: 298 words

HEADLINE: #13 2002 TNT 10-13 **THIRD-PARTY DESIGNEE BOX ON NEW FORM 1040 AVAILABLE.** (IR-2002-04) (Release Date: JANUARY 14, 2002) (Doc 2002-1096 (1 original page))

The IRS has announced (IR-2002-04) that taxpayers can enable the IRS to talk directly with a third party to correct mistakes, such as simple math errors and data omissions, during the processing of the taxpayers' returns by selecting the third-party designee box on the new Form 1040. The third party will also be able to discuss the status of a refund, payment, or other notice with the IRS. The designation, however, does not eliminate the need for a Power of Attorney for issues dealing with examinations, under reported income, appeals, and collection notices.

11. The Widows Triumph * THE WALL STREET JOURNAL

THE WALL STREET JOURNAL

January 15, 2002

Review & Outlook

The Widows Triumph

Ever have one of those days where you roll out of bed, gulp your black coffee and pump yourself up for the big fight you know is coming? Well, with the Internal Revenue Service preparing to pursue the taxable estates of foreigners who lost their spouses on September 11, we were ready to rumble.

And then Congress surprised us, and probably even itself, and did the right thing.

The surprise is the Victims of Terrorism Tax Relief Act, and actually it wasn't totally the right thing. But we'll get back to that below. As these columns first reported when we wrote about the case of Lucy Thompson on October 12, U.S. estate-tax law lacks a spousal exemption for foreigners. This made widows and orphans juicy targets for the IRS to pounce on whatever cash and assets the victims of September 11 had left them. If the numbers add up the way we've been told, Congress has now granted them a reprieve.

Congress did this by extending to those who were killed on September 11 the same special tax treatment granted to soldiers who fall in the line of duty. Though not designed with the foreign widows and widowers in mind, these people have nonetheless received a huge assist. That's because the new law grants the special tax status to the estate of the deceased, so the spousal exemption doesn't really matter.

The math is extremely complicated, and involves tax treaties with different countries. But we're told it works out to shielding the first $8.5 million from federal tax in the absolute best cases (for those foreigners living here) to $600,000 in the worst (those nonresident). Even in the worst case, that is 10 times the protection they would have received otherwise, with much lower tax rates. As such it brings a special measure of mercy for the hundreds of foreign families who lost loved ones on September 11, including 53 British, 24 Japanese, 17 Mexicans, 18 Koreans and many dozens of others who still have mortgages and college tuitions to pay as they try to keep their families together.

Of course, the simplest and more humane solution would have been to abolish the estate tax, which is scheduled for extinction anyway, though not before 2010 and then for one year. That's precisely what Washington Representative Jennifer Dunn proposed in her Widows of the World Equity Act.

But that would have required more compassion than politicians can muster at one sitting. In fact, Congress seemed ready to consider any kind of relief, including making all of the dead U.S. citizens, rather than repeal the estate tax. And before we praise the Members of Congress too much, no doubt the fear of special publicity that would have focused on the September 11 widows was part of their motivation.

Then there is the twisted moral logic of carving out just this estate-tax exception. A British woman living in America whose husband was killed in the World Trade Center attacks can now collect whatever was left behind without fear of the IRS. But a British woman whose husband is killed by, say, a drunk driver or heart attack still faces an estate tax on her assets starting at as little as $60,000 (foreigners don't get the U.S. minimum exemption of $1 million) with confiscatory rates of up to 55%. The IRS philosophy here is that it's all their money, and that a foreign spouse might up and leave the country before the IRS gets its share.

The case of the September 11 widows illuminates that the real objection to the estate tax is moral. It is a political grab for assets on which taxes have already been paid once, if not twice. The spouses of September 11 may be catching a deserved break, but the real solution is to abolish the estate tax for everyone forever.

12. **Tax Credit Misses Some Eligible** * Associated Press

Associated Press

01/14/2002

Tax Credit Misses Some Eligible

By LAURA MECKLER

Associated Press Writer

WASHINGTON (AP) -- About 4.3 million taxpayers who were eligible for a tax credit aimed at the working poor did not claim it in 1999, congressional auditors reported.

That adds up to a 75 percent participation rate in the earned income tax credit program, better than programs such as food stamps and Medicaid that are available to many of the same people.

The earned income tax credit, expected to cost $30 billion this year, is one of the federal government's largest programs aimed at helping low-income Americans. Available only to the working poor, the credit enjoys bipartisan support and has been expanded several times in recent years.

The new report by the General Accounting Office found that parents with one or two children were most likely to claim the credit, with more than 90 percent taking advantage of it.

Only 45 percent of adults without children claimed the credit, and only 63 percent of those with three or more children did so.

The GAO could not explain the differences in participation rates, saying they may be a result of data collection problems in the sample examined or may be real.

Rep. William Coyne, D-Pa., the top Democrat on the Ways and Means oversight subcommittee, who requested the report, plans to ask GAO for further research.

"We are very troubled by it," said Matt Dinkel, Coyne's spokesman.

There are a variety of reasons why people who are eligible for the tax credit do not claim it, said John Wancheck, who runs an outreach campaign on this tax credit for the Center on Budget and Policy Priorities.

Among them, he said, are that families aren't aware of it, sometimes because they earn too little to be required to file a federal tax return. There also are foster parents and grandparents who may not realize that they may claim the children they care for when calculating eligibility for the credit.

The EITC, created by Congress in 1975, is refundable, meaning that even if a taxpayer owed no income tax they can get a government check by claiming the credit. About 86 percent of claims represent this form of direct cash help.

But the credit is difficult to compute and always has been plagued by errors. In 1997, the IRS found that 25.6 percent of more than $30 billion in claims "should not have been paid" due to mistakes or fraud. About 20 million taxpayers made EITC claims that year.

13. Sweeping new law might make 2002 a good year for finances * Houston Chronicle Publishing Company

The Houston Chronicle

January 14, 2002, Monday 2 STAR EDITION

SECTION: BUSINESS; Pg. 3

LENGTH: 853 words

HEADLINE: **Sweeping new law might make 2002 a good year for finances**

SOURCE: Tribune Media Services

BYLINE: GARY KLOTT

BODY:
NOW that 2002 is well under way, it's an opportune time to consider what you might do for the rest of the year to improve your financial life.

Early planning is always essential to achieve sizable tax savings. But it's especially important this year because of the sweeping tax law changes that took effect Jan. 1. Most of the major new benefits from the Tax Relief Act of 2001 start to phase in this year. Here are some strategies to help make the most of the new law benefits and otherwise save on taxes in 2002 and beyond.

Keep close tabs on your income levels: The key to qualifying for many of the new law's breaks is to find ways to hold down your "adjusted gross income." Most of the new or expanded benefits are phased out for individuals with adjusted gross incomes above certain levels.

Included are the child tax credit, retirement savings credit, the new college tax deduction, Coverdell Education Savings Account, adoption credit, student loan deduction, IRAs and the earned income credit.

Careful timing of investment sales may prove critical if you're bordering on the income limits for a valuable benefit you hope to claim. In some cases, you'll want to try to avoid realizing large investment gains in years in which you expect to reap substantial benefit from some income-contingent breaks.

Employees can reduce their adjusted gross income by taking advantage of their employer's 401(k) plans and "flexible spending arrangements" for health-care and dependent-care expenses.

Shelter more: The new law gives most individuals the opportunity to shelter much more of their income in retirement and education savings accounts, where your money can grow and compound faster than if part of the earnings were taxed away each year. The contribution limits for IRAs, self-employed retirement accounts, employer-sponsored plans and education savings accounts have been sharply increased.

Defer income: Deferring income through the use of retirement accounts and deferred-compensation plans will not only postpone the tax liability for years but also may make the income eligible to be taxed at a lower rate in the future. Tax rates above the 15 percent tax bracket are scheduled to drop in 2004 and again in 2006.

Think taxes in daily financial life: Whenever you make a financial move, consider the tax aspects. In some cases, how you arrange the financial transaction can greatly affect your tax bill.

Charitable contributions are a prime example. How much of a tax benefit you'll receive for your charitable donation will depend not only on the amount of your contribution, but also on the type of gift you make. While cash may be the most common form of charitable gift, you'll save more in taxes if you donate stocks or other investments that have increased in value. So long as you've owned the shares more than one year, you'll be eligible to claim a charitable deduction for the current market value of your donated shares. In addition, you'll escape capital gains tax on the appreciation.

Securities sales: If you plan to sell off part of your holding in a particular stock or mutual fund, the form of your "sell order" can have a significant impact on your tax bill. If you acquired the shares at different times and prices, you may be able to minimize the capital gains tax bite by designating in your sell order which specific shares to sell. For instance, you could minimize your taxable gain by instructing your broker or mutual fund to sell the shares you acquired at the highest prices. If you don't identify which specific shares are to be sold when you place your sell order, the IRS will make you use on your tax return a much less favorable method for determining which shares were deemed sold.

Consider larger tax implications: Before making any tax move, be sure to consider all the ramifications. Not every tax benefit is worth pursuing. For example, parents who plan to take advantage of the expanded education savings account to save for their child's college education need to consider the potential impact on their child's eligibility for financial aid in college. Middle-income families could lose more in financial aid than they'd save in taxes from setting up an education savings account in their child's name. In determining how much a family can afford to contribute to the cost of college, financial aid formulas count assets held in a child's name much more heavily than assets in the parent's name.

Alternative minimum income: Higher-income individuals should pay close attention to their vulnerability to the alternative minimum tax, or AMT, which inflates the tax bills of people who are able to make use of various tax breaks to slash their regular tax liability below certain levels. The number of taxpayers affected by the AMT is projected to double this year and continue to grow at a rapid rate in the years ahead, partly because of the new law's reduction in the top tax rates.

Knowing whether you're likely to be hit by the AMT is important because strategies to minimize or avoid the AMT are much different than you'd normally employ.

14. Changes to 403(b) plans help teachers save for retirement * USA TODAY

USA TODAY

January 15, 2002, Tuesday, FIRST EDITION

SECTION: MONEY; Pg. 3B

LENGTH: 790 words

HEADLINE: **Changes to 403(b) plans help teachers save for retirement**

BYLINE: Sandra Block

BODY:
Much has been said about the misplaced priorities of a society that rewards mediocre baseball pitchers with multimillion-dollar contracts while public school teachers earn less than $ 50,000 a year. Less has been said about the raw deal teachers get when it comes to saving for retirement.

Like private-sector workers with access to a 401(k) plan, teachers can arrange to have a portion of their salaries deposited in a retirement savings plan, known as a 403(b). Money contributed to a 403(b) isn't taxed until it is withdrawn, usually when the plan owner retires. But 403(b) plans, which are offered to teachers and other non-profit workers, have been dogged by high expenses and C-minus performance. And even teachers with doctorates have been baffled by the Maximum Exclusion Allowance, a complicated set of rules that governed how much they could contribute every year.

Fortunately, the Economic Growth and Tax Relief Reconciliation Act contained some big changes in 403(b) rules, effective Jan. 1. Among the major reforms:

* Higher contribution limits. Like savers in 401(k) plans, most teachers will be able to contribute up to $ 11,000 to their 403(b) plans in 2002. Teachers who are age 50 or older will be able to contribute up to $ 12,000 in 2002, under a "catch-up" provision designed to encourage older workers to save.

Some educators will be able to save much more. Many state and local governments offer 457(b) plans, another type of tax-deferred savings program, to government employees, including teachers. But in the past, teachers who participated in a 403(b) plan couldn't participate. Starting this year, teachers who are eligible for a 403(b) and a 457(b) plan can contribute the maximum to both -- up to $ 22,000 in tax-deferred savings a year, says Barbara Perry, vice president, public retirement plans for TIAA-CREF.

* The end of the Maximum Exclusion Allowance. Some teachers may still need to do some rudimentary calculations, Perry says. But most will be able to rely on the $ 11,000 limit and forget about

the MEA, she says.

* More portability. In the past, the law barred teachers who switched to the private sector from transferring money from their 403(b) plans into a new employer's 401(k). Likewise, workers who left private-sector jobs to teach couldn't roll their 401(k) money into their 403(b) plans. As of Jan. 1, those prohibitions are gone, making it easier for workers to consolidate their savings in one plan.

However, not all plans allow such transfers, so check with your employer.

Better returns

The reforms don't directly address one of the biggest problems surrounding 403(b) plans: a lack of good, low-cost investment choices.

Private employers that offer 401(k) plans typically arrange for a mutual fund group or plan provider to handle their workers' 401(k) savings. The 401(k) provider offers participants a menu of investment options, usually ranging from aggressive to conservative. Because savers are part of a large group, they often get a break on fees.

Public school systems, by contrast, have stayed out of the investment business. While they'll arrange for payroll deduction into a worker's 403(b), many don't want to select a plan provider. Instead, they allow sales representatives from financial firms, usually insurance companies, to solicit business from their employees.

As a result, a lot of 403(b) money has been invested in annuities, which tend to carry much higher expenses than no-load mutual funds. Annual fees often run as high as 2% of the amount invested.

The money is frequently invested in conservative products, which lowers the risk but also leads to lower returns.

Many contracts contain surrender and back-end fees that penalize dissatisfied workers who want to switch plans.

Advocates for 403(b) reform say the situation is improving. Low-cost providers, such as TIAA-CREF, are negotiating with some school districts to manage their 403(b) plans. More providers may be willing to set up 403(b) plans now that the onerous MEA rules are gone, because it's simpler to administer the plans.

Still, some school districts need a push. If you're a teacher and are unhappy with your 403(b) choices, talk to your administrator about adding some low-cost options.

But before you approach your school district, do your homework. A good place to start is www.403bwise.com, which was founded by two educators who were frustrated with the lack of information about teachers' retirement plans. The site offers a 403(b) Bill of Rights, calculators and updates on the rules governing the plans. Morningstar, the mutual fund information source, offers a good primer on the plans at its Internet site, www.morningstar.com.

15. Tax breaks for college, retirement * The Bergen Record

The Bergen Record

January 13, 2002

Tax breaks for college, retirement
By KATHLEEN LYNN
Staff Writer

Families often face two big financial challenges at the same time: saving for college tuition and saving for retirement. The tax bill President Bush signed last summer offers help on both, with expanded tax breaks that went into effect Jan. 1.

"I've got clients who had children later in life," said accountant Tony Wyss of Closter. "Their children are not starting college till the parents are near retirement age. So it's a question of saving for college vs. saving for retirement."

All taxpayers will benefit from lower tax rates that went into effect this year, and you don't have to take any action to get them. But to make the most of the other tax breaks, you've got to ratchet up your savings. Considering the high cost of college and retirement, that might be a good idea anyway.

Among the most useful changes:

You can protect more of your retirement savings from taxes.

Under the new rules, the yearly maximum contribution for an IRA or Roth IRA rose this year, from $2,000 to $3,000 -- $3,500 for those who are at least 50 and who may need to catch up on their retirement savings.

"With this country's savings rate being so low, that is a great incentive for people to save for retirement," said Peter Traphagen Sr., a certified public accountant in Oradell.

The maximum contribution for an employer-sponsored savings plan, such as a 401(k), 403(b), or 457, rose from $10,500 to $11,000 -- $12,000 for the over-50 crowd.

You can get more tax breaks on saving for college. Families can now contribute $2,000 a year -- up from $500 a year -- to Education Savings Accounts, formerly called Education IRAs. These accounts, available through mutual funds, banks, and brokerages, allow the money to grow tax-free if used for education expenses.

And Section 529 college-savings plans, sponsored by the states, also became more attractive. Formerly, the earnings on these accounts would be taxed at the student's tax rate when taken out for college costs. Now they're completely free of federal taxes. You can generally invest in any state's plan, no matter where you live or where your child ends up attending college. For more information on Section 529 plans, check www.savingforcollege.com.

"With the incredible cost of college today, I think more and more families are beginning to save earlier," Wyss said.

For students who borrow to pay for college, the new tax law expands tax breaks for repaying student loans. Previously, the taxpayer could deduct interest on student loans for only 60 months; now there's no limit. And the deduction is now available to taxpayers at higher incomes, beginning to phase out at $50,000 for single taxpayers and to $100,000 on joint returns.

Other tax breaks that affect families include:

You can take a higher tax credit for your children -- $600 a child, up from $500. But the credit begins to phase out for families with adjusted gross incomes above $110,000 (joint return) and above $75,000 (single).

You can leave more to your heirs. Okay, it's hard to get excited about a tax break that you can get only by dying. But you can leave an estate of $1 million, up from $675,000 last year, without your heirs facing estate taxes. That exemption is set to rise steadily over the next eight years.

"This will take many families out of a taxable-estate situation," said Wyss.

And if you want to share the wealth while you're alive, you can give more to your heirs every year without worrying about gift taxes -- $11,000 this year, up from $10,000.

16. Tax time process clarified * Dallas Morning News

Dallas Morning News (Dallas, Texas)

January 14, 2002

Tax time process clarified
IRS offers guidance in navigating yearly income claims ritual
By PAMELA YIP

Most of us wish we didn't have to file a federal income tax return, but no such luck. It's an annual ritual - like it or not.

If you're a U.S. citizen or resident, the law requires you to file a tax return.

But there are some people who don't have to meet that requirement.

Whether you must file a return depends on your gross income, filing status and age.

Generally, if you're under 65, once your gross income hits the following amounts, the law requires you to file a tax return:

* $7,450 for single taxpayers.
* $9,550 for head of household.
* $13,400 for married, filing jointly.

Gross income includes all income you receive in the form of money, goods, property and services not exempt from tax.

In addition, some people believe that the elderly don't have to file a return. But that's not always true.

If you're 65 and older, you must file a return once your gross income hits the following amounts:

* $8,550 if you're filing single.
* $15,200 for married filing jointly.
* $10,650 for head of household.

If you turned 65 on Jan. 1, the government considers you to have been age 65 at the end of 2001.

"The law requires you to file a return if your income is above a certain level, so each taxpayer will pay their proper amount of tax," says Venus Birmingham, a tax resolution representative at the Internal

Revenue Service in Farmers Branch.

If you're self-employed, generally you must file a tax return if your net earnings for the year exceed $400.

It's very important to file a return if you have to. The government considers it a grave violation if you don't and assesses tough failure-to-file penalties.

The penalty is usually 5 percent for each month or part of a month that a return is late, but not more than 25 percent.

The penalty is based on the tax not paid by the due date without regard to extensions.

If you file your return more than 60 days after the due date or extended due date, the minimum penalty is the smaller of $100 or 100 percent of the unpaid tax.

You won't have to pay the penalty if you can prove that you failed to file on time because of "a reasonable cause and not because of willful neglect," the IRS says.

Even if you're not required to file a return, it may be to your advantage to do so.
More than 70 percent of those who file a return are due a tax refund, and you must file a return in order to get your refund.

If you're eligible for the Earned Income Credit, you must file a return to claim it.
The credit is refundable, which means the IRS will send you a refund for any amount in excess of your tax liability.

If you qualify for the Earned Income Credit, you may be eligible for a credit of up to $2,428 for a taxpayer with one child and $4,008 for taxpayers with two or more children.

If you need more time to file your return, you may get an automatic four-month extension by completing IRS Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return.*

The extension will give you until Aug. 15 to file your return.

You must request the automatic extension by April 15.

Remember this crucial point: An extension of time to file your return doesn't give you more time to pay the tax you owe.

You will be charged interest on any tax owed but not paid by April 15th.

You may also be charged a late payment penalty. The failure-to-pay penalty is 0.50 percent of your unpaid taxes for each month, or part of a month, after the due date that the tax isn't paid.

If you need an extension of time to file, you may be able to avoid paying interest and penalties by estimating how much tax, if any, you'll owe, and including that payment with your Form 4868.

17. IRS wisdom: The early filer gets to sit back, be smug * The Commercial Appeal

The Commercial Appeal (Memphis, TN)

Jan. 13, 2002

IRS wisdom: The early filer gets to sit back, be smug

Following are tax tips from the IRS.

Earlier is better when it comes to working on your taxes. The IRS encourages everyone to get a head start on tax preparation. Not only do you avoid the last-minute rush, early filers also get a faster refund.

There are seven easy ways to get a good jump on your taxes long before the April 15 deadline rolls around:

1. Gather your records in advance, including W-2s and 1099s. Remember to save a copy for your files.
2. Get the right forms. They're available around the clock on the IRS Web site, www.irs.gov, in the "Forms & Pubs" section.

3. Take your time. Don't forget to leave room for a coffee break when filling out your tax return. Rushing can mean making a mistake - and that can be expensive!

4. Double-check your math and Social Security number. These are among the most common errors on tax returns. Taking care on these numbers reduces your chances of hearing from the IRS.

5. Get the fastest refund. When you file early, you get your refund faster. Using E-filing with direct deposit might get you a refund in as little as 10 to 15 days.

6. E-filing is easy. E-filing catches math problems, provides confirmation your return has been received and gives you a faster refund.

7. Don't panic. If you have a problem or a question, remember the IRS is there to help around the clock. Try the Web site www.irs.gov. Or call the toll-free customer service number, (800) 829-1040, between 7 a.m. and 10 p.m. weekdays, 9 a.m. to 5 p.m. Saturdays until April 13.

Your filing status on your federal tax return identifies you based on your marital and family situation, according to the IRS. It is an important factor in determining whether you must file a return, the amount of your standard deduction and your correct amount of tax. If more than one filing status applies to you, you may choose the one that gives you the lowest tax obligation.

There are five possible filing statuses: Single, Married Filing Jointly, Married Filing Separately, Head of Household and Qualifying Widow(er) with Dependent Child. Your marital status on the last day of the year determines your status for the entire year.

Generally, if you are unmarried, divorced or legally separated according to your state law, your filing status is Single.

If you are married, you and your spouse may file either a joint return or separate returns. If your spouse died during the year and you have not remarried, you may still file a joint return for the year of death.

Generally, to qualify for Head of Household status, you must be unmarried and have provided more than half the cost of keeping up a home that was the main home for yourself and a qualifying relative for more than half the year. You may also qualify if you are married but did not live with your spouse at any time during the last six months of the tax year and you provided more than half the cost of keeping up a home for you and your dependent child for more than half the year.

If your spouse died during 1999 or 2000, you may be able to file as a Qualifying Widow or Widower. To do this, you must meet all four of the following tests:

1. You were entitled to file a joint return with your spouse in the year of death,
2. You did not remarry before the end of 2001,

3. You have a child, stepchild, adopted child or foster child who qualifies as your dependent for the year, and
4. You paid more than half the cost of keeping up your home, which was the main home of that child, for the whole year.

You can find detailed information on each filing status in Publication 501, "Exemptions, Standard Deduction, and Filing Information," or by using the interactive "Tax Trails" feature on the IRS Web site at www.irs.gov. You may download forms and publications from this site or order them by calling toll free (800) TAX-FORM (1-800-829-3676).

18. Low- to middle-income investors get tax credit * Star-Telegram

Star-Telegram (Fort Worth, Texas)

January 13, 2002

Low- to middle-income investors get tax credit

There is a new federal income tax credit called the Saver's Credit, which is directed to low- and middle-income people who invest in the government's tax-deferred investment plans.

They include individual retirement account, Roth IRA, 401(k), 403(b), and 457 plans. The objective is to encourage people to put more money in those investments to expand their retirement savings.

That can be difficult for people who are barely making ends meet. The government's incentive is to offer a tax credit of as much as 50 percent of contributions up to $2,000 a taxpayer makes to a retirement plan each year. Essentially, the Saver's Credit is like a matching grant that helps pay for the first $2,000 that you invest.

Who's eligible for the Saver's Credit:

- Single people with an adjusted gross income, or AGI, of $25,000 or less.
- Heads of households with an AGI of $35,700 or less.
- Couples with an AGI of $50,000 or less.
- For married taxpayers filing jointly, each spouse is eligible for his or her own annual contribution up to $2,000.

You qualify for the credit if you are 18 or over, are not a full-time student and are not claimed as a dependent on someone else's tax return.

19. IRS, AARP offer residents free tax assistance * The Enid News and Eagle

The Enid News and Eagle (Enid, OK)

January 12, 2001

IRS, AARP offer residents free tax assistance
By: Tippi Rasp, Staff Writer

AARP: 'We do simple returns for simple people.'

It's time to tally up taxes for another year, and those who need free help have alternatives.
AARP will offer its 10-week tax assistance program starting Feb. 1.
Two or three trained volunteers will help prepare taxes 9 a.m. to 1 p.m. on Saturdays Feb. 2 through April 13, at Public Library of Enid and Garfield County, and 10 a.m. to 2 p.m. Mondays, Wednesdays and Fridays Feb. 1 through April 12 at Oakwood Bowl.

Vi Musser, AARP tax assistance coordinator, said the free services aren't just for seniors.
"It's geared primarily for seniors, but it is for anybody from low to moderate income," Musser said.
Musser said the volunteers aren't trained to tackle difficult or complicated returns.
"I've always told people, 'We do simple returns for simple people,'" Musser said.
The Internal Revenue Service will offer free help for more complicated returns, with tax credits such as Child Tax Credit, Earned Income Tax Credit and Additional Child Tax Credit.

The IRS Taxpayer Assistance Center is open during regular office hours. Hours are 8 a.m. to 4:30 p.m. Mondays, Tuesdays, Thursdays and Fridays and 8:30 a.m. to 4:30 p.m. Wednesdays.

IRS personnel will help working parents figure three tax credits - all of which can reduce the federal income taxes of working parents, said IRS spokesman David Stell.

"Some parents may be eligible to claim these credits for the first time," said Stell. "Especially if there were changes in the family such as a new child, divorce or decrease in earnings during the past year."

Susan Snowden, IRS revenue officer, said all tax forms and valuable information are available via the Internet at www.irs.gov <http://www.irs.gov>. Tax forms can be downloaded from the site.

The site allows users to enter earnings information for help on selecting a form, and it provides frequently asked questions and answers.

Snowden said a number of local sites provide the public with access to free tax forms, but many of those sites run out of forms and don't have the opportunity to regularly restock.

The IRS office, 301 W. Maine, regularly restocks all forms.
20. City to help residents get income tax credit * Indianapolis Star

Indianapolis Star

January 14, 2002

City to help residents get income tax credit
The community effort will help low-income and Hispanic families claim the money they're entitled to.
By J.K. Wall

Indianapolis aims to get an extra $5 million from Washington this year.
Not for the city government, but for lower-income residents who can claim the federal Earned Income Tax Credit.

The mayor's office has joined with the Internal Revenue Service, the Annie E. Casey Foundation, local banks, community groups, financial counselors and Hispanic groups to encourage applications for the tax credit. The coalition wants to spread the word about the credit, provide free tax preparation and connect credit recipients with financial education and new bank accounts.

The IRS estimates that 15 percent of residents who are eligible for the tax credit don't claim it. That means about $22 million is there for the taking.

But the local effort, known as the Earned Income Tax Credit Outreach Initiative, has smaller dreams. It would like to process 3,000 additional tax credit claims this year, which the IRS estimates would bring nearly $5 million to Indianapolis.

Individual families can receive up to $4,008, depending on their income and number of dependents. The IRS said the average refund in Indianapolis last year was $1,576.

Experience has shown that people who take the credit don't use the refund money on luxuries or frivolous purchases.

"Folks who get the credit help boost the economy in the city, because they don't . . . use it to go to the Bahamas," said Lena Hackett, a local coordinator for the Casey Foundation, a Baltimore-based nonprofit group that seeks to improve families and neighborhoods.

An initiative in Chicago found that credit recipients primarily used the money to pay off bills, then to buy needed items.

Indianapolis' initiative will prepare tax forms starting Feb. 1 at five sites: the Hispanic Education Center, 580 Stevens St.; Southeast Community Service, 901 Shelby St.; the Hawthorne Community Center, 2440 W. Ohio St.; the Brightwood Branch Library, 2500 N. Sherman Drive; and El Centro Hispano, 617 E. North St.

The locations were sites for the IRS' volunteer tax preparation program in past years. But the initiative seeks to beef up the IRS' efforts by promoting it and adding volunteers.

"We're out just beating the bushes right now," said Ellen Quigley, assistant deputy mayor for policy. Mayor Bart Peterson encouraged members of the Indiana CPA Society to volunteer. And neighborhood groups talked about it at their meetings.

In late January, the Casey Foundation will lead neighborhood groups in distributing fliers door-to-door in the targeted neighborhoods.

Elizabeth M. Gore, chairwoman of Martindale-Brightwood Community Development Corp., said the tax credit initiative would help in a tight economy.

"This is just extra money that you didn't count on that, during a time like this, would be very helpful," Gore said. "It would provide a surge to this community."

And Ivan Schumann, executive director of the Indianapolis Hispanic Chamber of Commerce, lauds the effort to find bilingual volunteers to help Spanish-speaking residents claim the credit and to counsel credit recipients and work with banks to open accounts.

"Instead of putting the $5,000 under the mattress," Schumann said, "it will be used in the retail economy here."

21. Miami Herald Action Line * INCOME TAXES MADE NEARLY PAINLESS

Miami Herald Action Line

January 14, 2002

INCOME TAXES MADE NEARLY PAINLESS

Need a tax form? Have a question about changes to tax law? Want to find the nearest IRS taxpayer assistance center?

If you have a personal computer and Internet access, you can point and click your way to trouble-free tax filing at www.irs.gov <http://www.irs.gov/>.

The IRS website offers a wealth of resources for making tax time less taxing. A user-friendly format allows even novice Web surfers to quickly find the information they need. With the help of the site's interactive features, you can calculate proper withholding amounts, learn if the interest you pay is fully deductible or determine whether you're eligible to claim the child and dependent care credit.

The site also provides instructions for obtaining copies of prior-year tax returns and has a handy tax event calendar. You can even get help with a particular tax question.

Millions of taxpayers visited the IRS site in 2001, downloading nearly 300 million forms, publications and a variety of topic-oriented tax information. You can obtain:

Tax forms, instructions and publications.

The latest tax information and tax law changes.

Tax tables and rate schedules.

Publication 17, *Your Federal Income Tax*.

All TeleTax topics.

Answers to the most frequently asked tax questions.

A library of tax regulations.

The weekly *Internal Revenue Bulletin*, which contains all the latest revenue rulings, revenue procedures, notices, announcements, proposed regulations and final regulations.

In addition, the IRS website offers information on the many benefits of electronic filing. More than 40 million taxpayers filed their returns electronically in 2001. It's accurate, convenient and cuts the waiting time for refunds.

22. IRS Hosts Tax Credit * Newsday

Newsday
(New York, NY)

January 15, 2002 Tuesday NASSAU AND SUFFOLK EDITION

SECTION: BUSINESS & TECHNOLOGY, Pg. A51

LENGTH: 631 words

HEADLINE: LONG ISLAND INC.;

Newsday Seeks Savings Through Staff Buyouts

BYLINE: Tami Luhby; Katia Hetter

IRS Hosts Tax Credit

Awareness Days

To help parents qualifying for the earned income tax credit, the Internal Revenue Service is hosting EITC Awareness Days at its area Taxpayer Assistance Centers tomorrow, Jan. 23 and Saturdays in February.

Working parents with incomes under $32,121 can claim the EITC with tax breaks up to $2,428 for one child and up to $4,008 for two or more children. The primary requirements include: The taxpayer must file a federal income tax return; must have earnings from wages or self-employment; and must provide a valid Social Security number for each child listed on earned income credit schedule.

The centers also assist with general tax-related issues.

Centers in Manhattan are at 290 Broadway, 110 W. 44th and 55 W. 125th streets; in Rego Park at 1 Lefrak City Plaza, 59-17 Junction Blvd.; in Garden City at 107 Charles Lindbergh Blvd.; in Massapequa in the Sunrise Mall; in Inwood at Our Lady of Good Counsel, 68 Wanser Ave.; in Hauppauge at 1180 Veterans Hwy., and in Riverhead at 518 E. Main St.

- Tami Luhby

23. Taxman cometh offering credits * New Haven Register

New Haven Register

January 13, 2002

Taxman cometh offering credits

HARTFORD - The Internal Revenue Service is advising Connecticut residents to take note of three tax credits with the potential to reduce a parent's tax burden by as much as $600 per child.

The Child Tax Credit bill, the refundable Earned Income Tax Credit and the Additional Child Tax Credit are "too valuable to overlook," said IRS spokeswoman Dianne Besunder.

Those interested in learning more about how the credits work who can claim them are available on the IRS Web site at www.irs.gov <http://www.irs.gov/>.

Parents also have the option of going to the state's seven Connecticut IRS Taxpayer Assistance Centers during Earned Income Tax Credit Awareness Days this month. The first of those is next Wednesday, from 8:30 a.m. to 4:30 p.m. Another awareness day is scheduled for Jan. 23.

Taxpayer Assistance Centers are located in Bridgeport, Danbury, Hartford, New Haven, Norwalk, New London and Waterbury.

24. In Brief * The Washington Post

The Washington Post

01/17/2002

January 15, 2002, Tuesday, Final Edition

SECTION: METRO; Pg. B03

LENGTH: 1031 words

HEADLINE: METRO; In Brief

BODY:

VIRGINIA

Virginia taxpayers, take note:

Federal tax returns, which Virginians have mailed to Philadelphia for the past decade or so, should now be sent to Memphis. The IRS began notifying taxpayers of the switch last week. The new address: IRS Service Center, Memphis, Tenn. 37501.

People who file electronically -- as more than a million Virginians did last year -- face no change. Taxpayers can visit the IRS Web site, www.irs.gov, to download forms and publications and learn about changes in the tax laws that might affect their 2001 return.

25. BEVERLY HILLS' LATE TREASURER MAY HAVE LEFT SUBSTANTIAL DEBT TO IRS ; OFFICIALS STILL TRYING TO UNTANGLE RECORDS
*** St. Louis Post-Dispatch**

St. Louis Post-Dispatch

January 14, 2002 Monday Five Star Lift Edition

SECTION: NORTH POST; Pg. 4

LENGTH: 542 words

HEADLINE: **BEVERLY HILLS' LATE TREASURER MAY HAVE LEFT SUBSTANTIAL DEBT TO IRS ; OFFICIALS STILL TRYING TO UNTANGLE RECORDS**

BYLINE: Kathie Sutin Special To The Post-Dispatch

BODY:
When Beverly Hills' treasurer died unexpectedly last year, his death left officials scrambling to find the municipality's financial records. Now officials are reeling with the news that payments he made to the Internal Revenue Service often were late, and Beverly Hills might owe the federal government thousands of dollars in back taxes and penalties.

Pervais Butt, the treasurer, had the books in his possession at the time of his death, but no one at City Hall knew where they were. In fact, no official was aware of the true financial situation. A year later, officials still are waiting to learn the exact shape of the finances. Although an auditing company has been working on straightening out the records for several months, City Clerk Langston Chambers reported to the Board of Aldermen last week that they had not yet been successful in untangling the mess.

City Attorney Richard Bresnahan said no money was missing. He said he did not know how much

Beverly Hills owed the IRS or how much it had been a ssessed in penalties.

Chief of Police and City Manager Joe Collins said Butt's late payments to the IRS probably were the result of the lagging cash flow, which often left it short of money to meet expenses, a problem officials still have.

In an interview, Chambers said the municipality had paid the IRS about $18,900 a few months ago but added that he did not know how much more was owed. "That was the bulk of it," said Chambers, adding that Hochschild, Bloom & Co., the auditor, had worked to have some of the penalties reduced.

Chambers said the amount was significant because of penalties "from years past that didn't get paid." He added that over the years, the insurance premiums sometimes were not paid and other times were paid late. "It was all kind of messed up," he said. "It was before I was hired. I'm kind of winging it."

The financial tangle also has cost money as the auditing fees mount. "Some months the auditor's bill is $1,400 and some months it's $2,500," Chambers said.

"If they were doing just our bookkeeping from month to month, the bill should run about $600 a month if everything was in proper order," he said. "It's a small city, and there's not much to do. But when you start calling back and forth and play phone tag with the IRS, the price tag goes up."

Chambers said officials had tried to carry on after the books had been found after Butt's death but that without knowing balances in the accounts, the tangle deepened.

"Things got messed up more," he said. "They were already messed up, but we didn't know it. After several months with bills coming in and sitting around with no one knowing what to do, they got messed up even more."

He estimated Beverly Hills was about $20,000 in arrears on its bills and is struggling to catch up. He said the amount was significant for a small municipality such as Beverly Hills.

"As money comes in, we kind of catch up and then we go behind, then we catch up and go behind again," he said.

On another matter, the board approved a $1 hike in the city's trash collection fee and adopted guidelines for its lateral-sewer program, which sets a $1,000 cap on the amount the municipality will pay on a sewer replacement.

26. Federal workers are among those who owe back taxes * The Free-Lance Star

The Free-Lance Star (Fredericksburg VA)

January 13, 2002
Federal workers are among those who owe back taxes

BY NOW, most of you have received your New Year's greetings from the federal government in the shape of a 2001 Form 1040 and instruction book. It truly amazes me that the Internal Revenue Service always beats the Christmas bills to my mailbox.

As the nation's premier tax collector, IRS collects about $2 trillion annually. Though most citizens comply with our tax laws by filing returns and paying taxes, some do not.

At the end of fiscal 2001, the IRS reported an estimated $240 billion in unpaid assessments, of which only $22 billion was estimated to be collectible. The total reflects all types of taxes--payroll, corporate, and individual.

At the request of the U.S. House Government Reform Committee, the General Accounting Office last year reviewed IRS records to determine the number of federal workers and annuitants who owe taxes, how much they owe and how they compare with nonfederal taxpayers.

Using IRS data, GAO reported that in October 2000, some 340,000 federal workers and annuitants owed cumulative unpaid federal taxes of about $2.5 billion. Of this amount, about 54 percent was owed by federal annuitants and 46 percent by federal workers. GAO found an additional 85,000 federal workers and annuitants who had not filed tax returns.

According to GAO, the taxes owed by federal workers and annuitants were almost always unpaid income taxes. Over one-third owed taxes for more than one year, with 56 percent going back to before 1995.

While this rate of noncompliance was fairly consistent, GAO reported that annuitants owed proportionately more in taxes than current federal workers. Much to the relief of IRS management, GAO discovered that the rate of noncompliance by IRS employees was lower than the rest of the federal population--about 3 percent.

When comparing tax compliance by federal workers and annuitants with the general taxpaying population in 2000, IRS records showed about 5 percent noncompliance for current or retired federal workers as compared to about 7 percent for their private-sector counterparts.

I was disturbed by GAO's conclusion that a significant portion, 59 percent, of the amounts owed by federal workers and annuitants were potentially uncollectible. Some didn't have the financial resources to pay or had died. But in other cases, the IRS said it was unable to locate the taxpayers--despite the fact that they are receiving federal salary or benefit payments.

To those federal workers and annuitants who owe outstanding tax obligations, I have a word of caution: Treasury's Financial Management Service is looking for you. It has the power to apply a continuous levy of up to 15 percent against your federal salary and pension payments and wants to expand its collection efforts over the next year.

27. Tax returns coming soon to North Ogden center * The Ogden Standard Examiner

The Ogden Standard Examiner

Jan 13, 2002

Tax returns coming soon to North Ogden center
By DAVID TROESTER
Standard-Examiner staff

NORTH OGDEN -- Millions of tax returns will find a new path this year through a state-of-the-art mail-processing facility in North Ogden.

The Internal Revenue Service plans to open the facility by the end of the month, just in time to handle the busy tax-return season. It will be located in a former Autoliv plant at 1973 Rulon White Blvd. in Weber Industrial Park.

Autoliv closed the 100,000-square-foot plant in August. The company sold it Dec. 31 for $3.9 million to ARKA Properties Group of Beverly Hills, Calif. ARKA, in turn, leased the facility to the U.S. General Services Administration for use by the IRS.

The facility will be equipped with modern air-handling ventilation systems to ensure safety for employees in the wake of recent anthrax scares.

"Should there be any issue that occurs when somebody opens up an envelope, for example, you can immediately shut down the ventilating systems in that area so that it limits any exposure," said Bob Wenzel, IRS deputy commissioner in Washington, D.C. Wenzel served as director of the Ogden IRS service center from 1986 to 1992.

During peak months from February through mid-June, the new mail facility will employ 1,200. No new jobs will be added. Positions will be transferred from the main IRS center off 12th Street.

The number of IRS sites in Northern Utah is now 10, including eight in Ogden and one in Syracuse. An 11th site will be added in late summer or early fall when a 120,000-square-foot complex opens off Wall Avenue in Ogden. The complex will house IRS accounts management.

The IRS employs a total of 6,900 at its Northern Utah sites. Ogden has benefited in recent years from a work restructuring at the 10 IRS service centers nationwide. The Ogden center and one in Cincinnati, Ohio gained all business-tax processing nationwide.

"The future is very bright for the Ogden location because there will be continued growth in business tax returns being filed throughout the whole country and Ogden will receive at least half of those," Wenzel said.

28. PAST FREQUENT FLYER ABUSE WON'T GO AWAY * FederalNewsRadio.com

FederalNewsRadio.com

January 15, 2002

PAST FREQUENT FLYER ABUSE WON'T GO AWAY

ALTHOUGH IT'S NOW LEGAL for feds and military personnel to use frequent flyer miles earned on official business, workers who used them BEFORE the law was changed may still be punished.

The irony is that feds can now use mileage points they earned in the past (if they have the proper records and proof). But, if they have already done that---that is, use the mileage awards before the new law was signed on December 31st---they could be in a heap of trouble!

Over the past decade, hundreds of government workers, many of them in important agency positions, have gotten into trouble for using mileage points or awards earned on business trips for personal pleasure.

Nobody knows how many employees used official miles for personal travel---either by accident or design---and weren't caught or punished.

But employees who got into trouble for ignoring---or not knowing about---the frequent flyer ban---sometimes got into big trouble. Punishments ranged from reprimands that now appear on their official work record, to suspensions and in some cases criminal prosecution and/or forced resignation.

Washington attorney Bill Bransford (Shaw, Bransford, Veilleux and Roth) said some offenders were hit very hard. In some cases, they were required to repay the government the full price of a ticket even though airlines were offering reduced rates at the time of their travel.

This week's issue of FEDmanager warns that "employees who have been subject to discipline or investigation of frequent flyer benefit misuse should be aware that allegations of misuses prior to December 31, 2001 still might be pursued as actionable...misconduct...however, the new law may substantially reduce the significance of past violations."

29. FEDERAL DIARY: Legislation Would Make a Deferred Annuity a Better Deal * The Washington Post

The Washington Post

January 15, 2002, Tuesday, Final Edition

SECTION: METRO; Pg. B02; FEDERAL DIARY STEPHEN BARR

LENGTH: 658 words

HEADLINE: **Legislation Would Make a Deferred Annuity a Better Deal**

BYLINE: Stephen Barr

BODY:

Legislation has been introduced in the House to increase the value of deferred retirement payments in the pension systems for federal employees.

Today, employees who leave their federal jobs before retirement age are eligible for a deferred annuity, payable at 62, if they have worked for the government at least five years. The amount they receive is based on retirement contributions and is not indexed to inflation. In other words, the government pays no interest on those accounts. Rather than leave their money in the pension system and at the mercy of inflation, many employees choose to take their retirement contributions with them when they leave government service.

The recently introduced House bill seeks to enhance deferred annuities and provide an incentive for departing employees to leave their retirement money with the government.

The bill, sponsored by Rep. Nydia M. Velazquez (D-N.Y.), would increase the value of deferred annuities from the time an employee left the government until the date retirement payments begin. The increased value of the deferred annuity would be based on the average increase in General Schedule salaries during that period.

The proposed change has been endorsed by the National Association of Retired Federal Employees, which noted that the civil service trust fund invests employee contributions but does not pass along any added value to people with deferred annuities.

The Velazquez bill also would provide a new survivor benefit to spouses of former employees who are eligible for a deferred annuity under the Civil Service Retirement System.

Today, when CSRS deferred annuitants die, their survivors get only what the employee contributed to the retirement fund. But survivors of employees covered by the newer Federal Employees Retirement System also receive the government's contribution toward the employees' retirement -- as do survivors of members of Congress covered by either CSRS or FERS.

Dan Adcock, NARFE's assistant legislative director, called it "a little quirk in the law" that treats CSRS survivors differently from FERS survivors and members of Congress on the issue of deferred annuities.

NARFE got involved in the issue at the urging of Jim Cowie, who once taught computer systems management in the Navy. When he quit his job to move abroad, Cowie left about $ 6,000 in his retirement account and was surprised, a decade later, to learn the government did not pay interest on such accounts.

"Fairness is really the issue," Cowie said. "I will be forever refreshed in my belief in democracy if this does work out."

Adcock said NARFE will work to "drum up support" for the Velazquez bill when Congress returns Jan. 23.

Last week, President Bush dismissed all seven Clinton appointees on the Federal Service Impasses Panel and named four replacements, including Heritage Foundation Vice President Becky Norton Dunlop as the panel's new chairman.

The panel often serves as a court of last resort in labor disputes between unions and agencies, and last week's mass firing prompted expressions of surprise and concern from some federal unions.

Yesterday, Colleen M. Kelley, president of the National Treasury Employees Union, said she looked forward "to the panel being fully staffed so that its work can continue. As far as I can tell, [Dunlop] doesn't have any experience in labor relations, and I'm concerned about that, but I'm looking forward to working with her to get that panel up and running."

Rep. Thomas M. Davis III (R-Va.) invites parents and students to free workshops Saturday on paying for college.

Learn about grants, loans, scholarships and the financial aid process at 9:30 a.m. at Gar-Field High School in Woodbridge and at 12:30 p.m. at Fairfax High School in Fairfax City. For more information, call this toll-free number: 877-840-8224.

Bradshaw, Tara

From: Washington Linda J [Linda.J.Washington@irs.gov]
Sent: Tuesday, January 15, 2002 2:20 PM
To: Carolyn Walas (E-mail); Charles A. Lacijan (E-mail); Charles L. Kolbe (E-mail); Denise L. Goss (E-mail); Desler, Anne; George E. Farr (E-mail); Hart, Dale; Heather B. Rosenker (E-mail); Joelle Jordan (E-mail); Karen Hastie Williams (E-mail); Loretta J. Bassette (E-mail); Lrlevitan (E-mail); Marlene Loor (E-mail); Maureen C. Allen (E-mail); Steve Nickles (E-mail); Tara Bradshaw (E-mail); Taylor, Gloria
Subject: IN THE NEWS: 1/15/02

Today`s Contents

1. **Tom Herman on Taxes * THE WALL STREET JOURNAL**

THE WALL STREET JOURNAL

January 15, 2002

Tom Herman on Taxes

Consider Taking a New Route When Dealing With the IRS

By TOM HERMAN
Staff Reporter of THE WALL STREET JOURNAL

Welcome to Tom Herman on Taxes, a weekly column available exclusively in The Wall Street Journal Online. Mr. Herman, the Journal's tax expert, answers questions from our readers on personal taxes and how taxes impact financial planning.

If you've been trying to resolve a long-running dispute with the Internal Revenue Service and have been getting nowhere by going through normal channels, consider another route.

A little-known unit of the IRS, the Taxpayer Advocate Service, headed by Nina E. Olson, sometimes can be surprisingly helpful in lifting struggling taxpayers out of bureaucratic quicksand.

Asking the IRS for help with the IRS may sound like a waste of time, at best. But accountants, lawyers and other tax advisers generally praise it.

What prompted me to write about this subject was a recent reader question about how to reach Ms. Olson, the IRS's National Taxpayer Advocate, whom I mentioned in a recent column about a report she sent Congress listing the 23 most serious problems facing taxpayers.

In her report, Ms. Olson says the top five most serious problems taxpayers have with the IRS are: 1) trouble with accessing the agency's customer service toll-free telephone service; 2) the tax law's multiple definitions of a "qualifying child"; 3) difficulty in determining earned-income tax-credit eligibility; 4) inaccurate answers to queries made on IRS customer service toll-free lines, or differing answers to the same question; and 5) difficulty in documenting earned-income tax credit eligibility.

For a copy of her report, as well as reports from previous years, go to www.irs.gov/ind_info/2001_tas.pdf.

The Taxpayer Advocate Service has two general goals. One is to help taxpayers clear up disputes that haven't been resolved through the usual processes. The other is to recommend "systemic solutions to make the tax process easier for everyone."

Relying on the Taxpayer Advocate Service won't work for everyone with complaints about the IRS. For example, it can't help represent you in court. The IRS Web site underscores the point that this "is not a substitute for established IRS procedures or the formal appeals process," and that this unit "cannot reverse legal or technical tax determinations." But it may be able to help with such common problems as lost refunds, mistaken penalties, erroneous notices and other miscellaneous snafus that bureaucrats seem uninterested in fixing.

In some cases, it may even be able to issue a formal order blocking the IRS from seizing your pay or property. "In certain situations, enforcement action may be suspended while your case is being reviewed," the IRS says. "The Taxpayer Advocate resolves the majority of cases administratively. Even when hardship is not a factor, the Advocate is often able to help resolve the taxpayer's problem."

While the Taxpayer Advocate Service isn't new, Congress gave it more power in 1998. Last year, the service handled more than 270,000 cases -- coming mostly from taxpayers, tax "practitioners," and as referrals from IRS operating divisions and congressional offices. About 40% of those cases arose from four IRS program areas: earned income tax credit audits, processing of claims or amended returns, processing of refunds, and initial processing of original paper or electronic individual returns.

No paper tiger, the Taxpayer Advocate has been a vocal critic of the IRS in the past. In her most recent report to Congress, Ms. Olson writes: "Only 14% of our inventory is composed of hardship cases. A small percentage of taxpayers contact us because they either don't like the way the tax law has been applied to their situation, or because they feel that their side of the issue did not get a fair hearing. Most taxpayers contact us because the IRS does not offer timely or appropriate taxpayer assistance."

Before coming to the IRS in March of last year, Ms. Olson was a lawyer specializing in representing taxpayers in tax disputes. She also founded and served as executive director of the Community Tax Law project, a low-income taxpayer clinic in Richmond, Va.

The IRS describes Ms. Olson's post as "an independent voice inside the IRS." Some readers may wonder about her independence and her relationships within the IRS. In her recent report to Congress, Ms. Olson writes: "Some may believe an advocate for the taxpayer must inevitably be the adversary of others throughout the IRS. This is not the case. The Taxpayer Advocate Service and its views were and are represented on a wide range of IRS teams and task forces, covering matters such as disaster relief, due process in collections and innocent spouse cases."

Take Action

If you've been battling the IRS for years and want to reach Ms. Olson, visit the Taxpayer Advocate Service Web site at (www.irs.gov/ind_info/advocate.html), or write to her at IRS National Taxpayer Advocate, Internal Revenue Service, 1111 Constitution Ave., N.W., Room 3031, Washington, DC 20224.

The Taxpayer Advocate Web site also offers several ways to phone the Taxpayer Advocate Service, including a toll-free phone line, (877) 777-4778. You also can call, write or visit the nearest office for your state -- see Publication 1546, "The Taxpayer Advocate Service of the IRS" for a list of local offices (ftp.fedworld.gov/pub/irs-pdf/p1546.pdf).

To bring a case to the attention of the Taxpayer Advocate Service, you'll be asked to fill out Form 911, "Application for Taxpayer Assistance Order" (ftp.fedworld.gov/pub/irs-pdf/f911.pdf). If you try it, I'd be interested in your reactions, as I'm sure I'll be writing about this topic again.

2. Tax Policy: BUSH URGES TAX CUTS BE MADE PERMANENT AFTER PLANNED EXPIRATION OF TAX RELIEF LAW* BNA

The Bureau of National Affairs, Inc., Daily Tax Report

January 15, 2002, Tuesday

10 DTR G-1 (2002)

LENGTH: 1121 words

SECTION: TAX, BUDGET & ACCOUNTING

TITLE: **Tax Policy: BUSH URGES TAX CUTS BE MADE PERMANENT AFTER PLANNED EXPIRATION OF TAX RELIEF LAW**

AUTHOR: By Nancy Ognanovich

TEXT:
President Bush Jan. 14 officially called for making last year's package of tax cuts permanent, saying in a speech that he wants the provisions of the $ 1.35 trillion tax relief package to be extended indefinitely after that law expires at the end of 2010.

While Democrats are calling for scaling back the tax relief package, Bush said in an address on his economic proposals that he has decided to argue over the next several months that the tax cuts should be permanent.

"There's going to be a debate when we go back to Washington about tax relief," Bush said during the start of a two-day, three-state trip to build support for his legislative agenda. "But I've made up my mind, the tax relief plan we passed -- which you're beginning to feel the effects of -- is going to be permanent."

Bush said he still plans to reintroduce his economic stimulus plan with provisions to extend unemployment benefits for displaced workers and to help the unemployed maintain health insurance. However, the president suggested the stimulus -- which is expected to be included in the FY 2003 budget sent to Congress early next month -- also will include language to make last year's tax cuts permanent.

"Americans don't want an unemployment check," Bush said during an address to the employees of the John Deere Harvester Works in Moline, Ill. "Americans want a permanent paycheck, and that's got to be the mission of any good stimulus package."

Bush's comments came amid reports that Sen. Edward Kennedy (D-Mass.), the president's ally on recently enacted education reform legislation, may call for scaling back the tax relief package during an address planned for Jan. 16. They also followed comments from Senate Majority Leader Thomas Daschle (D-S.D.) raising concerns about the impact tax cuts have had on the disappearance of anticipated federal budget surpluses.

'Repeal' of Tax Cut Criticized.

The tax cuts enacted under Pub. L. No. 107-16, the tax relief package passed last year, would terminate after 2010. Current estimates on the size and length of the returning federal budget deficit by the Office of Management and Budget and others reflect assumptions that the tax cuts will not be renewed after that date.

However, a proposal by the White House to extend those tax cuts after that time would likely increase deficit projections. The White House already has indicated that the budget blueprint that Bush sends to Congress for FY 2003 will reflect a new deficit.

In his comments in Illinois and in Missouri later in the day, Bush did not address the difficulty the administration will face if it pushes to make the tax cuts permanent. But the president suggested his bottom line in the upcoming debate will be to maintain the tax relief package enacted to date.

Bush reiterated his view that recession and war both justify deficit spending.

"The worst thing to do is, in the face of this recession, is to not let people have their tax break," Bush said. "It doesn't make any economic sense. And that's why we're not going to let them ... repeal this tax cut."

In terms of the economic stimulus plan, the president told farmers in Aurora, Mo., that he will work with Democrats and Republicans to provide assistance for the unemployed. But he said he will also continue to push for provisions to accelerate depreciation for equipment, give tax relief to low-income workers, and otherwise speed up tax relief.

Lindsey: Stimulus an 'Insurance Policy.'

With many economists expressing doubt about how stimulative the president's plan actually will be, White House officials now are characterizing the proposal as an insurance plan for the U.S. economy.

Lawrence Lindsey, director of the National Economic Council, said in comments Jan. 12 that he now believes the preconditions for an expansion are in place but the stimulus package is still needed.

"We have very lean inventories -- that is usually the key to the beginning of an economic expansion -- but ... what is needed is that we have an insurance policy," Lindsey said on CNN's Novak, Hunt & Shields. "And the insurance policy, quite frankly, is what the president suggested pass, the one that passed the House twice, that was stalled in the Senate, because we shouldn't take any chances here. This is the opportunity for the economy to be revived. The preconditions are there. Let's not have another year of slow growth."

Lindsey, who accompanied Bush on his trip to Illinois and Missouri, downplayed a recent analysis of the House-passed stimulus by the Congressional Budget Office that said key provisions such as ending the corporate alternative minimum tax would have only a small impact at best on the economy (5 DTR G-2, 1/8/02). Lindsey said he does not believe any changes in the stimulus package should be undertaken.

"Almost every private-sector forecast ... [has] estimated what the president proposed as being exactly what the economy needs, as was the first tax cut," Lindsey said. "It is retail sales that have held this economy together. Retail sales, I think, were the result of the tax cut that the president proposed. What we're proposing now to do is to extend that into the investment side, because it is investment that is lagging right now."

Lindsey said "there's nothing in particular" wrong with Daschle's alternate proposals for stimulating the economy, which include tax breaks for businesses that expand and add workers. However, he said "one-shot" remedies usually are not effective.

"The first thing we know is that one-time, short deals don't work," Lindsey said in addressing Daschle's plan. "You need long-term incentives. And what we're proposing is bringing those rates down as part of a long-term incentive. A three-year incentive to invest -- that's a long-term incentive. Back in the '70s we tried a lot of these one-shot, one-year deals. The economic evidence is clear. They don't work."

Lindsey also suggested that the extra spending that Daschle is proposing for homeland security, health and science research, and more will not be as carefully targeted as the extra spending the president will propose for many of the same categories in his budget.

Lindsey said OMB has subjected the spending proposals for homeland security and other areas to a cost-benefit test. And even if the extra spending in the FY 2003 budget will contribute to the deficit, he said the longer term budget outlook should be good.

"We're spending money cost-effectively," Lindsey said. "We are going to be returning to budget surplus in the not-too-distant future."

3. Bush Pledges to Restore Confidence in Economy; President Says Success Tied to War on Terror * The Washington Post

The Washington Post

January 15, 2002, Tuesday, Final Edition

SECTION: A SECTION; Pg. A04

LENGTH: 688 words

HEADLINE: **Bush Pledges to Restore Confidence in Economy; President Says Success Tied to War on Terror**

BYLINE: Mike Allen, Washington Post Staff Writer

DATELINE: AURORA, Mo., Jan. 14

BODY:

Unveiling his second-year economic agenda in stops at farm towns along the Mississippi River, President Bush promised today to restore Americans' confidence in the listless economy. He acknowledged, however, that a full recovery depends on making people feel safer from terrorism.

Bush said a cornerstone of his plan is to preserve the tax cuts that are scheduled to be phased in between now and Dec. 31, 2010, even as Sen. Edward M. Kennedy (D-Mass.) plans to launch a drive on Wednesday to roll them back.

Several elements of Bush's $ 1.35 trillion tax cut are not scheduled to take effect until the final year, including the estate tax repeal and the full $ 1,000 child tax credit. Bush has said he considers any postponement of the later phases to be a tax increase. "Now, there's going to be a debate when we go back to Washington about tax relief," Bush said this morning at a John Deere tractor factory in East Moline, Ill. "But I've made up my mind. The tax relief plan we passed, which you're now beginning to feel the effects of, is going to be permanent."

In fact, the entire tax cut package is scheduled to expire in 10 years, although many analysts predict that a future Congress and president will extend its main components.

Bush's reference to a coming debate was a shot at Kennedy, who plans to give a speech Wednesday at the National Press Club in which he will call for postponing tax cuts scheduled to take effect in 2004 and beyond. A congressional source said today that Kennedy will argue those parts of the tax cut package "overwhelmingly benefit the wealthy."

Kennedy estimates that his proposal would save the government $ 350 billion over the 10-year period. The senator will propose that the savings go to increased funding for education, a prescription drug benefit for Medicare and protection of Social Security.

Bush, however, told farmers at a feed mill here that a crucial way to stimulate growth during a recession is to let people keep more of their own money. "That's Economics 101 -- except, it sounds like some of them hadn't taken the course in Washington," he said.

Still, Bush lavished praise on Kennedy, crediting him with helping win passage of the education bill signed last week. "Never did I dream that I would say good things about him," Bush said today, drawing laughter. "Never did he dream that I would say good things about him."

Bush, expressing concern for workers who have lost their jobs or fear they will, announced a five-point plan that highlights the economic aspect of all his other domestic priorities: homeland security, education, trade, energy and an economic stimulus package that includes a speeding up of tax cuts scheduled to take effect over the next decade.

Alluding to the war on terrorism, he said: "At this moment in history, the best thing I can do, along with my administration, in order to build the confidence of the American people, is to prevent the evil ones from hitting us again."

At the earlier stop in Illinois, Bush said there is "no question the attacks on America on 9-11 have affected our confidence."

"But the more the American citizen realizes that our federal government, in combination with state government and local authorities, are working day in and day out to prevent any other kind of attack, confidence will return," he said.

The president turned his eye unabashedly toward 2004 as he opened a two-day trip, meeting with Iowa political leaders and stopping in several swing states. Bush's appearances now feature campaign-style banners saying "Working for America."

The trip was designed partly to reassure farmers who were dismayed by the administration's decision last year to stick with its free enterprise principles and oppose a farm bill that would have continued hefty subsidies. Bush said he will support a bill that is "generous and affordable."

Bush found a way to make his call for open markets palatable here in the Farm Belt. Referring to the Russian president, he said, "We've got to get my friend [Vladimir] Putin to be buying John Deere products."

4. Enron Tax Strategy Opposed by Clinton Draws Attention of Government Officials * THE WALL STREET JOURNAL

THE WALL STREET JOURNAL

January 15, 2002

Politics & Policy

Enron Tax Strategy Opposed by Clinton Draws Attention of Government Officials

By JOHN D. MCKINNON
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON -- Government officials are examining whether Enron Corp.'s extensive use of a controversial tax strategy, once opposed by the Clinton administration, contributed to its financial problems.

The tax strategy drew fire in 1996 and 1997 as a potentially improper way to reduce taxes while masking company debt. Initially, it promised a kind of accounting alchemy. It allowed a company to borrow money from a subsidiary and treat the transaction as debt that generates interest deductions for tax purposes -- but as equity for its shareholders.

But the Clinton administration failed to get Congress to block it, and the Internal Revenue Service dropped a legal challenge to Enron's use of the strategy, known generically as "trust-preferred securities." The strategy has been widely marketed and used: Goldman Sachs Group Inc. pioneered the product with an investment known as MIPS, or Monthly Income Preferred Shares or Securities. Other firms quickly followed with similar products, with different names and slightly different forms.

A spokeswoman for Goldman said the company underwrote an early Enron MIPS deal but, in general, has had little involvement with the company. As the strategy was initially marketed during the 1990s, a corporation typically formed a subsidiary that issued preferred shares paying a fixed, regular amount to investors. The subsidiary then lent the proceeds to the corporation.

For tax purposes, the corporation could deduct interest paid on the debt, arguing that the preferred shareholders owned the subsidiary. But for financial-accounting purposes, the corporation could argue that it controlled the subsidiary; hence, it could treat the loan more like an asset.

Defenders of the strategy said that in recent years, tighter accounting rules have required clearer disclosure of the debt on a company's books, although certain aspects of the strategy still carry advantages over conventional loans for purposes of ratings agencies.

The Houston energy-trading firm didn't respond to requests for comment on its use of the strategy, which became hugely popular with banks, insurance companies and utilities, among others. One advantage is that such arrangements often allow interest payments to be deferred for five years.

But the deals initially raised red flags among regulators. The Clinton administration asked Congress in 1996 and again in 1997 to limit the strategy's use in many situations. Securities firms and businesses lobbied intensely to defeat the proposal. The Internal Revenue Service challenged Enron's use of it with two subsidiaries: Enron Capital LLC, a Turks and Caicos entity, and Enron Capital Resources LP, a Delaware limited partnership. In both cases, the IRS didn't allow Enron to take the interest deductions.

Enron responded in April 1998, filing a petition in the U.S. Tax Court to overturn the IRS's decision. The litigation became the test case for the investments and briefly roiled the financial and accounting industries.

"The case will be closely watched because the MIPS structure has been used by taxpayers to raise billions of dollars in capital that is meant to be treated as debt for tax purposes but not entirely as debt by ratings agencies such as Moody's and Standard & Poors," accounting firm Ernst & Young LLP wrote to its clients in June 1998. A number of observers predicted the IRS would fail in its challenge. The IRS eventually conceded the key issues in the Enron case and issued technical advice to taxpayers allowing use of trust-preferred transactions to justify deductions in many circumstances. The ruling was "likely an outgrowth of the favorable settlement in Enron v. Commissioner," Ernst & Young wrote.

Energy price swings and the company's use of off-balance-sheet partnerships appear to have contributed substantially to Enron's problems. But government officials also are interested in Enron's use of trust-preferred products. They said that at least $900 million or so shows up in the company's latest annual report. Ed Kleinbard, a lawyer in New York who assisted the Securities Industry Association in responding to IRS audits of companies that used the trust-preferred vehicle, said that in the current regulatory environment, use of the trust-preferred strategies is legitimate. "I don't think of this as an example of the system gone awry," he said.

-- Michael Schroeder contributed to this article.

5. Pensions: GRASSLEY EXPLORING PROTECTIONS FOR RETIREMENT PLAN PARTICIPANTS * BNA

The Bureau of National Affairs, Inc., Daily Tax Report

January 15, 2002, Tuesday

10 DTR G-2 (2002)

LENGTH: 600 words

SECTION: TAX, BUDGET & ACCOUNTING

TITLE: **Pensions: GRASSLEY EXPLORING PROTECTIONS FOR RETIREMENT PLAN PARTICIPANTS**

TEXT:

Sen. Charles Grassley (R-Iowa), ranking member of the Finance Committee, said Jan. 14 he is pursuing whether Congress should tighten up protections for retirement plan participants in light of Enron Corp.'s collapse.

Millions of taxpayers have hundreds of billions of dollars invested in employer-sponsored retirement plans that receive favored treatment under the federal tax code, Grassley noted in a news release.

"The Committee on Finance has the primary responsibility, under its jurisdiction, for making sure retirement plans comply with the tax code and other laws," he said. "Our committee also has the responsibility to fix any weaknesses that might leave retirement plan participants in trouble if their employer goes under."

While all the details of the Enron retirement plans are not yet known, Grassley said, some areas already are emerging as targets for scrutiny.

Five Areas Targeted.

Specific areas Grassley is looking into are:

-- Company Stock. Under current rules, a company can restrict a retirement plan participant from selling the match received in company stock through an employee stock ownership plan. Enron employees' company stock matches were restricted, Grassley noted. The senator said he is researching whether employees should be able to change this investment choice prior to an arbitrary age.

-- Mandated Purchases of Company Stock. Current law allows a plan sponsor to compel employees to purchase up to 10 percent of employer stock as a condition of participating in a 401(k) plan. Grassley said he thinks this rule should be eliminated.

-- Fiduciary Rules. These rules ensure that companies properly invest and handle retirement plan money, including spending the money for the exclusive benefit of their employees. Grassley said he wants to learn whether Enron officials violated their fiduciary duties and, in general, whether Congress should change the existing rules.

-- Black-Outs. A black-out or lockdown occurs when a plan is shut down for a period of time to allow, for example, change to another plan administrator. Enron had such a black-out, although the length of time is disputed, Grassley said. The senator said he wants to get the facts on this because it may coincide with the decline in the company's stock value.

-- Mandated Diversification of Stocks in Retirement Plans. Some legislation has been introduced to mandate that employees hold no more than a certain percentage of stock in their 401(k) plan. Diversification in one part of the plan should indicate that all investments should be mandated, Grassley said. He added that he has an open mind, but thinks mandates are not desirable nor particularly feasible.

Grassley said he is pursuing these ideas with experts from outside groups and agencies such as the Treasury Department, the Labor Department, and the Pension Benefit Guaranty Corporation.

"The tax code smiles on retirement plans, for good reason," Grassley said. "Tax breaks encourage employers to set up retirement plans and employees to take part in those plans. If employers find it easy to break the rules, then Congress has to rewrite the rule book. Otherwise, employees counting on a secure retirement might be left out in cold."

In addition to the retirement plan track, Grassley said he is part of an effort to look into whether Enron used certain tax vehicles that might have masked the company's financial condition.

Text of Grassley's news release is in BNA TaxCore.

6. U.S. Loses Trade Case to Europeans on Offshore Tax Havens * The New York Times

The New York Times

January 15, 2002, Tuesday, Late Edition - Final

SECTION: Section C; Page 1; Column 2; Business/Financial Desk

LENGTH: 690 words

HEADLINE: **U.S. Loses Trade Case to Europeans on Offshore Tax Havens**

BYLINE: By DAVID E. ROSENBAUM with ELIZABETH OLSON

DATELINE: WASHINGTON, Jan. 14

BODY:

The United States lost its final appeal today in a dispute with Europe over tax policies. The ruling is considered all but certain to renew trans-Atlantic trade tensions and could cost American companies billions of dollars in higher taxes.

Affirming earlier rulings, an appeals panel of the World Trade Organization, the Geneva-based group that regulates trade, held that the offshore tax havens allowed by United States tax law amounted to an illegal trade subsidy and must be scrapped. The dispute between the United States and the European Union over tax havens has been going on for years, but negotiations were suspended while the case was before the appeals board.

Robert B. Zoellick, the United States trade representative, said that today's ruling was not unexpected but that he was "disappointed by the outcome."

"We will be consulting closely with Congress and affected U.S. interests regarding next steps," he added.

The next step is for a W.T.O. arbitration panel to determine the level of trade sanctions the Europeans will be allowed to impose. That will probably occur in April.

Under American law, exporters can avoid paying taxes on some overseas sales by channeling profits through subsidiaries in places like Guam and the Virgin Islands. This saves American companies -- including giants like General Electric, General Motors, Microsoft and Boeing -- more than $4 billion a year in taxes.

In dollar terms, that makes this the largest trade case in history.

The European Union contends that the tax breaks give American exporters an unfair edge in international commerce. The United States holds that the tax advantage is no greater than comparable tax breaks in Europe. European companies, for example, do not have to pay value-added taxes on exported goods. There is no difference between the Clinton and Bush administrations' positions on the issue.

Many academic tax experts have argued for years that it was bad policy to lower companies' taxes simply because they have subsidiaries overseas. But lawmakers have accepted the argument that tax havens are necessary to allow American companies to compete in international trade, and the law has strong support in both parties in Congress.

Companies will continue to receive the breaks unless the law is changed.

United States trade authorities say they think that the European Union brought this case primarily out of bitterness against Washington for using the W.T.O. to pry open European markets for bananas and hormone-treated beef. But European officials say that is not the case, and they point in particular to the advantage the tax break gives Boeing in its competition with the European consortium Airbus Industrie for global aircraft sales.

The W.T.O. first ruled against the United States in February 2000. In response, Congress tinkered with the law that fall. But the European Union said the new law was no better than the old one, and last August, the World Trade Organization agreed. Today's ruling came on an appeal of the decision last August.

"Now it is up to the U.S. to comply with the W.T.O.'s findings to settle this matter once and for all," said Pascal Lamy, trade commissioner of the European Union.

The Europeans have threatened to impose tariffs as high as 100 percent on a broad list of American goods including iron, steel and aircraft. If that were to happen, the United States would surely retaliate with stiff sanctions of its own.

But few people who follow trade matters expect an all-out trade war. "Trans-Atlantic trade is so vast and so beneficial that neither side can afford a breakdown," an American trade official said today.

The issue, therefore, is what concessions Washington will have to make to mollify the Europeans and comply with world trade rules.

"The United States respects its W.T.O. obligations, which serve America's interests," Mr. Zoellick said, "and we intend to continue to cooperate with the E.U. in order to manage and resolve this dispute. This is an especially sensitive dispute that, at its core, raises questions of a level playing field with regard to tax policy."

7. WTO Rules Against U.S. Tax Breaks, Opening the Way for EU Retaliation * THE WALL STREET JOURNAL

THE WALL STREET JOURNAL

January 15, 2002

Business and Finance - Europe

WTO Rules Against U.S. Tax Breaks, Opening the Way for EU Retaliation

By GEOFF WINESTOCK and NEIL KING JR.
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON -- The World Trade Organization ruled against a U.S. law that gives big tax breaks to American exporters, a decision that could open the way for the European Union to impose billions of dollars in retaliatory duties.

An appeals panel of the Geneva-based WTO ordered the U.S. to repeal $4 billion of tax breaks for American exporters who operate through offshore subsidiaries, or face possible sanction. If the U.S. fails to comply, the matter goes to an arbitration panel, which would set the level of penalties the Europeans can impose. U.S. trade officials said April is the earliest that the new duties could be imposed.

So far, the Bush administration has shown little desire to amend the law to ease European concerns.

The EU faces the difficult decision of how to exploit its victory. Few expect swift retaliation no matter what the arbitration board decides.

Analysts say the EU is likely to use the decision as leverage to make the U.S. moderate its policies in other areas, especially a possible move by President Bush to impose protective tariffs on foreign steel imports.

"There is no reason for the Europeans to rush for retaliation," Gary Hufbauer, a trade specialist at the Institute for International Economics in Washington, said. "This is an important bargaining chip, but for now the EU is likely to hold it in reserve."

If the U.S. imposes a new set of steel tariffs, a decision Mr. Bush must make by early March, the EU could respond with duties on selected U.S. goods from steel-producing states such as Pennsylvania or Indiana, Mr. Hufbauer said.

U.S. Trade Representative Robert Zoellick said the administration was "disappointed," but not surprised by the ruling.

"This is an especially sensitive dispute that, at its core, raises questions of a level playing field with regard to tax policy," Mr. Zoellick said in a written statement.

The decision, however was welcomed by European Trade Commissioner Pascal Lamy, who called on the U.S. to comply rapidly with the WTO's findings.

All signs pointed to continued discussions on the issue between Washington and Brussels, though the atmosphere could get chilly very quickly if Mr. Bush moves to protect the U.S. steel industry.

U.S. companies have much at stake, particularly General Electric Corp. and Boeing Corp., the biggest beneficiaries of the tax-break program. The Clinton administration sought to revise the so-called foreign sales corporations program in 2000, after the WTO made a preliminary ruling that the program violates rules that outlaw export subsidies and distorts world markets. But lobbying in Congress produced a law that handed even bigger breaks to U.S. exporters.

Meanwhile, the European Commission, the EU's executive arm, has staked its credibility on the case and has received support from some European companies, especially Airbus, which argues that the tax breaks help its archrival Boeing.

But many European companies are ambivalent about the U.S. tax breaks because they have subsidiaries in the U.S. that benefit from them. European consumers will protest any trade sanctions that make goods there more expensive. The EU also wants to avoid a spat that could make it hard to cooperate closely with the U.S. in completing the new round of world trade talks that was launched last year.

Some EU member governments, such as Belgium and Spain, are also reluctant to press too hard on the issue because the U.S. is threatening to take action against tax breaks for their companies, which the U.S. says are also in breach of world trade rules.

8. EU Says WTO Rejects U.S. Tax Law, Permitting Sanctions Claim * Bloomberg

BLOOMBERG

January 14, 2002

EU Says WTO Rejects U.S. Tax Law, Permitting Sanctions Claim

Geneva, Jan. 14 (Bloomberg) -- The European Union said it won World Trade Organization clearance to impose trade sanctions against U.S. companies after the WTO ruled that a U.S. tax break violates global export-subsidy rules.

The 15-nation EU must now decide whether to press for as much as $4 billion in damages, which would be the highest in the WTO's seven-year history. The case affects hundreds of exporters including Boeing Co., Microsoft Corp., Eastman Kodak Co., Archer Daniels Midland Co. and General Electric Co.

``Going down the road of retaliation is in no-one's interests," says John Weekes, former Canadian ambassador to the WTO who now chairs the trade practice of APCO, a public affairs company. ``It's incumbent on them both to find a solution."

The threat of European sanctions adds to trade tensions at a time when the economy on both sides of the Atlantic is slowing. The EU is also seeking to head off U.S. quotas and tariffs on steel imports, while the U.S. is considering a WTO complaint against European restrictions on genetically modified foods.

``We have made a point of handling this dispute in a very reasonable manner," EU Trade Commissioner Pascal Lamy said in a faxed statement. ``Now it is up to the U.S. to comply with the WTO's findings."

Sanctions

The WTO is expected to rule around the end of March on the final level of sanctions that the EU could apply. The EU has argued that $4.04 billion is the size of the tax law's application to U.S. companies' global exports, not just to the share that go to Europe.

Richard Mills, spokesman for U.S. Trade Representative Robert Zoellick, declined to make an immediate comment, saying the Bush administration will put out a statement ``soon."

U.S. officials have said that they would oppose any sanctions award of that size. Zoellick last year said the penalties would be like a ``nuclear bomb" on the U.S. trade relationship with the EU.

A WTO dispute panel found last August that even after an overhaul, a U.S. law that allows companies to shield income from taxes on a range of sales is an illegal export subsidy to hundreds of companies.

Several U.S. lawmakers, including California Republican Bill Thomas, who chairs the tax-writing House Ways and Means Committee, have said they would prefer to move to a ``territorial" system such as Europe's. That would mean that only domestic earnings are

subject to tax, although certain foreign profits are taxed.

Global Taxes

All U.S. taxpayers -- including foreign and domestic companies -- are eligible for tax breaks under the revised law, allowing them to protect much of their income earned outside the country from U.S. tax, as long as they have paid tax overseas on

their earnings.

Currently, the U.S. employs a ``global" tax system, in theory subjecting company earnings all over the world to tax. U.S. law then excludes some categories of earnings, a policy the WTO said was illegal.

The new law, known as the Extraterritorial Income Act, was passed in November 2000 after the U.S. missed an earlier deadline. It replaces the original Foreign Sales Corporation law.

Kenneth Dam, U.S. deputy Treasury secretary, said in November the ruling sets a standard for taxing corporate income earned abroad that calls into question the tax systems of many countries, including those in the EU.

9. IRS Tax-Shelter Victory Won't Be Overturned by U.S. High Court * BLOOMBERG

BLOOMBERG

January 14, 2002

IRS Tax-Shelter Victory Won't Be Overturned by U.S. High Court

Washington, Jan. 14 (Bloomberg) -- The U.S. Supreme Court stayed out of a battle over corporate tax shelters, rejecting an appeal by a real estate company accused of trying to dodge the Internal Revenue Service by diverting loan payments overseas.

The high court action is a boost to the IRS, which suffered courtroom setbacks recently on its claims that Compaq Computer Corp., United Parcel Service Inc. and American Home Products Corp. used illegal tax shelters. The agency says such shelters are a multibillion-dollar problem.

The justices left intact a $1.2 million assessment against Del Commercial Properties Inc., a Canadian company that manages U.S. real estate. The Bush administration urged the court not to hear the company's appeal.

Courts ``have had no problem disposing of taxpayer claims in cases such as the present one, in which there is a transparent lack of nontax business purpose," the government argued.

A federal appeals court in Washington upheld the assessment. That ruling ``may cripple tax planning," Del Commercial contended in its unsuccessful appeal.

``A basic premise of modern corporate finance is the use of numerous steps and/or intermediaries in a transaction with an underlying commercial purpose in order to reduce or eliminate tax liability," said the company, which hired Harvard law professor Laurence Tribe to make its case at the high court.

The fight centered on $14 million in loans made by Royal Bank of Canada to one of Del Commercial's Canadian parent companies in 1990. The IRS says that money was immediately passed through four affiliates before landing in Del Commercial's accounts.

Del Commercial repaid much of the money, plus interest, to the Dutch affiliate that was the last to touch the loan money.

The IRS says that was a ruse designed to avoid the duty of U.S. taxpayers to withhold taxes owed by their foreign lenders. A treaty in effect at the time exempted lenders based in the Netherlands from those taxes.

The case is Del Commercial Properties v. Commissioner of
Internal Revenue, 01-681.

10. THIRD-PARTY DESIGNEE BOX ON NEW FORM 1040 AVAILABLE * Tax Notes Today

Tax Notes Today

JANUARY 15, 2002 TUESDAY

DEPARTMENT: Official Announcements, Notices, and News Releases; IRS News Releases

CITE: 2002 TNT 10-13

LENGTH: 298 words

HEADLINE: #13 2002 TNT 10-13 **THIRD-PARTY DESIGNEE BOX ON NEW FORM 1040 AVAILABLE.** (IR-2002-04) (Release Date: JANUARY 14, 2002) (Doc 2002-1096 (1 original page))

The IRS has announced (IR-2002-04) that taxpayers can enable the IRS to talk directly with a third party to correct mistakes, such as simple math errors and data omissions, during the processing of the taxpayers' returns by selecting the third-party designee box on the new Form 1040. The third party will also be able to discuss the status of a refund, payment, or other notice with the IRS. The designation, however, does not eliminate the need for a Power of Attorney for issues dealing with examinations, under reported income, appeals, and collection notices.

11. The Widows Triumph * THE WALL STREET JOURNAL

THE WALL STREET JOURNAL

January 15, 2002

Review & Outlook

The Widows Triumph

Ever have one of those days where you roll out of bed, gulp your black coffee and pump yourself up for the big fight you know is coming? Well, with the Internal Revenue Service preparing to pursue the taxable estates of foreigners who lost their spouses on September 11, we were ready to rumble.

And then Congress surprised us, and probably even itself, and did the right thing.

The surprise is the Victims of Terrorism Tax Relief Act, and actually it wasn't totally the right thing. But we'll get back to that below. As these columns first reported when we wrote about the case of Lucy Thompson on October 12, U.S. estate-tax law lacks a spousal exemption for foreigners. This made widows and orphans juicy targets for the IRS to pounce on whatever cash and assets the victims of September 11 had left them. If the numbers add up the way we've been told, Congress has now granted them a reprieve.

Congress did this by extending to those who were killed on September 11 the same special tax treatment granted to soldiers who fall in the line of duty. Though not designed with the foreign widows and widowers in mind, these people have nonetheless received a huge assist. That's because the new law grants the special tax status to the estate of the deceased, so the spousal exemption doesn't really matter.

The math is extremely complicated, and involves tax treaties with different countries. But we're told it works out to shielding the first $8.5 million from federal tax in the absolute best cases (for those foreigners living here) to $600,000 in the worst (those nonresident). Even in the worst case, that is 10 times the protection they would have received otherwise, with much lower tax rates. As such it brings a special measure of mercy for the hundreds of foreign families who lost loved ones on September 11, including 53 British, 24 Japanese, 17 Mexicans, 18 Koreans and many dozens of others who still have mortgages and college tuitions to pay as they try to keep their families together.

Of course, the simplest and more humane solution would have been to abolish the estate tax, which is scheduled for extinction anyway, though not before 2010 and then for one year. That's precisely what Washington Representative Jennifer Dunn proposed in her Widows of the World Equity Act.

But that would have required more compassion than politicians can muster at one sitting. In fact, Congress seemed ready to consider any kind of relief, including making all of the dead U.S. citizens, rather than repeal the estate tax. And before we praise the Members of Congress too much, no doubt the fear of special publicity that would have focused on the September 11 widows was part of their motivation.

Then there is the twisted moral logic of carving out just this estate-tax exception. A British woman living in America whose husband was killed in the World Trade Center attacks can now collect whatever was left behind without fear of the IRS. But a British woman whose husband is killed by, say, a drunk driver or heart attack still faces an estate tax on her assets starting at as little as $60,000 (foreigners don't get the U.S. minimum exemption of $1 million) with confiscatory rates of up to 55%. The IRS philosophy here is that it's all their money, and that a foreign spouse might up and leave the country before the IRS gets its share.

The case of the September 11 widows illuminates that the real objection to the estate tax is moral. It is a political grab for assets on which taxes have already been paid once, if not twice. The spouses of September 11 may be catching a deserved break, but the real solution is to abolish the estate tax for everyone forever.

12. Tax Credit Misses Some Eligible * Associated Press

Associated Press

01/14/2002

Tax Credit Misses Some Eligible

By LAURA MECKLER

Associated Press Writer

WASHINGTON (AP) -- About 4.3 million taxpayers who were eligible for a tax credit aimed at the working poor did not claim it in 1999, congressional auditors reported.

That adds up to a 75 percent participation rate in the earned income tax credit program, better than programs such as food stamps and Medicaid that are available to many of the same people.

The earned income tax credit, expected to cost $30 billion this year, is one of the federal government's largest programs aimed at helping low-income Americans. Available only to the working poor, the credit enjoys bipartisan support and has been expanded several times in recent years.

The new report by the General Accounting Office found that parents with one or two children were most likely to claim the credit, with more than 90 percent taking advantage of it.

Only 45 percent of adults without children claimed the credit, and only 63 percent of those with three or more children did so.

The GAO could not explain the differences in participation rates, saying they may be a result of data collection problems in the sample examined or may be real.

Rep. William Coyne, D-Pa., the top Democrat on the Ways and Means oversight subcommittee, who requested the report, plans to ask GAO for further research.

"We are very troubled by it," said Matt Dinkel, Coyne's spokesman.

There are a variety of reasons why people who are eligible for the tax credit do not claim it, said John Wancheck, who runs an outreach campaign on this tax credit for the Center on Budget and Policy Priorities.

Among them, he said, are that families aren't aware of it, sometimes because they earn too little to be required to file a federal tax return. There also are foster parents and grandparents who may not realize that they may claim the children they care for when calculating eligibility for the credit.

The EITC, created by Congress in 1975, is refundable, meaning that even if a taxpayer owed no income tax they can get a government check by claiming the credit. About 86 percent of claims represent this form of direct cash help.

But the credit is difficult to compute and always has been plagued by errors. In 1997, the IRS found that 25.6 percent of more than $30 billion in claims "should not have been paid" due to mistakes or fraud. About 20 million taxpayers made EITC claims that year.

13. Sweeping new law might make 2002 a good year for finances * Houston Chronicle Publishing Company

The Houston Chronicle

January 14, 2002, Monday 2 STAR EDITION

SECTION: BUSINESS; Pg. 3

LENGTH: 853 words

HEADLINE: **Sweeping new law might make 2002 a good year for finances**

SOURCE: Tribune Media Services

BYLINE: GARY KLOTT

BODY:
NOW that 2002 is well under way, it's an opportune time to consider what you might do for the rest of the year to improve your financial life.

Early planning is always essential to achieve sizable tax savings. But it's especially important this year because of the sweeping tax law changes that took effect Jan. 1. Most of the major new benefits from the Tax Relief Act of 2001 start to phase in this year. Here are some strategies to help make the most of the new law benefits and otherwise save on taxes in 2002 and beyond.

Keep close tabs on your income levels: The key to qualifying for many of the new law's breaks is to find ways to hold down your "adjusted gross income." Most of the new or expanded benefits are phased out for individuals with adjusted gross incomes above certain levels.

Included are the child tax credit, retirement savings credit, the new college tax deduction, Coverdell Education Savings Account, adoption credit, student loan deduction, IRAs and the earned income credit.

Careful timing of investment sales may prove critical if you're bordering on the income limits for a valuable benefit you hope to claim. In some cases, you'll want to try to avoid realizing large investment gains in years in which you expect to reap substantial benefit from some income-contingent breaks.

Employees can reduce their adjusted gross income by taking advantage of their employer's 401(k) plans and "flexible spending arrangements" for health-care and dependent-care expenses.

Shelter more: The new law gives most individuals the opportunity to shelter much more of their income in retirement and education savings accounts, where your money can grow and compound faster than if part of the earnings were taxed away each year. The contribution limits for IRAs, self-employed retirement accounts, employer-sponsored plans and education savings accounts have been sharply increased.

Defer income: Deferring income through the use of retirement accounts and deferred-compensation plans will not only postpone the tax liability for years but also may make the income eligible to be taxed at a lower rate in the future. Tax rates above the 15 percent tax bracket are scheduled to drop in 2004 and again in 2006.

Think taxes in daily financial life: Whenever you make a financial move, consider the tax aspects. In some cases, how you arrange the financial transaction can greatly affect your tax bill.

Charitable contributions are a prime example. How much of a tax benefit you'll receive for your charitable donation will depend not only on the amount of your contribution, but also on the type of gift you make. While cash may be the most common form of charitable gift, you'll save more in taxes if you donate stocks or other investments that have increased in value. So long as you've owned the shares more than one year, you'll be eligible to claim a charitable deduction for the current market value of your donated shares. In addition, you'll escape capital gains tax on the appreciation.

Securities sales: If you plan to sell off part of your holding in a particular stock or mutual fund, the form of your "sell order" can have a significant impact on your tax bill. If you acquired the shares at different times and prices, you may be able to minimize the capital gains tax bite by designating in your sell order which specific shares to sell. For instance, you could minimize your taxable gain by instructing your broker or mutual fund to sell the shares you acquired at the highest prices. If you don't identify which specific shares are to be sold when you place your sell order, the IRS will make you use on your tax return a much less favorable method for determining which shares were deemed sold.

Consider larger tax implications: Before making any tax move, be sure to consider all the ramifications. Not every tax benefit is worth pursuing. For example, parents who plan to take advantage of the expanded education savings account to save for their child's college education need to consider the potential impact on their child's eligibility for financial aid in college. Middle-income families could lose more in financial aid than they'd save in taxes from setting up an education savings account in their child's name. In determining how much a family can afford to contribute to the cost of college, financial aid formulas count assets held in a child's name much more heavily than assets in the parent's name.

Alternative minimum income: Higher-income individuals should pay close attention to their vulnerability to the alternative minimum tax, or AMT, which inflates the tax bills of people who are able to make use of various tax breaks to slash their regular tax liability below certain levels. The number of taxpayers affected by the AMT is projected to double this year and continue to grow at a rapid rate in the years ahead, partly because of the new law's reduction in the top tax rates.

Knowing whether you're likely to be hit by the AMT is important because strategies to minimize or avoid the AMT are much different than you'd normally employ.

14. Changes to 403(b) plans help teachers save for retirement * USA TODAY

USA TODAY

January 15, 2002, Tuesday, FIRST EDITION

SECTION: MONEY; Pg. 3B

LENGTH: 790 words

HEADLINE: **Changes to 403(b) plans help teachers save for retirement**

BYLINE: Sandra Block

BODY:

Much has been said about the misplaced priorities of a society that rewards mediocre baseball pitchers with multimillion-dollar contracts while public school teachers earn less than $ 50,000 a year. Less has been said about the raw deal teachers get when it comes to saving for retirement.

Like private-sector workers with access to a 401(k) plan, teachers can arrange to have a portion of their salaries deposited in a retirement savings plan, known as a 403(b). Money contributed to a 403(b) isn't taxed until it is withdrawn, usually when the plan owner retires. But 403(b) plans, which are offered to teachers and other non-profit workers, have been dogged by high expenses and C-minus performance. And even teachers with doctorates have been baffled by the Maximum Exclusion Allowance, a complicated set of rules that governed how much they could contribute every year.

Fortunately, the Economic Growth and Tax Relief Reconciliation Act contained some big changes in 403(b) rules, effective Jan. 1. Among the major reforms:

* Higher contribution limits. Like savers in 401(k) plans, most teachers will be able to contribute up to $ 11,000 to their 403(b) plans in 2002. Teachers who are age 50 or older will be able to contribute up to $ 12,000 in 2002, under a "catch-up" provision designed to encourage older workers to save.

Some educators will be able to save much more. Many state and local governments offer 457(b) plans, another type of tax-deferred savings program, to government employees, including teachers. But in the past, teachers who participated in a 403(b) plan couldn't participate. Starting this year, teachers who are eligible for a 403(b) and a 457(b) plan can contribute the maximum to both -- up to $ 22,000 in tax-deferred savings a year, says Barbara Perry, vice president, public retirement plans for TIAA-CREF.

* The end of the Maximum Exclusion Allowance. Some teachers may still need to do some rudimentary calculations, Perry says. But most will be able to rely on the $ 11,000 limit and forget about the MEA, she says.

* More portability. In the past, the law barred teachers who switched to the private sector from transferring money from their 403(b) plans into a new employer's 401(k). Likewise, workers who left private-sector jobs to teach couldn't roll their 401(k) money into their 403(b) plans. As of Jan. 1, those prohibitions are gone, making it easier for workers to consolidate their savings in one plan.

However, not all plans allow such transfers, so check with your employer.

Better returns

The reforms don't directly address one of the biggest problems surrounding 403(b) plans: a lack of good, low-cost investment choices.

Private employers that offer 401(k) plans typically arrange for a mutual fund group or plan provider to handle their workers' 401(k) savings. The 401(k) provider offers participants a menu of investment options, usually ranging from aggressive to conservative. Because savers are part of a large group, they often get a break on fees.

Public school systems, by contrast, have stayed out of the investment business. While they'll arrange for payroll deduction into a worker's 403(b), many don't want to select a plan provider. Instead, they allow sales representatives from financial firms, usually insurance companies, to solicit business from their employees.

As a result, a lot of 403(b) money has been invested in annuities, which tend to carry much higher expenses than no-load mutual funds. Annual fees often run as high as 2% of the amount invested.

The money is frequently invested in conservative products, which lowers the risk but also leads to lower returns.

Many contracts contain surrender and back-end fees that penalize dissatisfied workers who want to switch plans.

Advocates for 403(b) reform say the situation is improving. Low-cost providers, such as TIAA-CREF, are negotiating with some school districts to manage their 403(b) plans. More providers may be willing to set up 403(b) plans now that the onerous MEA rules are gone, because it's simpler to administer the plans.

Still, some school districts need a push. If you're a teacher and are unhappy with your 403(b) choices, talk to your administrator about adding some low-cost options.

But before you approach your school district, do your homework. A good place to start is www.403bwise.com, which was founded by two educators who were frustrated with the lack of information about teachers' retirement plans. The site offers a 403(b) Bill of Rights, calculators and updates on the rules governing the plans. Morningstar, the mutual fund information source, offers a good primer on the plans at its Internet site, www.morningstar.com.

15. Tax breaks for college, retirement * The Bergen Record

The Bergen Record

January 13, 2002

Tax breaks for college, retirement
By KATHLEEN LYNN
Staff Writer

Families often face two big financial challenges at the same time: saving for college tuition and saving for retirement. The tax bill President Bush signed last summer offers help on both, with expanded tax breaks that went into effect Jan. 1.

"I've got clients who had children later in life," said accountant Tony Wyss of Closter. "Their children are not starting college till the parents are near retirement age. So it's a question of saving for college vs. saving for retirement."

All taxpayers will benefit from lower tax rates that went into effect this year, and you don't have to take any action to get them. But to make the most of the other tax breaks, you've got to ratchet up your savings. Considering the high cost of college and retirement, that might be a good idea anyway.

Among the most useful changes:

You can protect more of your retirement savings from taxes.

Under the new rules, the yearly maximum contribution for an IRA or Roth IRA rose this year, from $2,000 to $3,000 -- $3,500 for those who are at least 50 and who may need to catch up on their retirement savings.

"With this country's savings rate being so low, that is a great incentive for people to save for retirement," said Peter Traphagen Sr., a certified public accountant in Oradell.

The maximum contribution for an employer-sponsored savings plan, such as a 401(k), 403(b), or 457, rose from $10,500 to $11,000 -- $12,000 for the over-50 crowd.

You can get more tax breaks on saving for college. Families can now contribute $2,000 a year -- up from $500 a year -- to Education Savings Accounts, formerly called Education IRAs. These accounts, available through mutual funds, banks, and brokerages, allow the money to grow tax-free if used for education expenses.

And Section 529 college-savings plans, sponsored by the states, also became more attractive. Formerly, the earnings on these accounts would be taxed at the student's tax rate when taken out for college costs. Now they're completely free of federal taxes. You can generally invest in any state's plan, no matter where you live or where your child ends up attending college. For more information on Section 529 plans, check www.savingforcollege.com.

"With the incredible cost of college today, I think more and more families are beginning to save earlier," Wyss said.

For students who borrow to pay for college, the new tax law expands tax breaks for repaying student loans. Previously, the taxpayer could deduct interest on student loans for only 60 months; now there's no limit. And the deduction is now available to taxpayers at higher incomes, beginning to phase out at $50,000 for single taxpayers and to $100,000 on joint returns.

Other tax breaks that affect families include:

You can take a higher tax credit for your children -- $600 a child, up from $500. But the credit begins to phase out for families with adjusted gross incomes above $110,000 (joint return) and above $75,000 (single).

You can leave more to your heirs. Okay, it's hard to get excited about a tax break that you can get only by dying. But you can leave an estate of $1 million, up from $675,000 last year, without your heirs facing estate taxes. That exemption is set to rise steadily over the next eight years.

"This will take many families out of a taxable-estate situation," said Wyss.

And if you want to share the wealth while you're alive, you can give more to your heirs every year without worrying about gift taxes -- $11,000 this year, up from $10,000.

16. Tax time process clarified * Dallas Morning News

Dallas Morning News (Dallas, Texas)

January 14, 2002

Tax time process clarified
IRS offers guidance in navigating yearly income claims ritual
By PAMELA YIP

Most of us wish we didn't have to file a federal income tax return, but no such luck. It's an annual ritual - like it or not.

If you're a U.S. citizen or resident, the law requires you to file a tax return.

But there are some people who don't have to meet that requirement.

Whether you must file a return depends on your gross income, filing status and age.

Generally, if you're under 65, once your gross income hits the following amounts, the law requires you to file a tax return:

* $7,450 for single taxpayers.
* $9,550 for head of household.
* $13,400 for married, filing jointly.

Gross income includes all income you receive in the form of money, goods, property and services not exempt from tax.

In addition, some people believe that the elderly don't have to file a return. But that's not always true.

If you're 65 and older, you must file a return once your gross income hits the following amounts:

* $8,550 if you're filing single.
* $15,200 for married filing jointly.
* $10,650 for head of household.

If you turned 65 on Jan. 1, the government considers you to have been age 65 at the end of 2001.

"The law requires you to file a return if your income is above a certain level, so each taxpayer will pay their proper amount of tax," says Venus Birmingham, a tax resolution representative at the Internal Revenue Service in Farmers Branch.

If you're self-employed, generally you must file a tax return if your net earnings for the year exceed $400.

It's very important to file a return if you have to. The government considers it a grave violation if you don't and assesses tough failure-to-file penalties.

The penalty is usually 5 percent for each month or part of a month that a return is late, but not more than 25 percent.

The penalty is based on the tax not paid by the due date without regard to extensions.

If you file your return more than 60 days after the due date or extended due date, the minimum penalty is the smaller of $100 or 100 percent of the unpaid tax.

You won't have to pay the penalty if you can prove that you failed to file on time because of "a reasonable cause and not because of willful neglect," the IRS says.

Even if you're not required to file a return, it may be to your advantage to do so.
More than 70 percent of those who file a return are due a tax refund, and you must file a return in order to get your refund.

If you're eligible for the Earned Income Credit, you must file a return to claim it.
The credit is refundable, which means the IRS will send you a refund for any amount in excess of your tax liability.

If you qualify for the Earned Income Credit, you may be eligible for a credit of up to $2,428 for a taxpayer with one child and $4,008 for taxpayers with two or more children.

If you need more time to file your return, you may get an automatic four-month extension by completing IRS Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return.*

The extension will give you until Aug. 15 to file your return.

You must request the automatic extension by April 15.

Remember this crucial point: An extension of time to file your return doesn't give you more time to pay the tax you owe.

You will be charged interest on any tax owed but not paid by April 15th.

You may also be charged a late payment penalty. The failure-to-pay penalty is 0.50 percent of your unpaid taxes for each month, or part of a month, after the due date that the tax isn't paid.

If you need an extension of time to file, you may be able to avoid paying interest and penalties by estimating how much tax, if any, you'll owe, and including that payment with your Form 4868.

17. IRS wisdom: The early filer gets to sit back, be smug * The Commercial Appeal

The Commercial Appeal (Memphis, TN)
Jan. 13, 2002

IRS wisdom: The early filer gets to sit back, be smug
Following are tax tips from the IRS.
Earlier is better when it comes to working on your taxes. The IRS encourages everyone to get a head start on tax preparation. Not only do you avoid the last-minute rush, early filers also get a faster refund.

There are seven easy ways to get a good jump on your taxes long before the April 15 deadline rolls around:
1. Gather your records in advance, including W-2s and 1099s. Remember to save a copy for your files.
2. Get the right forms. They're available around the clock on the IRS Web site, www.irs.gov, in the "Forms & Pubs" section.

3. Take your time. Don't forget to leave room for a coffee break when filling out your tax return. Rushing can mean making a mistake - and that can be expensive!

4. Double-check your math and Social Security number. These are among the most common errors on tax returns. Taking care on these numbers reduces your chances of hearing from the IRS.

5. Get the fastest refund. When you file early, you get your refund faster. Using E-filing with direct deposit might get you a refund in as little as 10 to 15 days.

6. E-filing is easy. E-filing catches math problems, provides confirmation your return has been received and gives you a faster refund.

7. Don't panic. If you have a problem or a question, remember the IRS is there to help around the clock. Try the Web site www.irs.gov. Or call the toll-free customer service number, (800) 829-1040, between 7 a.m. and 10 p.m. weekdays, 9 a.m. to 5 p.m. Saturdays until April 13.

Your filing status on your federal tax return identifies you based on your marital and family situation, according to the IRS. It is an important factor in determining whether you must file a return, the amount of your standard deduction and your correct amount of tax. If more than one filing status applies to you, you may choose the one that gives you the lowest tax obligation.

There are five possible filing statuses: Single, Married Filing Jointly, Married Filing Separately, Head of Household and Qualifying Widow(er) with Dependent Child. Your marital status on the last day of the year determines your status for the entire year.

Generally, if you are unmarried, divorced or legally separated according to your state law, your filing status is Single.

If you are married, you and your spouse may file either a joint return or separate returns. If your spouse died during the year and you have not remarried, you may still file a joint return for the year of death.

Generally, to qualify for Head of Household status, you must be unmarried and have provided more than half the cost of keeping up a home that was the main home for yourself and a qualifying relative for more than half the year. You may also qualify if you are married but did not live with your spouse at any time during the last six months of the tax year and you provided more than half the cost of keeping up a home for you and your dependent child for more than half the year.

If your spouse died during 1999 or 2000, you may be able to file as a Qualifying Widow or Widower. To do this, you must meet all four of the following tests:

1. You were entitled to file a joint return with your spouse in the year of death,
2. You did not remarry before the end of 2001,
3. You have a child, stepchild, adopted child or foster child who qualifies as your dependent for the year, and
4. You paid more than half the cost of keeping up your home, which was the main home of that child, for the whole year.

You can find detailed information on each filing status in Publication 501, "Exemptions, Standard Deduction, and Filing Information," or by using the interactive "Tax Trails" feature on the IRS Web site at www.irs.gov.

01/17/2002

You may download forms and publications from this site or order them by calling toll free (800) TAX-FORM (1-800-829-3676).

18. Low- to middle-income investors get tax credit * Star-Telegram

Star-Telegram (Fort Worth, Texas)

January 13, 2002

Low- to middle-income investors get tax credit

There is a new federal income tax credit called the Saver's Credit, which is directed to low- and middle-income people who invest in the government's tax-deferred investment plans.

They include individual retirement account, Roth IRA, 401(k), 403(b), and 457 plans. The objective is to encourage people to put more money in those investments to expand their retirement savings.

That can be difficult for people who are barely making ends meet. The government's incentive is to offer a tax credit of as much as 50 percent of contributions up to $2,000 a taxpayer makes to a retirement plan each year. Essentially, the Saver's Credit is like a matching grant that helps pay for the first $2,000 that you invest.

Who's eligible for the Saver's Credit:

- Single people with an adjusted gross income, or AGI, of $25,000 or less.
- Heads of households with an AGI of $35,700 or less.
- Couples with an AGI of $50,000 or less.
- For married taxpayers filing jointly, each spouse is eligible for his or her own annual contribution up to $2,000.

You qualify for the credit if you are 18 or over, are not a full-time student and are not claimed as a dependent on someone else's tax return.

19. IRS, AARP offer residents free tax assistance * The Enid News and Eagle

The Enid News and Eagle (Enid, OK)

January 12, 2001

IRS, AARP offer residents free tax assistance
By: Tippi Rasp, Staff Writer

AARP: 'We do simple returns for simple people.'

It's time to tally up taxes for another year, and those who need free help have alternatives.
AARP will offer its 10-week tax assistance program starting Feb. 1.
Two or three trained volunteers will help prepare taxes 9 a.m. to 1 p.m. on Saturdays Feb. 2 through April 13, at Public Library of Enid and Garfield County, and 10 a.m. to 2 p.m. Mondays, Wednesdays and Fridays Feb. 1 through April 12 at Oakwood Bowl.

Vi Musser, AARP tax assistance coordinator, said the free services aren't just for seniors.
"It's geared primarily for seniors, but it is for anybody from low to moderate income," Musser said.

Musser said the volunteers aren't trained to tackle difficult or complicated returns.
"I've always told people, 'We do simple returns for simple people,'" Musser said.
The Internal Revenue Service will offer free help for more complicated returns, with tax credits such as Child Tax Credit, Earned Income Tax Credit and Additional Child Tax Credit.

The IRS Taxpayer Assistance Center is open during regular office hours. Hours are 8 a.m. to 4:30 p.m. Mondays, Tuesdays, Thursdays and Fridays and 8:30 a.m. to 4:30 p.m. Wednesdays.

IRS personnel will help working parents figure three tax credits - all of which can reduce the federal income taxes of working parents, said IRS spokesman David Stell.

"Some parents may be eligible to claim these credits for the first time," said Stell. "Especially if there were changes in the family such as a new child, divorce or decrease in earnings during the past year."

Susan Snowden, IRS revenue officer, said all tax forms and valuable information are available via the Internet at www.irs.gov <http://www.irs.gov>. Tax forms can be downloaded from the site.

The site allows users to enter earnings information for help on selecting a form, and it provides frequently asked questions and answers.

Snowden said a number of local sites provide the public with access to free tax forms, but many of those sites run out of forms and don't have the opportunity to regularly restock.

The IRS office, 301 W. Maine, regularly restocks all forms.

20. City to help residents get income tax credit * Indianapolis Star

Indianapolis Star

January 14, 2002

City to help residents get income tax credit
The community effort will help low-income and Hispanic families claim the money they're entitled to.
By J.K. Wall

Indianapolis aims to get an extra $5 million from Washington this year.
Not for the city government, but for lower-income residents who can claim the federal Earned Income Tax Credit.

The mayor's office has joined with the Internal Revenue Service, the Annie E. Casey Foundation, local banks, community groups, financial counselors and Hispanic groups to encourage applications for the tax credit. The coalition wants to spread the word about the credit, provide free tax preparation and connect credit recipients with financial education and new bank accounts.

The IRS estimates that 15 percent of residents who are eligible for the tax credit don't claim it. That means about $22 million is there for the taking.

But the local effort, known as the Earned Income Tax Credit Outreach Initiative, has smaller dreams. It would like to process 3,000 additional tax credit claims this year, which the IRS estimates would bring nearly $5 million to Indianapolis.

Individual families can receive up to $4,008, depending on their income and number of dependents. The IRS said the average refund in Indianapolis last year was $1,576.

Experience has shown that people who take the credit don't use the refund money on luxuries or frivolous purchases.

"Folks who get the credit help boost the economy in the city, because they don't . . . use it to go to the Bahamas," said Lena Hackett, a local coordinator for the Casey Foundation, a Baltimore-based nonprofit group that seeks to improve families and neighborhoods.

An initiative in Chicago found that credit recipients primarily used the money to pay off bills, then to buy needed items.

Indianapolis' initiative will prepare tax forms starting Feb. 1 at five sites: the Hispanic Education Center, 580 Stevens St.; Southeast Community Service, 901 Shelby St.; the Hawthorne Community Center, 2440 W. Ohio St.; the Brightwood Branch Library, 2500 N. Sherman Drive; and El Centro Hispano, 617 E. North St.

The locations were sites for the IRS' volunteer tax preparation program in past years. But the initiative seeks to beef up the IRS' efforts by promoting it and adding volunteers.

"We're out just beating the bushes right now," said Ellen Quigley, assistant deputy mayor for policy. Mayor Bart Peterson encouraged members of the Indiana CPA Society to volunteer. And neighborhood groups talked about it at their meetings.

In late January, the Casey Foundation will lead neighborhood groups in distributing fliers door-to-door in the targeted neighborhoods.

Elizabeth M. Gore, chairwoman of Martindale-Brightwood Community Development Corp., said the tax credit initiative would help in a tight economy.

"This is just extra money that you didn't count on that, during a time like this, would be very helpful," Gore said. "It would provide a surge to this community."

And Ivan Schumann, executive director of the Indianapolis Hispanic Chamber of Commerce, lauds the effort to find bilingual volunteers to help Spanish-speaking residents claim the credit and to counsel credit recipients and work with banks to open accounts.

"Instead of putting the $5,000 under the mattress," Schumann said, "it will be used in the retail economy here."

21. Miami Herald Action Line * INCOME TAXES MADE NEARLY PAINLESS

Miami Herald Action Line

January 14, 2002

INCOME TAXES MADE NEARLY PAINLESS

Need a tax form? Have a question about changes to tax law? Want to find the nearest IRS taxpayer assistance center?

If you have a personal computer and Internet access, you can point and click your way to trouble-free tax filing at www.irs.gov <http://www.irs.gov/>.

The IRS website offers a wealth of resources for making tax time less taxing. A user-friendly format allows even novice Web surfers to quickly find the information they need. With the help of the site's interactive features, you can calculate proper withholding amounts, learn if the interest you pay is fully deductible or determine whether you're eligible to claim the child and dependent care credit.

The site also provides instructions for obtaining copies of prior-year tax returns and has a handy tax event calendar. You can even get help with a particular tax question.

Millions of taxpayers visited the IRS site in 2001, downloading nearly 300 million forms, publications and a variety of topic-oriented tax information. You can obtain:

Tax forms, instructions and publications.

The latest tax information and tax law changes.

Tax tables and rate schedules.

Publication 17, *Your Federal Income Tax*.

All TeleTax topics.

Answers to the most frequently asked tax questions.

A library of tax regulations.

The weekly *Internal Revenue Bulletin*, which contains all the latest revenue rulings, revenue procedures, notices, announcements, proposed regulations and final regulations.

In addition, the IRS website offers information on the many benefits of electronic filing. More than 40 million taxpayers filed their returns electronically in 2001. It's accurate, convenient and cuts the waiting time for refunds.

22. IRS Hosts Tax Credit * Newsday

Newsday
(New York, NY)

January 15, 2002 Tuesday NASSAU AND SUFFOLK EDITION

SECTION: BUSINESS & TECHNOLOGY, Pg. A51

LENGTH: 631 words

HEADLINE: LONG ISLAND INC.;
Newsday Seeks Savings Through Staff Buyouts

BYLINE: Tami Luhby; Katia Hetter

IRS Hosts Tax Credit

Awareness Days

To help parents qualifying for the earned income tax credit, the Internal Revenue Service is hosting EITC Awareness Days at its area Taxpayer Assistance Centers tomorrow, Jan. 23 and Saturdays in February.

Working parents with incomes under $32,121 can claim the EITC with tax breaks up to $2,428 for one child and up to $4,008 for two or more children. The primary requirements include: The taxpayer must file a federal income tax return; must have earnings from wages or self-employment; and must provide a valid Social Security number for each child listed on earned income credit schedule.

The centers also assist with general tax-related issues.

Centers in Manhattan are at 290 Broadway, 110 W. 44th and 55 W. 125th streets; in Rego Park at 1 Lefrak City Plaza, 59-17 Junction Blvd.; in Garden City at 107 Charles Lindbergh Blvd.; in Massapequa in the Sunrise Mall; in Inwood at Our Lady of Good Counsel, 68 Wanser Ave.; in Hauppauge at 1180 Veterans Hwy., and in Riverhead at 518 E. Main St.

- Tami Luhby

23. Taxman cometh offering credits * New Haven Register

New Haven Register

January 13, 2002

Taxman cometh offering credits

HARTFORD - The Internal Revenue Service is advising Connecticut residents to take note of three tax credits with the potential to reduce a parent's tax burden by as much as $600 per child.

The Child Tax Credit bill, the refundable Earned Income Tax Credit and the Additional Child Tax Credit are "too valuable to overlook," said IRS spokeswoman Dianne Besunder.

Those interested in learning more about how the credits work who can claim them are available on the IRS Web site at www.irs.gov <http://www.irs.gov/>.

Parents also have the option of going to the state's seven Connecticut IRS Taxpayer Assistance Centers during Earned Income Tax Credit Awareness Days this month. The first of those is next Wednesday, from 8:30 a.m. to 4:30 p.m. Another awareness day is scheduled for Jan. 23.

Taxpayer Assistance Centers are located in Bridgeport, Danbury, Hartford, New Haven, Norwalk, New London and Waterbury.

24. In Brief * The Washington Post

The Washington Post

January 15, 2002, Tuesday, Final Edition

SECTION: METRO; Pg. B03

LENGTH: 1031 words

HEADLINE: METRO; In Brief

BODY:

VIRGINIA

01/17/2002

Virginia taxpayers, take note:

Federal tax returns, which Virginians have mailed to Philadelphia for the past decade or so, should now be sent to Memphis. The IRS began notifying taxpayers of the switch last week. The new address: IRS Service Center, Memphis, Tenn. 37501.

People who file electronically -- as more than a million Virginians did last year -- face no change. Taxpayers can visit the IRS Web site, www.irs.gov, to download forms and publications and learn about changes in the tax laws that might affect their 2001 return.

25. BEVERLY HILLS' LATE TREASURER MAY HAVE LEFT SUBSTANTIAL DEBT TO IRS ; OFFICIALS STILL TRYING TO UNTANGLE RECORDS
*** St. Louis Post-Dispatch**

St. Louis Post-Dispatch

January 14, 2002 Monday Five Star Lift Edition

SECTION: NORTH POST; Pg. 4

LENGTH: 542 words

HEADLINE: **BEVERLY HILLS' LATE TREASURER MAY HAVE LEFT SUBSTANTIAL DEBT TO IRS ; OFFICIALS STILL TRYING TO UNTANGLE RECORDS**

BYLINE: Kathie Sutin Special To The Post-Dispatch

BODY:
When Beverly Hills' treasurer died unexpectedly last year, his death left officials scrambling to find the municipality's financial records. Now officials are reeling with the news that payments he made to the Internal Revenue Service often were late, and Beverly Hills might owe the federal government thousands of dollars in back taxes and penalties.

Pervais Butt, the treasurer, had the books in his possession at the time of his death, but no one at City Hall knew where they were. In fact, no official was aware of the true financial situation. A year later, officials still are waiting to learn the exact shape of the finances. Although an auditing company has been working on straightening out the records for several months, City Clerk Langston Chambers reported to the Board of Aldermen last week that they had not yet been successful in untangling the mess.

City Attorney Richard Bresnahan said no money was missing. He said he did not know how much Beverly Hills owed the IRS or how much it had been a ssessed in penalties.

Chief of Police and City Manager Joe Collins said Butt's late payments to the IRS probably were the result of the lagging cash flow, which often left it short of money to meet expenses, a problem officials still have.

In an interview, Chambers said the municipality had paid the IRS about $18,900 a few months ago but added that he did not know how much more was owed. "That was the bulk of it," said Chambers, adding that Hochschild, Bloom & Co., the auditor, had worked to have some of the penalties reduced.

Chambers said the amount was significant because of penalties "from years past that didn't get paid." He added that over the years, the insurance premiums sometimes were not paid and other times were paid late. "It was all kind of messed up," he said. "It was before I was hired. I'm kind of winging it."

The financial tangle also has cost money as the auditing fees mount. "Some months the auditor's bill is $1,400 and some months it's $2,500," Chambers said.

"If they were doing just our bookkeeping from month to month, the bill should run about $600 a month if everything was in proper order," he said. "It's a small city, and there's not much to do. But when you start calling back and forth and play phone tag with the IRS, the price tag goes up."

Chambers said officials had tried to carry on after the books had been found after Butt's death but that without knowing balances in the accounts, the tangle deepened.

"Things got messed up more," he said. "They were already messed up, but we didn't know it. After several months with bills coming in and sitting around with no one knowing what to do, they got messed up even more."

He estimated Beverly Hills was about $20,000 in arrears on its bills and is struggling to catch up. He said the amount was significant for a small municipality such as Beverly Hills.

"As money comes in, we kind of catch up and then we go behind, then we catch up and go behind again," he said.

On another matter, the board approved a $1 hike in the city's trash collection fee and adopted guidelines for its lateral-sewer program, which sets a $1,000 cap on the amount the municipality will pay on a sewer replacement.

26. Federal workers are among those who owe back taxes * The Free-Lance Star

The Free-Lance Star (Fredericksburg VA)

January 13, 2002
Federal workers are among those who owe back taxes

BY NOW, most of you have received your New Year's greetings from the federal government in the shape of a 2001 Form 1040 and instruction book. It truly amazes me that the Internal Revenue Service always beats the Christmas bills to my mailbox.

As the nation's premier tax collector, IRS collects about $2 trillion annually. Though most citizens comply with our tax laws by filing returns and paying taxes, some do not.

At the end of fiscal 2001, the IRS reported an estimated $240 billion in unpaid assessments, of which only $22 billion was estimated to be collectible. The total reflects all types of taxes--payroll, corporate, and individual.

At the request of the U.S. House Government Reform Committee, the General Accounting Office last year reviewed IRS records to determine the number of federal workers and annuitants who owe taxes, how much they owe and how they compare with nonfederal taxpayers.

Using IRS data, GAO reported that in October 2000, some 340,000 federal workers and annuitants owed cumulative unpaid federal taxes of about $2.5 billion. Of this amount, about 54 percent was owed by federal annuitants and 46 percent by federal workers. GAO found an additional 85,000 federal workers and annuitants who had not filed tax returns.

According to GAO, the taxes owed by federal workers and annuitants were almost always unpaid income taxes. Over one-third owed taxes for more than one year, with 56 percent going back to before 1995.

While this rate of noncompliance was fairly consistent, GAO reported that annuitants owed proportionately more in taxes than current federal workers. Much to the relief of IRS management, GAO discovered that the rate of noncompliance by IRS employees was lower than the rest of the federal population--about 3 percent.

When comparing tax compliance by federal workers and annuitants with the general taxpaying population in 2000, IRS records showed about 5 percent noncompliance for current or retired federal workers as compared to about 7 percent for their private-sector counterparts.

I was disturbed by GAO's conclusion that a significant portion, 59 percent, of the amounts owed by federal workers and annuitants were potentially uncollectible. Some didn't have the financial resources to pay or had died. But in other cases, the IRS said it was unable to locate the taxpayers--despite the fact that they are receiving federal salary or benefit payments.

To those federal workers and annuitants who owe outstanding tax obligations, I have a word of caution: Treasury's Financial Management Service is looking for you. It has the power to apply a continuous levy of up to 15 percent against your federal salary and pension payments and wants to expand its collection efforts over the next year.

27. Tax returns coming soon to North Ogden center * The Ogden Standard Examiner

The Ogden Standard Examiner

Jan 13, 2002

Tax returns coming soon to North Ogden center
By DAVID TROESTER
Standard-Examiner staff

NORTH OGDEN -- Millions of tax returns will find a new path this year through a state-of-the-art mail-processing facility in North Ogden.

The Internal Revenue Service plans to open the facility by the end of the month, just in time to handle the busy tax-return season. It will be located in a former Autoliv plant at 1973 Rulon White Blvd. in Weber Industrial Park.

Autoliv closed the 100,000-square-foot plant in August. The company sold it Dec. 31 for $3.9 million to ARKA Properties Group of Beverly Hills, Calif. ARKA, in turn, leased the facility to the U.S. General Services Administration for use by the IRS.

The facility will be equipped with modern air-handling ventilation systems to ensure safety for employees in the wake of recent anthrax scares.

"Should there be any issue that occurs when somebody opens up an envelope, for example, you can immediately shut down the ventilating systems in that area so that it limits any exposure," said Bob Wenzel, IRS deputy commissioner in Washington, D.C. Wenzel served as director of the Ogden IRS service center from 1986 to 1992.

During peak months from February through mid-June, the new mail facility will employ 1,200. No new jobs will be added. Positions will be transferred from the main IRS center off 12th Street.

The number of IRS sites in Northern Utah is now 10, including eight in Ogden and one in Syracuse. An 11th site will be added in late summer or early fall when a 120,000-square-foot complex opens off Wall Avenue in

Ogden. The complex will house IRS accounts management.

The IRS employs a total of 6,900 at its Northern Utah sites. Ogden has benefited in recent years from a work restructuring at the 10 IRS service centers nationwide. The Ogden center and one in Cincinnati, Ohio gained all business-tax processing nationwide.

"The future is very bright for the Ogden location because there will be continued growth in business tax returns being filed throughout the whole country and Ogden will receive at least half of those," Wenzel said.

28. PAST FREQUENT FLYER ABUSE WON'T GO AWAY * FederalNewsRadio.com

FederalNewsRadio.com

January 15, 2002

PAST FREQUENT FLYER ABUSE WON'T GO AWAY

ALTHOUGH IT'S NOW LEGAL for feds and military personnel to use frequent flyer miles earned on official business, workers who used them BEFORE the law was changed may still be punished.

The irony is that feds can now use mileage points they earned in the past (if they have the proper records and proof). But, if they have already done that---that is, use the mileage awards before the new law was signed on December 31st---they could be in a heap of trouble!

Over the past decade, hundreds of government workers, many of them in important agency positions, have gotten into trouble for using mileage points or awards earned on business trips for personal pleasure.

Nobody knows how many employees used official miles for personal travel---either by accident or design---and weren't caught or punished.

But employees who got into trouble for ignoring---or not knowing about---the frequent flyer ban---sometimes got into big trouble. Punishments ranged from reprimands that now appear on their official work record, to suspensions and in some cases criminal prosecution and/or forced resignation.

Washington attorney Bill Bransford (Shaw, Bransford, Veilleux and Roth) said some offenders were hit very hard. In some cases, they were required to repay the government the full price of a ticket even though airlines were offering reduced rates at the time of their travel.

This week's issue of FEDmanager warns that "employees who have been subject to discipline or investigation of frequent flyer benefit misuse should be aware that allegations of misuses prior to December 31, 2001 still might be pursued as actionable...misconduct...however, the new law may substantially reduce the significance of past violations."

29. FEDERAL DIARY: Legislation Would Make a Deferred Annuity a Better Deal * The Washington Post

01/17/2002

The Washington Post

January 15, 2002, Tuesday, Final Edition

SECTION: METRO; Pg. B02; FEDERAL DIARY STEPHEN BARR

LENGTH: 658 words

HEADLINE: **Legislation Would Make a Deferred Annuity a Better Deal**

BYLINE: Stephen Barr

BODY:

Legislation has been introduced in the House to increase the value of deferred retirement payments in the pension systems for federal employees.

Today, employees who leave their federal jobs before retirement age are eligible for a deferred annuity, payable at 62, if they have worked for the government at least five years. The amount they receive is based on retirement contributions and is not indexed to inflation. In other words, the government pays no interest on those accounts. Rather than leave their money in the pension system and at the mercy of inflation, many employees choose to take their retirement contributions with them when they leave government service.

The recently introduced House bill seeks to enhance deferred annuities and provide an incentive for departing employees to leave their retirement money with the government.

The bill, sponsored by Rep. Nydia M. Velazquez (D-N.Y.), would increase the value of deferred annuities from the time an employee left the government until the date retirement payments begin. The increased value of the deferred annuity would be based on the average increase in General Schedule salaries during that period.

The proposed change has been endorsed by the National Association of Retired Federal Employees, which noted that the civil service trust fund invests employee contributions but does not pass along any added value to people with deferred annuities.

The Velazquez bill also would provide a new survivor benefit to spouses of former employees who are eligible for a deferred annuity under the Civil Service Retirement System.

Today, when CSRS deferred annuitants die, their survivors get only what the employee contributed to the retirement fund. But survivors of employees covered by the newer Federal Employees Retirement System also receive the government's contribution toward the employees' retirement -- as do survivors of members of Congress covered by either CSRS or FERS.

Dan Adcock, NARFE's assistant legislative director, called it "a little quirk in the law" that treats CSRS survivors differently from FERS survivors and members of Congress on the issue of deferred annuities.

NARFE got involved in the issue at the urging of Jim Cowie, who once taught computer systems management in the Navy. When he quit his job to move abroad, Cowie left about $ 6,000 in his retirement account and was surprised, a decade later, to learn the government did not pay interest on such accounts.

"Fairness is really the issue," Cowie said. "I will be forever refreshed in my belief in democracy if this does work out."

01/17/2002

Adcock said NARFE will work to "drum up support" for the Velazquez bill when Congress returns Jan. 23.

Last week, President Bush dismissed all seven Clinton appointees on the Federal Service Impasses Panel and named four replacements, including Heritage Foundation Vice President Becky Norton Dunlop as the panel's new chairman.

The panel often serves as a court of last resort in labor disputes between unions and agencies, and last week's mass firing prompted expressions of surprise and concern from some federal unions.

Yesterday, Colleen M. Kelley, president of the National Treasury Employees Union, said she looked forward "to the panel being fully staffed so that its work can continue. As far as I can tell, [Dunlop] doesn't have any experience in labor relations, and I'm concerned about that, but I'm looking forward to working with her to get that panel up and running."

Rep. Thomas M. Davis III (R-Va.) invites parents and students to free workshops Saturday on paying for college.

Learn about grants, loans, scholarships and the financial aid process at 9:30 a.m. at Gar-Field High School in Woodbridge and at 12:30 p.m. at Fairfax High School in Fairfax City. For more information, call this toll-free number: 877-840-8224.

Bradshaw, Tara

From: Washington Linda J [Linda.J.Washington@irs.gov]
Sent: Monday, January 14, 2002 12:53 PM
To: Carolyn Walas (E-mail); Charles A. Lacijan (E-mail); Charles L. Kolbe (E-mail); Denise L. Goss (E-mail); Desler, Anne; George E. Farr (E-mail); Hart, Dale; Heather B. Rosenker (E-mail); Joelle Jordan (E-mail); Karen Hastie Williams (E-mail); Loretta J. Bassette (E-mail); Lrlevitan (E-mail); Marlene Loor (E-mail); Maureen C. Allen (E-mail); Steve Nickles (E-mail); Tara Bradshaw (E-mail); Taylor, Gloria
Subject: IN THE NEWS: 1/14/02

Today`s Contents

1. IRS: TAX GROUPS URGE TREASURY, OMB TO SUPPORT ADEQUATE FUNDING FOR IRS * BNA

The Bureau of National Affairs, Inc., Daily Tax Report

January 14, 2002, Monday

09 DTR G-3 (2002)

LENGTH: 256 words

SECTION: TAX, BUDGET & ACCOUNTING

TITLE: **IRS: TAX GROUPS URGE TREASURY, OMB TO SUPPORT ADEQUATE FUNDING FOR IRS**

AUTHOR: By Brant Goldwyn

TEXT:

The Tax Executives Institute and the National Society of Accountants wrote Jan. 11 to the Treasury Department and the Office of Management and Budget to urge adequate funding in the Internal Revenue Service's fiscal year 2003 budget.

TEI and NAS each wrote to ask Treasury Secretary Paul O'Neill and OMB Director Mitchell E. Daniels to "resist pressure to reduce the [IRS] funding level" and to assure IRS that "the programs needed to implement its mission will be fully and effectively funded."

Adequate funding is necessary to enable IRS "to effectively administer this country's tax laws" and "to succeed in reinventing itself as a modern, customer-focused agency," said Robert L. Ashby, TEI's international president.

"Our organization ... encourages you to play a constructive role in providing the service with sufficient assets to fulfill its new mission," NAS Executive Vice President John G. Ams said. "Full funding of critical IRS initiatives is of utmost importance and to do less is to short change the American taxpayer."

Referring to concerns expressed by Sen. Charles Grassley (R-Iowa) about IRS inventory management problems (7 DTR G-9, 1/10/02), TEI said "[a]lthough we recognize that the IRS has experienced some problems with its inventory management, we believe the agency has made substantial progress. ... [T]hese concerns, while important, should not impede the IRS's effort to deal with its broader mission."

Texts of the TEI and NAS letters are in BNA TaxCore.

2. Supreme Court Will Review Case On Taxation of Restaurant Tips * THE WALL STREET JOURNAL

THE WALL STREET JOURNAL

January 14, 2002

Law

Supreme Court Will Review Case On Taxation of Restaurant Tips

By ROBERT S. GREENBERGER
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON -- The Supreme Court said it would review how the Internal Revenue Service estimates income from tips, a case that restaurants and their employees are watching closely.

Using an aggregate estimating method, the IRS determined that Fior D'Italia, a San Francisco restaurant, underpaid taxes by about $12,000 in both 1991 and 1992. The restaurant challenged the ruling and prevailed in federal court and in the appeals court. The courts said the IRS must make individual audits before determining how much tax income is unreported.

Under IRS rules, tips received by an employee totaling more than $20 a month are considered reportable wages and subject to Federal Insurance Contribution Act taxes, payable by both the worker and employer. The Supreme Court's decision could affect any worker who earns substantial tips.

The restaurant showed that employees reported tips of $247,181 for 1991 and $220,845 for 1992. But that didn't go down well with the IRS, which noted that tips reported on credit-card slips alone totaled $364,786 in 1991 and $338,161 for 1992. The IRS increased the tax bite, using the then-7.65% FICA tax rate, according to filings to the court, to determine the additional taxes owed.

In upholding the lower court, the U.S. Court of Appeals for the Ninth Circuit, in San Francisco, ruled that the IRS assessment was invalid because "it rests on an estimate in circumstances where Congress has not authorized the IRS to use estimation as an assessment method."

In asking the high court to review the case, the U.S. solicitor general said, "This case presents a frequently recurring question of significant importance on which the courts of appeals are in sharp conflict."

3. Supreme Court To Hear Tip Tax Case * Associated Press

Associated Press

Jan. 12, 2002

Supreme Court To Hear Tip Tax Case

By GINA HOLLAND

WASHINGTON (AP) -- The Supreme Court agreed Friday to hear Bush administration arguments that restaurants have been given too much leeway on their taxes.

Justices will decide how much flexibility the IRS has in calculating taxes that businesses owe from employees' tips.

Determining taxes from tips has long been a troublesome task because often the tips are cash and workers handle their own paperwork.

The Supreme Court sided with the IRS nearly 30 years ago in a case involving employees accused of underreporting tips. This dispute deals with audits of restaurants.

The court is being asked to affirm the practice of estimating the amount of tips that should have been given to employees, then using that amount to determine whether correct taxes were collected from their employer.

An appeals court has ruled that the practice is improper.

Solicitor General Theodore Olson said in court filings that without accurate or complete records "the IRS has no plausible alternative but to rely on an indirect method to estimate the tips."

The lawyer for San Francisco restaurant Fior d'Italia sees it differently.

"It would appear (the government) seeks the authority to unleash thousands of untrained IRS agents, wholly unfamiliar with the nuances of vastly varying restaurant operations and tipping practices and procedures, on the hundreds of thousands of restaurants across the country," Tracy J. Power told the court.

Power said the IRS did not take into account cheap tippers, takeout meals or tip-sharing among hostesses and other staff.

Justices agreed to consider reversing an earlier court victory for Fior d'Italia, an Italian restaurant which dates back to the 1880s.

A panel of the 9th U.S. Circuit Court of Appeals said the IRS had "some serious flaws" in its calculation for taxes and restaurants could end up paying too much.

"We are aware that auditing individual employees is much more cumbersome than slapping the employer with assessments based on aggregate estimates," Appeals Judge Alex Kozinski wrote in that decision.

The government also lost in a lower court. Other courts around the country, however, have sided with the IRS in similar fights.

The Supreme Court said in 1973 that the IRS can make an educated guess about employees' tip taxes when records are inadequate. Kozinski said that in this situation, restaurants cannot be blamed for problems with their employees' records.

At issue is the employer's share of FICA taxes. Fior d'Italia Inc. is challenging taxes from 1991 and 1992. Using credit card receipts, the IRS had estimated that staff received tips of about 14 percent on meals.

The restaurant had paid taxes based on what employees said they received, which was less than 14 percent. The restaurant's attorney said that if the IRS suspected underreporting by employees, it should have audited them. The restaurant then could revise its own records if there were problems.

Olson said Congress recognized tip tax problems and passed a law in 1998 that lets restaurants enter agreements with the IRS.

Restaurants promise to educate employees about tip reporting and set up procedures to get accurate information. In return, the IRS agrees to collect taxes only on reported tips or unreported tips discovered during an audit of an employee.

IRS records show that employees are doing a better job. The amount of reported tips in the restaurant business increased from $8.5 billion in 1994 to $14.3 billion in 1999, according to the IRS.

The case is United States v. Fior d'Italia Inc., 01-463.

4. New Number, Fewer Answers at IRS * The Washington Post

The Washington Post

January 14, 2002, Monday, Final Edition

SECTION: FINANCIAL; Pg. E03

LENGTH: 910 words

HEADLINE: **New Number, Fewer Answers at IRS**

BYLINE: Albert B. Crenshaw, Washington Post Staff Writer

BODY:

For the past month or so, budding entrepreneurs report that it has been all but impossible to reach the Internal Revenue Service to obtain an employer identification number (EIN), without which it's impossible to open a business bank account, get health insurance, or even deposit or pay taxes properly.

Minna Kahn, a certified public accountant in Bethesda, said she began calling Dec. 24, trying to get EINs for clients, and got nothing but busy signals or a recorded message saying please call back later. She called at 7 in the morning, all during the day and into the evening -- always with the same result, she said.

The agency is not responding for some other requests, either. One of Kahn's clients wanted to make an election to be treated as a Subchapter S corporation, a form often used by small businesses because it allows profits and losses to be passed through to owners for tax purposes. But there is a deadline for doing this, and her client saw it looming. Kahn could not get through by fax, so she mailed the application, but as of last week she had gotten no response.

"It is just so frustrating. They want you to comply with the requirements, then you are at a total loss," she said.

Likewise Susan B. Levine, just starting a company in the District, hit the same EIN wall.

She and her attorney, Julian Spirer, started trying Dec. 18, expecting to get the number in a couple of days.

No such luck. "We've been in phone-recording hell," she said last week.

The IRS says that (a) it is sorry, and (b) it is working to get things fixed.

The explanation, IRS spokesman Tim Harms said, is that the agency had to shut down its system to do year-end processing, and on Jan. 1 it converted to a new single national phone number for these requests. The backlog from the December shutdown, combined with more new requests than expected, overwhelmed the new phone system. And the situation was made worse by taxpayers calling to try to find out what had happened to fax and mail requests.

"We've redirected personnel to make sure calls are answered timely," and "there should be significant improvement by Jan. 18," Harms said, adding that the agency is also tackling that backlog. But "it will probably take us about three weeks to catch up," he said.

There is hope -- of sorts. By the end of last week, both Kahn and Levine, displaying small-business initiative and tenacity, said they had gotten their numbers. Kahn just kept calling, and all of a sudden she got through.

Levine took her problems to the office of the National Taxpayer Advocate, where an IRS worker promised to help and assigned her a case number, though not an employer number. Then on Thursday, she said, "the taxpayer advocate came through for me. I have an EIN. I spoke to the most delightful person. She was most helpful . . ., so it's a nice happy ending."

Meanwhile, the IRS hopes people who do not absolutely have to will hold off on calling. The more calls it gets, the harder it is to catch up.

Small businesses contemplating starting an employee retirement plan -- or that have a relatively new one -- get a break this month.

Under the tax-cut bill passed last year, the customary "user fee" assessed by the IRS for a favorable determination letter on the tax-qualified status of a retirement plan is waived for employers with 100 or fewer employees.

These determination letters allow an employer to show the IRS the plan, and the agency can determine if it passes all the tests for favorable tax treatment.

Exempting small businesses from the fee, which can run from $ 125 to $ 1,250, is meant to encourage small companies to start retirement plans. The exemption is available anytime during the first five years of the plan's operation.

The Small Business Administration said recently that it will extend the application deadline for its Physical Loss Disaster Loans to March 11. The previous deadline had been last Thursday. It also is extending the National Economic Injury Disaster Loan application deadline to April 22.

The Physical Loss Disaster Loan program is designed to help small businesses recover from physical damage caused by a catastrophe within a federally declared disaster zone, such as New York. In October, the SBA broadened its Economic Injury Disaster Loan (EIDL) program to qualified small businesses affected by the terrorist attacks nationwide, creating the National Economic Injury Disaster Loan (NEIDL) program. The NEIDL had an original deadline of Jan. 10. The deadline for the regular EIDL, just for the declared New York and Virginia disaster zones, remains June 11.

"Small businesses, which we depend on for our recovery and rejuvenation, are still hurting," said Rep. Nydia M. Velazquez (D-N.Y.), ranking minority member of the House Small Business Committee. "Many of them are just now discovering how badly they have suffered over the past three months. It is important to keep these resources open to them."

The Bush administration last month revoked a year-old regulation that small businesses claimed effectively blacklisted them from government contracts if they did not follow union rules on projects. . . . The IRS ruled this month that operators of taverns and restaurants can expense "smallwares," a term that covers myriad small items including salt shakers, bar glasses, cruets and potholders, rather than capitalizing them.

5. BusinessWeek: IRS Launches Investigation Into ... * BUSINESS WIRE

BUSINESS WIRE

Jan 11, 2002

BusinessWeek: IRS Launches Investigation Into ...

NEW YORK, Jan 11, 2002 (BUSINESS WIRE) -- The Internal Revenue Service has opened its own investigation of Enron Corp., the beleaguered and bankrupt energy trader, according to senior government investigators, BusinessWeek Online has learned.

The tax service could bring civil or criminal charges if it found that Enron's accounting snafus were reflected in its tax returns.

The IRS probe pushes to an even dozen the count of government inquiries into the accounting, securities, and pension practices of the failed Houston-based giant. The Securities & Exchange Commission is investigating whether errors on Enron's financial statements constituted securities fraud -- a question which is also subject to an investigation by a nationwide task force of the Justice Dept.

Meanwhile, the Labor Dept. is investigating Enron's pension plans, which barred employees from selling their Enron stock as the company melted down last fall. And President George W. Bush has ordered two Cabinet-level task forces to look into issues surrounding Enron's pensions and energy trading, while at least six committees in Congress have announced probes or hearings.

Contacted by Business Week Online, the IRS would neither confirm or deny any investigation, citing Enron's privacy rights as a taxpayer. Enron had no immediate comment. And Enron's outside counsel, Washington attorney Robert Bennett, could not be reached for comment for this story.

Details of the IRS probe were not available. But according to attorneys familiar with tax law, the agency could be looking into whether the original accounting treatment, which separated the partnerships' profits and losses from Enron's, misstated the giant company's tax liability. In particular, the probe could look at whether Enron claimed interest deductions for $1.2 billion in debt which it carried on its books as shareholders' equity.

The complete text of the article appears on BusinessWeek Online at http://www.businessweek.com/

6. Congressional Panel Probes Enron Audit; Andersen Memo Is at Center of Inquiry * THE WALL STREET JOURNAL

THE WALL STREET JOURNAL

January 14, 2002

Major Business News

Congressional Panel Probes Enron Audit; Andersen Memo Is at Center of Inquiry

By MICHAEL SCHROEDER and TOM HAMBURGER
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON -- A House committee is seeking information about an Oct. 12 memo from Arthur Andersen LLP management, which committee aides believe advised the firm's Enron Corp. audit team to abide by an Andersen policy to destroy electronic and paper documents relating to audits.

The memo was issued days before Enron reported a $618 million loss for the third quarter last year. Last week, Arthur Andersen confirmed the destruction of documents and said it is investigating further.

"We acknowledge that there were internal communications that raise questions. Until we know more, it would be inappropriate to comment further," said David Tabolt, a spokesman at Arthur Andersen. He wouldn't confirm the existence of the memo, which was reported by Time magazine on its Web site Sunday.

The congressional inquiry is also looking into possible tax violations by Enron, Capitol Hill aides said.

Enron filed for Chapter 11 bankruptcy-court protection on Dec. 2, the largest ever, following a series of recent financial setbacks, including a restatement of financial results dating back to 1997. The collapse of the

Houston energy-trading company is being investigated by the Securities and Exchange Commission and the Justice Department, as well as by various congressional committees.

On Friday, Rep. Billy Tauzin (Rep., La.), chairman of the House Energy and Commerce Committee, wrote Arthur Andersen's chief executive, Joseph Berardino, for documents and information concerning the destruction of Enron documents.

He asked for a copy of the Oct. 12 memo and subsequent correspondence from Arthur Andersen's professional-standards group at the firm's Chicago headquarters. In addition, the committee has requested information about whether the Enron auditors continued to destroy documents after the SEC issued a subpoena Nov. 8 related to its formal investigation of Enron.

In another development, the Senate Governmental Affairs Committee sent out 51 subpoenas Friday to Enron and Andersen. Each Enron board member received a subpoena, including Wendy Gramm, former chair of the Commodities Futures Trading Commission and wife of Texas Sen. Phil Gramm.

Sen. Carl Levin, Michigan Democrat and chairman of the investigations subcommitee, said on ABC's "This Week" that the panel is "focusing on ... the failures of this corporation, the deceptive practices of this corporation and the failure of its auditors and board."

The SEC launched a formal investigation into potential accounting fraud at Enron on Oct. 31 and later expanded its inquiry to include Arthur Andersen's audit work. Last week, Arthur Andersen disclosed that it had destroyed documents related to its Enron audit work after investigators from the House committee raised questions about missing documents.

The existence of missing documents was turned up by Davis Polk & Wardwell, an outside law firm hired by Arthur Andersen to assist in the SEC investigation. The accounting firm informed the law firm that it couldn't comply with part of the SEC's request for documents because many had been destroyed, according to people with knowledge of the probe.

As a result, Arthur Andersen informed the SEC before last week that it was missing some of the documents requested by the agency, including e-mails and audit partners' paper files that were shredded, these people say. None of Arthur Andersen's audit-work papers, which are most critical to the investigation, were destroyed. After learning about the document destruction, the SEC subpoenaed Arthur Andersen's computer hard drives and tapes, these people say.

Davis Polk now has the tapes and hard drives and has hired outside computer technical people to recover the e-mails, these people say. The SEC is particularly interested in recovering e-mail correspondence among audit partners to determine whether there was an internal debate at Arthur Andersen about the propriety of Enron's accounting, they say.

SEC spokeswoman Christi Harlan said the agency doesn't comment on investigations.

Also last week, the Justice Department confirmed that it has set up a task force of U.S. Attorneys offices to investigate Enron's collapse. The criminal probe has been under way since early December.

As a result, the SEC, which had assigned a team to conduct a rapid investigation, may now be taking a back seat to the Justice Department's probe. The SEC is hunkering down for a long-term probe that has been slowed by a parallel criminal investigation, according to people with knowledge of the matter.

The SEC and criminal authorities are looking at whether Enron officials intended to deceive investors through improper accounting and by failing to properly disclose transactions between Enron and partnerships affiliated with Enron executives.

Meanwhile, congressional aides said tax issues are increasingly surfacing as a focus in the various Enron investigations. Aides said, for instance, that Enron might have excluded some of its hefty debt from its shareholder books but counted it as debt for tax purposes, in order to take interest deductions. That might or might not be appropriate, the aides said. Officials also are interested in other complex investment vehicles that accomplished much the same thing for Enron -- treating investments as equity for accounting purposes but as debt for tax purposes.

The location of some of the company's numerous accounts in the Cayman Islands -- a Caribbean tax haven -- also is generating interest. It is likely that the Internal Revenue Service will become active in the various investigations, tax experts said. An IRS spokesman declined to comment.

Regarding the SEC probe, the agency wouldn't file a case until after criminal authorities have completed their probe, regardless of when the SEC might prepare a civil enforcement action. Criminal cases take precedence because defendants face possible jail time and restitution, while the SEC imposes less onerous civil fines and sanctions. The facts of both civil and criminal securities-fraud allegations are similar, but the Justice Department has a higher threshold of proof that can cause criminal investigations to take longer. Prosecutors must prove allegations "beyond a reasonable doubt." The SEC must produce a "preponderance" of evidence of wrongdoing.

While the SEC has interviewed numerous Enron officials at various levels and has received hundreds of thousands of documents, the existence of the criminal probe has begun to affect the SEC. Witnesses who are being criminally investigated are often reluctant to answer SEC questions, claiming the Fifth Amendment right against self-incrimination.

Andrew Fastow, Enron's former chief financial officer, invoked the Fifth Amendment in his interview with the SEC in late December, according to people with knowledge of the matter. Mr. Fastow's lawyer couldn't be reached.

Meanwhile, the attorney for Jeffrey Skilling, Enron's former chief executive, said that Mr. Skilling answered all questions. Enron Chairman Kenneth Lay hasn't yet been interviewed by the SEC.

Despite SEC Chairman Harvey Pitt's push for "real-time enforcement" to speed resolution of securities-fraud cases, the complex facts surrounding the investigation of Enron and Arthur Andersen will prevent the agency from finishing its probe before year end, these people say.

Arthur Andersen's role in the Enron probe suggests a clear-cut reason for Mr. Pitt to recuse himself from action on the matter. Mr. Pitt's former law-firm clients include Arthur Andersen and the other Big Five accounting firms.

The SEC's Ms. Harlan declined to comment on whether Mr. Pitt will recuse himself from the Enron probe. Mr. Pitt has said he wouldn't take part in decisions by the commission related to his former law-firm clients for a year, she said.

But ethics rules would allow Mr. Pitt to act on a possible Enron case after August when he completes his first year as chairman.

"It's not the general practice of public officials to announce each time they decided not to participate in a matter," said David Becker, the SEC's general counsel.

He added that "there are many circumstances in which it's unwise to announce a recusal. It might involve information that's not public or it might allow people to game the system and cause people to be recused."

Attorney General John Ashcroft, who received Enron contributions when he was a U.S. senator, recused himself from the criminal probe last week, as did the whole U.S. Attorney's office in Houston, where Enron has its headquarters.

-- John McKinnon contributed to this article.

7. A Proposal to Reduce Estate-Tax Paperwork * The New York Times

The New York Times

January 13, 2002, Sunday, Late Edition - Final

SECTION: Section 3; Page 8; Column 1; Money and Business/Financial Desk

LENGTH: 375 words

HEADLINE: PERSONAL BUSINESS: DIARY; **A Proposal to Reduce Estate-Tax Paperwork**

BYLINE: By David Cay Johnston

BODY:
When death ends a marriage, the surviving spouse inherits everything free of tax. Yet the federal government

still requires an estate tax return for those situations.

Now two tax law professors, after analyzing returns, say there is no reason for these forms -- about 43,000 annually -- to be filed. Congress, they say, could easily eliminate them. The estate tax form is 44 pages long and includes 21 schedules. Preparing it, including appraisals of the family home and other property, can cost $15,000, said one of the professors, Jay A. Soled of the Rutgers University business school.

"Executors and surviving spouses who endure the expense" of such returns "have a right to be annoyed if and when it becomes clear that these returns serve virtually no purpose," he wrote with Prof. Richard Schmalbeck of the Duke University Law School in a paper to be published tomorrow in the journal Tax Notes.

"Members of Congress can eliminate the source of this annoyance easily and at little cost, and we strongly urge them to do so," they wrote.

This year, an individual may leave $1 million untaxed to people other than a spouse. Professor Soled says that for a couple to pass $2 million untaxed when the second spouse dies requires the creation of a trust, whose existence matters to the Internal Revenue Service only after the second spouse dies.

An I.R.S. spokesman said the very few estate returns audited when no tax was due were checked primarily to ensure that the deceased person's will indeed bequeathed all assets to the surviving spouse or to charity.

Professor Schmalbeck said that only about 7,000 of the so-called first-to-die estate tax returns showed a tax due, and usually because of bequests to grown children from an earlier marriage.

These estate tax returns were important before 1981, when the law imposed what was commonly known as the widow's tax. At the time, the law said that when the first spouse died, the surviving spouse could inherit no more than $175,000 free of tax, the equivalent of $340,400 today. The rule created a burden for many family-owned businesses, prompting Congress to change the law so that the surviving spouse could inherit unlimited amounts tax-free.

8. Tax Credits: MOST ELIGIBLE TAXPAYERS CLAIMING EARNED INCOME TAX CREDIT, GAO SAYS * BNA

The Bureau of National Affairs, Inc., Daily Tax Report

January 14, 2002, Monday

09 DTR G-5 (2002)

LENGTH: 197 words

SECTION: TAX, BUDGET & ACCOUNTING

TITLE: **Tax Credits: MOST ELIGIBLE TAXPAYERS CLAIMING EARNED INCOME TAX CREDIT, GAO SAYS**

TEXT:

Most eligible taxpayers are claiming the earned income tax credit, the General Accounting Office concluded in a letter released Jan. 11.

In a Dec. 14 letter to Rep. William J. Coyne (D-Pa.), ranking Democrat on the House Ways and Means

Oversight Subcommittee, GAO estimated that 12.9 million of 17.2 million eligible households claimed the credit in 1999, a participation rate of 75 percent.

For the 9.7 households with one or two children, the estimated participation rate rose to 95 percent, GAO said. The lowest rate of participation was 45 percent for the 4.7 million eligible households with no qualifying children.

GAO said it did not have sufficient information to explain the different participation rates. The study was based on samples of the Census Bureau's 1999 Current Population Survey (CPS) and Internal Revenue Service estimates of taxpayers claiming the credit for 1999, GAO said. The CPS data does not contain all the information needed to determine eligibility, GAO said.

Text of the GAO letter, Earned Income Tax Credit Eligibility and Participation (GAO-02-290R) is available on the World Wide Web at http://www.gao.gov.

9. TAX PREPARER ADVERTISING MISLEADING; DAMAGES REMANDED FOR RECALCULATION * Tax Notes Today

Tax Notes Today

JANUARY 14, 2002 MONDAY

DEPARTMENT: Court Documents; Court Opinions

CITE: 2002 TNT 9-6

LENGTH: 6613 words

HEADLINE: #6 2002 TNT 9-6 **TAX PREPARER ADVERTISING MISLEADING; DAMAGES REMANDED FOR RECALCULATION**. (JHT Tax Inc., et al. v. H & R Block Eastern Tax Services Inc., et al.) (No. 01-1353) (United States Court of Appeals for the Fourth Circuit) (Section 6011(e) -- Electronic Filing) (Release Date: JANUARY 10, 2002) (Doc 2002-959 (19 original pages))

The Fourth Circuit, in an unpublished per curiam opinion affirming in part a district court, has held that a tax preparation company's advertising of loan products violated the Lanham Act, and it granted the plaintiff attorney's fees, but limited the injunctive relief and remanded the calculation of the lost profits award.

JTH Tax Inc., d/b/a Liberty Tax Service, provides tax preparation services. In 2000 Liberty opened offices in the Hampton Roads area. H&R Block Eastern Tax Services Inc. and H&R Block Tax Services Inc. also provide income tax preparation services and have offices in the Hampton Roads area. Block offered a no-additional-charge refund anticipation loan(NACRALS). NACRALs, unlike refund anticipation loans (RAL), have no interest or fees. Block advertised it as a refund, refund amount, and a check in the amount of your refund. Block increased its client base where the advertising appeared. Block signed a consent order to refrain from advertising RALs as a refund, refund amount, or amount of your refund, but continued advertising. Liberty seeks recovery under the Lanham Act, 15 U.S.C. section 1125(a)(1994), alleging that Block used misleading advertisements.

A U.S. district court, reviewing the Lanham Act, noted that the advertising was partly true, but misleading. Liberty proved that the advertising was likely to influence purchasing decisions based on Block's bad-faith conduct. The court dismissed the jurisdiction argument, concluding that it had subject-matter jurisdiction over

the false advertising claims. Finally, the court made an award to Liberty from the defendants' profits and for attorney's fees. The court granted injunctive relief requiring H&R Block to stop advertising loan products as refunds and requiring it not to refer to a loan product as an "advance," "refund amount," or a check in the "amount of your refund," and not to use its "rapid refund" mark with loan products.

H&R Block sought clarification; the court clarified that Block was only restricted in the use of its Rapid Refund mark in advertising. JTH Tax Inc., et al. v. H&R Block Eastern Tax Services Inc., et al., No. 2:00cv51 (E.D. Va. Feb. 23, 2001) (For a summary, see Tax Notes, Mar. 12, 2001, p. 1493; for the full text, see Doc 2001-6123 (49 original pages), 2001 TNT 42-13, or H&D, Mar. 2, 2001, p. 2859.)

The Fourth Circuit dismissed Block's challenge to the finding that it acted with malice. Following the district court's reasoning, the court held that in view of Block's history of representing in consent decrees that it would refrain from advertising RAL products in a misleading manner; the public nature of the provisions in Publication 1345, requiring Block to do the same; the identical character of the RAL and NACRAL products; and the nature of the advertising campaign, the court had little trouble finding that Block acted maliciously, deliberately, and in bad faith. Thus, the circuit affirmed the district court's conclusion on the issue. The court also dismissed Block's challenges to the district court's finding of materiality -- that the advertisements at issue were material in that they were likely to influence purchasing decisions. The court concluded that the expert offered probative evidence that supported the conclusion that Block misrepresented the NACRALs, and that the misrepresentation was material to the consumers' purchasing decisions.

The court vacated and remanded the loss profits award, for recalculation in accordance with the Lanham Act. The court concluded that the district court didn't consider any evidence of Block's costs, and it also failed to reduce the future profits to present value. Thus, the court concluded that the district court abused discretion in awarding the profits. The court affirmed the award of attorney's fees and costs. Finally, the court agreed that the injunctive relief was overbroad in enjoining the use of Block's Rapid Refund mark, and it reversed that portion of the court's order. The court concluded that the injunctive relief prohibiting Block from advertising in violation of Publication 1345 and from using certain phrases was sufficient and that the prohibition of the rapid refund mark was overbroad.

10. E-filing tax returns gets more costly * Star-Telegram

Star-Telegram

Fort Worth, Texas

January 10, 2002

E-filing tax returns gets more costly
Todd Mason - COMMENTARY

Players in the electronic filling business are cutting back on incentives this year, figuring that speed and convenience will sell the service. Here's a sure sign that electronic tax filing is hitting stride. E-file players are raising prices and scaling back promotional freebies, counting on the service's speed and convenience to sell itself.

Some professional preparers are roping the anthrax scare into their sales pitches by claiming - inaccurately - that safety precautions by the IRS will slow paper returns to a crawl.

Not true, says IRS spokesman Phil Beasley, who says that the Austin processing facility is ready to rip envelopes.

"You don't e-file because of anthrax," said Beasley, who fields questions at the IRS regional office in Dallas. "You e-file because it's fast, accurate and easy."

But more expensive this year in its most popular form. Industry-leading Quicken TurboTax for the Web - the online version of the tax preparation software - will cost $19.95 when it goes live Wednesday for this filing season, up $5 from last year. Intuit, TurboTax's publisher, bumps the price to $24.95 on April 1 for the final push.

Meanwhile, Fidelity Investments will offer TurboTax at half-price this year on its Web site. It was free last year from the mutual fund company. Filers are not required to be Fidelity customers to use it, although they must register at Fidelity.com.

As in past years, Quicken will offer free e-filing to folks who report $25,000 or less in adjusted gross income. Look for the service at Quicken.com, or point your browser to www.irs.gov and click on the e-file icon for lists of e-filing rivals and matching low-income freebies.

The best deal outlined on the IRS site yesterday: Free preparation at TaxACTOnline.com, available online or through downloaded software, with optional e-filing for $7.95.

How does e-filing work? The software walks you through the math, in some cases suggesting places to look for tax savings. When you're done, you transmit the return to the e-filing service, which transmits it to the IRS. Providers ask you to check back in a day or so to make sure the IRS accepted the return.

Sorry, there's no way to skip the middleman. For some reason, the IRS frowns on direct public access to its computer system.

E-filing is completely paperless. By answering a specific question about their 2000 returns, filers can obtain a personal identification number that serves as an electronic signature.

Folks who are due a refund can authorize the Treasury to transmit it directly to their checking account. Folks who owe money can authorize the IRS to draft their checking account for the amount automatically on, say, April 15.

In a new wrinkle, taxpayers can sign up for a permanent PIN that formalizes the automatic draft arrangement. Self-employed folks could use it to make quarterly estimated tax payments by Internet, www.eftps.gov, or by telephone (800) 555-3453, in addition to annual tax payments.

The Federal Tax Payment System is run by commercial banks under contract to the government. Payments arranged directly with the system are free.

What are the advantages of e-filing? Greater reliability is the big one. The IRS screens electronic returns for common mistakes. If the service finds a bum Social Security number, for example, it kicks back the return in a matter of hours, for the e-filer to try again. E-filers can also print out confirmation that they've filed and paid on time.

Speed follows. E-filers should have their refunds in two weeks compared with four weeks or more for paper filers.

As for convenience, suffice it to say that tax pros traded their No. 2 pencils for a keyboard long ago.

11. Gift-Tax Exclusions, Deducting Loan Interest Worry Readers * THE WALL STREET JOURNAL

THE WALL STREET JOURNAL

January 13, 2002

01/17/2002

Ask Dow Jones

Gift-Tax Exclusions, Deducting Loan Interest Worry Readers

By TOM HERMAN
Staff Reporter of THE WALL STREET JOURNAL

Q: Do you have to itemize deductions in order to deduct student-loan interest payments? If I had interest in 2000 and didn't deduct it then, can I add it to my 2001 interest?

J. W. , Houston

A: The answer to your first question is no: You needn't itemize in order to deduct your student-loan interest. You may deduct these interest payments even if you take the "standard" deduction, as long as you pass all the other tests.

The answer to your second question also is no: You can't deduct student-loan interest paid in 2000 on your return for 2001. But here's the good news: you can file an amended return for 2000.

You might be interested in two major changes, in a law enacted June 7. Those changes will greatly increase the number of people who qualify for the deduction for 2002, says Jim Seidel of RIA, a New York-based publisher of tax information and software. First, the income phase-out range increases significantly, he says. As the IRS puts it: "This deduction is now available to taxpayers with incomes up to $65,000, with the deduction amount phasing out as income increases above $50,000. For married couples filing jointly, these figures are doubled. Previously, the phase-out range was $40,000-$55,000 of income ($60,000 -$75,000, joint returns)."

Another big change in the new law is the elimination of the heavily criticized "60-month rule," also effective for the year 2002. That provision limited you to deducting only those interest payments made within the first 60 months of the required repayment term. "Therefore, those who are paying off student loans over, say 10 years or 15 years, may claim the deduction each year as long as they don't exceed the income limits," says Mr. Seidel.

Just remember that elimination of the 60-month rule and the introduction of higher income phase-out ranges are effective for 2002. These changes don't apply to returns filed during 2002 for the 2001 tax year.

Two provisions that won't change this year: The maximum amount you can deduct for 2002 is $2,500, the same limit that applied for 2001. And you can't claim the deduction if you are married filing separately.

Q: You reported last year that the House Ways and Means Committee approved raising the capital-loss threshold to $4,000 for 2002 and $5,000 for 2003. The IRS tax package I received in the mail over the holidays had no mention of this. What happened?

E. D. , Erie, Pa.

A: This is one of many tax ideas that died recently when Congress couldn't agree on an economic-stimulus package. While the idea of raising the capital-loss threshold enjoys widespread support, Congress is so sharply divided that it's unlikely there will be any major tax-law changes this year. Thus, if your capital losses exceeded your capital gains for 2001, you can deduct as much as $3,000 of your net losses ($1,500 if you're married filing separately) from your wages and other ordinary income. Additional losses can be carried over into future years.

Q: Several readers have asked me to cite the source for my report that the gift-tax exclusion rose for 2002.

A: See IRS Revenue Procedure 2001-59. Look on page 627 of the Internal Revenue Bulletin, available on the IRS Web site (www.irs.gov) under the heading "Tax Regs in English." The gist: You can give away as much as $11,000 this year, tax-free, to anyone you want, or to as many people as you wish. That's up from $10,000 last year. The giver doesn't have to pay gift taxes, and recipients don't owe income taxes. The IRS says this is the first change in the dollar amount in 20 years.

12. Taxing consequences * Star-Telegram

Star-Telegram

Fort Worth, TX

January 11, 2002

Taxing consequences

Actor and comedian Steve Martin has a routine in which the punch line for explaining to the Internal Revenue Service why you didn't pay your taxes is "two little words - I forgot."

Unfortunately, forgetting doesn't cut it with the IRS. Neither does knowingly refusing to pay.

As the tax season begins, the IRS has issued a 25-page legal summary that refutes many of the most common legal arguments individuals and groups make against paying taxes or filing returns. Some of the schemes are marketed by promoters for a fee, but taxpayers who sign up could be burned.

The IRS cautions taxpayers against following anti-tax pied pipers, reminding them that the federal courts can impose a penalty of up to $25,000 if a taxpayer's argument is deemed frivolous.

The summary, "The Truth About Frivolous Tax Arguments," is available on the IRS Web site, www.irs.gov. Some arguments and counterpoints:

Because paying taxes and filing a return is "voluntary," taxpayers can refuse to do so. The use of voluntary in this case means that taxpayers determine their own tax burdens and fill out IRS forms.

The income tax is a "taking" of property by the government without due process of law. The 16th Amendment to the Constitution, which instituted the income tax, was properly ratified by the states.

Because those born in the United States are born in specific states, they are citizens of sovereign states, not of the United States. The 14th Amendment stipulates that anyone born or naturalized in the United States is a U.S. citizen.

Income is not taxable because there is no taxable gain when exchanging labor for money. Federal law states, however, that gross income includes compensation for services.

The IRS is focusing its tax compliance resources on such tax avoidance schemes, Commissioner Charles Rossotti says.

"It may take us a while, but ... the people who are abusing the system, they're going to be sorry."

13. DON'T BE MISLED BY TAX SCAMS; CONTRARY TO CON ARTISTS' HYPE, AN ATTEMPT TO DODGE THE IRS CAN COST YOU DEARLY * The Charlotte Observer

The Charlotte Observer

January 13, 2002 Sunday ONE-THREE EDITION

SECTION: BUSINESS; MICHELLE SINGLETARY - COLOR OF MONEY; Pg. 2E

LENGTH: 736 words

HEADLINE: **DON'T BE MISLED BY TAX SCAMS; CONTRARY TO CON ARTISTS' HYPE, AN ATTEMPT TO DODGE THE IRS CAN COST YOU DEARLY**

BYLINE: MICHELLE SINGLETARY

BODY:

Like most Americans, paying taxes is not something I do joyfully. But I don't loathe paying them so much that I make myself vulnerable to con artists.

Unfortunately, thousands of individuals and small-business owners each year are so desperate to reduce their tax bills that they make it easy for criminals to take their money. While many of us wait for our W-2 forms listing 2001 wages and withholdings, also coming in the mail, e-mail or on late-night cable TV infomercials will be pitches to "protect" you from the tax man. Be leery of such claims. You can get burned either of two ways. First, you can pay for advice that is phony. Or, you can pay a crook for the fraudulent tax-savings advice, follow it and the Internal Revenue Service catches you. Worse yet, you could go to jail for tax evasion.

This past summer the IRS published a 25-page summary addressing most of the arguments about the legality of not paying taxes or not filing a return. "The Truth About Frivolous Tax Arguments" is available on the Internet at www.irs.gov under the section titled "Tax Info For You."

For example, some con artists have gotten people to pay $100 to $200 for help in applying for a refund of Social Security taxes paid over their lifetimes. According to Dale Hart, deputy commissioner of the IRS' small-business and self-employed division, there is no provision in the tax code that allows for a refund of Social Security contributions.

The IRS says most arguments against paying taxes fall into these categories:

Filing a return and paying taxes are voluntary. Numerous courts have debunked this notion. Although IRS booklets do use the word "voluntary," it merely means taxpayers are allowed to calculate their own taxes and prepare their returns rather than have the government do it. Still, some con artists will charge $50 or more to tell you just the opposite. Wages, tips and other compensation received for personal services are not income. This the United States. The 14th Amendment stipulates that anyone born or naturalized in the United States is a U.S. citizen.

Income is not taxable because there is no taxable gain when exchanging labor for money. Federal law states, however, that gross income includes compensation for services.

The IRS is focusing its tax compliance resources on such tax avoidance schemes, Commissioner Charles Rossotti says.

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Filing a return and paying taxes are voluntary. Numerous courts have debunked this notion. Although IRS booklets do use the word "voluntary," it merely means taxpayers are allowed to calculate their own taxes and prepare their returns rather than have the government do it. Still, some con artists will charge $50 or more to tell you just the opposite. Wages, tips and other compensation received for personal services are not income. This argument asserts that personal-service compensation is not income because there is no taxable gain when a person exchanges labor for money. Don't believe it. If you are paid by check or cash you are supposed to declare that payment as part of your gross income. If you get property or some other economic benefit for your services, that counts too.

The Constitution, including the 16th Amendment, does not allow a federal income tax. The 16th Amendment says, "The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several states, and without regard to any census or enumeration." Numerous people claim to have done research that proves the 16th Amendment was not properly ratified by the states. Don't believe the hype.

The IRS and tax forms are invalid. Some contend that Congress did not properly create the IRS. Others argue that Form 1040 does not comply with laws regarding federal paperwork.

These arguments could land you in Tax Court or result in civil penalties. And if you file what the court considers a frivolous tax return, you could be fined $500.

Bogus trusts. Promoters of these schemes offer to teach individuals how to set up certain trusts to avoid paying income taxes. "One marketing technique these promoters use is to tell people that the wealthy have been taking advantage of these types of opportunities for years, and now they are offering it to you," Hart said. Don't go for it.

"When we go to court and prosecute, we do not lose," Hart said. "These are absolutely slam-dunk cases."

If you have questions or think someone is peddling an unscrupulous scheme, report it to the IRS at (800) 829-0433.

If you are bold enough to refuse to pay taxes as a protest against the federal tax code, be prepared to get slam-dunked.

However, if you're just looking for ways to reduce your taxes, there are more legitimate and less-risky ways, such as contributing to a tax-deferred retirement plan, putting money in a 529 college savings plan in which the earnings are now tax-free, or contributing to a charity.

As the 7th U.S. Circuit Court of Appeals noted in United States vs. Sloan, 1991, "Like moths to a flame, some people find themselves irresistibly drawn to the tax protestor movement's illusory claim that there is no legal requirement to pay federal income tax. And, like moths, these people sometimes get burned."

14. Tax Treatment of Points, Mortgage Interest Are Key Issues for Homeowners * The Washington Post

The Washington Post

January 12, 2002, Saturday, Final Edition

SECTION: REAL ESTATE; Pg. H03; HOUSING COUNSEL BENNY L. KASS

LENGTH: 1365 words

HEADLINE: **Tax Treatment of Points, Mortgage Interest Are Key Issues for Homeowners**

BYLINE: Benny L. Kass

BODY:

Second in a series of articles

At tax time, two of the most important money-saving deductions available to homeowners are those for points and mortgage interest.

Points are often called by different names, such as loan discounts or origination fees. No matter their name, they represent money that you, the borrower, must pay to get a mortgage. And the payment is usually upfront, in cash, since it generally is not included in the loan amount.

One point is equal to 1 percent of the mortgage loan amount. Thus, one point on a loan of $ 225,000 will cost you $ 2,250. Lenders can charge as many points as they want, but at some level, the loan becomes usurious, potentially illegal and may represent what is commonly known as "loan sharking." Lenders take risks. They give money to a stranger, who may or may not be able to repay the loan in full. To secure repayment of the loan,

the lender requires the borrower to sign a deed of trust (the mortgage document) whereby the house is put up as collateral (security) to guarantee payment of the loan.

But houses can decrease in value, which makes the lender's security potentially more risky. The higher the risk, the higher the mortgage interest will be; the higher the risk, the more points a lender will want to charge.

But many consumers do not shop around to get the best mortgage deal. They take the lender's statements about credit status on blind faith. It is often possible to get a better interest rate -- or fewer points -- from another lender.

Tax treatment of points is an important issue for homeowners. Points paid to obtain a new mortgage are fully deductible in the year they are paid by the borrower. It used to be that the Internal Revenue Service required that the borrower write a separate check to the lender for these points; in recent years, the IRS seems to have backed off this position.

It still makes sense, however, to either write a separate check at closing, or at least have the settlement statement clearly reflect the number and amount of points you are paying.

The settlement sheet, also known as a HUD-1 form, is perhaps the most important document you receive at settlement, and you should keep it forever. This will be your best proof if you are ever challenged by the IRS.

If you pay points to obtain a refinance loan, in most circumstances those points are not deductible in full for the year they are paid. Rather, the IRS requires that you allocate the points by the number of years of your mortgage loan.

For example, you refinance and obtain a loan in the amount of $ 225,000. To get this new loan, you are required to pay two points, or $ 4,500. If your loan is for 30 years, you can only deduct one-thirtieth of the points each year, or $ 150.

However, if you pay off this loan early -- in five years, for example, either by selling your house or refinancing again -- the balance of the unallocated (nondeducted) points can then be deducted on your income tax return for that year.

Talk to your potential lenders about trading interest rates for points. Generally speaking, each point that you pay is the equivalent of one-eighth of a percentage point in interest. Thus, you may be able to get a loan at 6 7/8 percent with no points, but a 6 6/8 (i.e., 6.75 percent) interest rate with one point. Another tax-related subject that is relevant to many home buyers is that of seller-paid points.

Everything in real estate is negotiable. Often, a potential buyer presents a sales contract to a seller and asks the seller to make certain financial concessions to make the sale go through.

Such concessions include the seller paying some or all of the buyer's closing costs, the seller giving a cash credit at settlement, or the seller paying some or all of the buyer's points.

For many years, the IRS disallowed seller-paid points from being deducted by the purchaser. In an about-face, however, in 1994 the IRS ruled that these points could be deducted by the purchaser.

The IRS announced that for principal residences purchased after Dec. 31, 1990, purchasers could deduct, under certain circumstances, points required by mortgage lenders, even if those points were paid by the seller.

Let us look at an example. Say that you will pay $ 250,000 for your new house and obtain a loan of $ 200,000. The lender can give you a fixed 30-year conventional loan for 7 percent with no points, or 6.75 percent loan with two points, or $ 4,000.

If you can persuade your seller to pay this $ 4,000 -- and have your sales contract reflect that the seller is paying this money as points -- you should be able to fully deduct this $ 4,000 from the income tax that you file for this year. The settlement sheet should also reflect this agreement.

There is one hitch to this new' IRS requirement. The amount of the points paid by the seller will be used to reduce the purchaser's basis price if the purchaser now deducts those seller-paid points.

In our example, if the purchaser paid $ 250,000 for the property, and now deducts the $ 4,000 of seller-paid points, the cost basis of the purchaser is reduced by the amount of the points deducted. So, the basis will now be $ 246,000 ($ 250,000 minus $ 4,000).

But the main function of the basis price is to determine how much capital gains tax you owe following the eventual sale of a house. And under current tax law, taxpayers can fully exclude from taxable income up to $ 250,000 of gain ($ 500,000 for married couples filing a joint return) on the sale of their principal residence, provided they have lived there an aggregate of two of the five years previous to the sale.

Thus, under the new law, the taxpayer's tax basis of his principal residence is relatively unimportant -- unless the profit from the sale exceeds the statutory amounts of $ 250,000 or $ 500,000.

In our example, if you sell your house several years later for $ 400,000, your gain of $ 154,000 -- even taking into consideration the $ 4,000 reduction in basis -- will still be less than $ 250,000 ($ 400,000 less $ 246,000 equals $ 154,000). Thus, if you have lived in this home for at least two years, all of your profit is tax-free.

For many people, the biggest tax break of homeownership is that for mortgage interest payments.

Interest on mortgage loans on a first or second home is fully deductible, as long as the loan is an acquisition loan up to $ 1 million or a home-equity loan up to $ 100,000. If you are married, but file separately, the limits are split in half.

You must understand the concept of an acquisition loan. To qualify for such a loan, you must buy, construct or substantially improve your home.

If you refinance for more than the outstanding indebtedness, the excess amount does not qualify as an acquisition loan unless you use all of the excess to improve your home.

Look at this example: Several years ago, you purchased your house for $ 150,000 and obtained a $ 120,000 mortgage. Over the years, you've paid down the mortgage, so your indebtedness is just $ 100,000, but your house is worth $ 300,000.

Because rates were low last year, you refinanced and were able to get a new mortgage of $ 190,000. Your acquisition indebtedness is $ 100,000. The additional $ 90,000 that you took out of your equity does not qualify as acquisition indebtedness, but since it is under $ 100,000, it qualifies as a home-equity loan. (Several years ago, the IRS ruled that a borrower does not have to take out a separate home-equity loan to qualify for this tax deduction.)

However, if you had borrowed $ 225,000, you would be able to deduct interest only on $ 200,000 of your loan: the $ 100,000 acquisition indebtedness, plus the $ 100,000 home equity. The remaining interest would be treated as personal interest and is not deductible.

15. Save Less, Spend More -- You Do the Math * THE WALL STREET JOURNAL

THE WALL STREET JOURNAL

January 13, 2002

The Wall Street Journal Sunday

Save Less, Spend More -- You Do the Math

By KELLY GREENE
Staff Reporter of THE WALL STREET JOURNAL

It's time to fatten up the piggy bank: A new report shows that people are saving less while on the job -- but spending more when they retire.

Georgia State University in Atlanta and Aon Corp., Chicago, together have looked at retirement-income trends in five surveys since 1988. Using data from the Bureau of Labor Statistics' consumer-expenditure survey, which includes thousands of workers' and retirees' actual expenses, they have crunched what they call an "income-replacement ratio," or the percentage of pre-retirement income you need to continue living in retirement the same way you did when you had a regular paycheck.

Their most recent analysis, presented at an employee-benefits conference in Washington, D.C., last month, found that workers -- particularly those with household income of $50,000 or less -- are saving smaller chunks of their paychecks than they did at the time of the last study, in 1997. Back then, a couple making $50,000 a year saved 6.5% of their pre-retirement income on average. Those savings fell to 4.6% last year. The drop was even more dramatic for workers making $20,000: Their savings fell to 1.6% of their pay from 5.2%.

Meanwhile, the percentage of their pre-retirement income that retirees needed to continue their lifestyle rose in most income levels by four to eight percentage points, says Bruce Palmer, the Georgia State professor who led the research. The only expenses that continued to drop significantly in retirement were taxes and savings; retirees continued spending for the most part at the same rate as when they were working, the study found.

For example, spending dropped by only $603 a year after retirement for a one-income family previously making $50,000 a year, in which the worker is 65 and the spouse is 62. That means the family would need 74% of its pre-retirement income to maintain the status quo -- up from 69% in 1997. Dr. Palmer's conclusion: "People are probably not saving nearly enough."

Heading back to school? A little-known perk called the "lifetime learning credit" may pick up part of the tab.

Whether you're honing new skills for the cutthroat job market or dabbling in a course for pleasure, this tax credit may help offset your expenses. Created several years ago, it provides as much as $1,000 off your tax bill for undergraduate or graduate courses taken at any accredited public or private college, university or vocational school. It doesn't matter whether you're enrolled full time or part time, or whether you're pursuing a degree. Even if you're taking only one course at a community college, you may still be eligible for a partial credit. And there's no limit on the number of years you can claim it.

There are two big caveats: First, you cannot claim the credit if you're already deducting the same higher-education expenses on your tax return using what's called a Schedule A or Schedule C. "There's no double benefit," says Tim Harms, a spokesman for the Internal Revenue Service. Second, to qualify, your income can be no more than $50,000, or $100,000 for couples filing their taxes jointly.

If you're planning ahead, here's something to think about: Through this year, you can claim 20% of your first $5,000 in expenses for tuition and other fees, or as much as $1,000. In 2003, that amount doubles to 20% of your first $10,000 in expenses, or up to $2,000. So, if you're taking classes for fun, you could save twice as much by waiting until next year.

Compared with the paperwork involved in getting many tax deductions, claiming the lifetime learning credit is relatively simple: Colleges and universities mail a receipt, called a Form 1098-T, to those who have paid qualified tuition and expenses. You're supposed to get it by Jan. 31 of the following year. Next, you use the information from that form to fill out another worksheet, Form 8863, to figure out the size of your credit. Finally, you enter that amount on your tax return (the worksheet tells you what line to use, depending on the type of return you file), and subtract it from your taxes. You can get the forms at www.irs.gov.

Scientists have put a price tag on families' caring for elders with dementia: $18 billion a year.

Using data from the University of Michigan Health and Retirement Study for 7,500 people who were 70 or older, the group of researchers, based for the most part at Michigan, added up the additional caregiving those people received from family and friends when their minds started to fail.

The scientists found that the typical person in that age group with no cognitive impairment received 4.6 hours of help each week from the family with activities of daily living -- things like bathing and eating. People with mild dementia got 8.5 hours of help on top of that. And those with moderate and severe dementia received an extra 17.4 hours and 41.5 hours, respectively.

At $8.20 an hour, the average wage of a home-health aide, such care is worth more than $18 billion, says Kenneth M. Langa, the study's lead author. That figure doesn't even take into account the additional time that many caregivers spend with dementia patients "just sort of being there to make sure that people are safe," or the lost promotions and leaves of absence from work that people may take to be with their spouses or parents, he adds. "It's a conservative number, but it is pretty staggering."

The study is among the first to use a large, nationally representative sample of older Americans to estimate the costs of providing informal care to those with dementia. The scientists hope "to make sure that policy makers realize that this is a real cost to families and society," says Dr. Langa.

There are two new sources of help for such caregivers: The federal Administration on Aging has added an online version of its Eldercare Locator service at the Web site www.eldercare.gov. You also can get a new guide for family caregivers of people with Alzheimer's disease by calling the Alzheimer's Disease Education and Referral Center at 800-438-4380, or by going to www.alzheimers.org/pubs/careguide.htm for information.

-- Ms. Greene is a reporter at The Wall Street Journal and for Encore, the Journal's guide to life after 55.

16. Court takes on tips and taxes * United Press International

United Press International

Jan 11, 2002

Court takes on tips and taxes

WASHINGTON, Jan 11, 2002 (United Press International via COMTEX) -- In a case sure to be closely watched by restaurants, hotels and beauty salons all over the United States, the Supreme Court has agreed to decide how tips are audited for Social Security taxes.

The case involves the self-described "America's oldest Italian restaurant," San Francisco's Ristorante Fior D'Italia.

At issue is whether the Federal Insurance Contribution Act tax on employee tip income must be determined by looking at the totals of individual audits -- for example, audits of every waiter or waitress in an establishment -- or may instead be based on a "reasonable estimate of the aggregate amount of tips received by all employees."

FICA treats tips in excess of $20 a month as wages, and both the employee and employer are required to pay FICA taxes on them.

Usually, employees such as waitresses make monthly reports to their employers on the tips they receive so that FICA contributions can be calculated. Restaurants with 10 or more employees are required to make annual reports to the Internal Revenue Service of the tips reported by employees.

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Fior D'Italia filed forms showing that employees reported tips to supervisors of $247,181 for 1991 and $220,845 for 1992. However, the forms also showed that the total amount of tips reported on customer credit card receipts alone at the restaurant far exceeded both those figures -- $364,796 in 1991 and $338,161 in 1992.

Nevertheless, the restaurant calculated its share of the FICA tax on the lower figures.

The IRS pounced, conducting a compliance check of the restaurant. Looking at the credit slip information, the IRS deduced that there was a 14.49 percent tip rate for 1991 and a 14.29 percent tip rate for the following year.

Multiplying those tip rates by the restaurant's gross receipts for those two years, and then subtracting the total tips actually reported on the restaurant's forms, the IRS determined that unreported tip income was more than $156,000 in 1991 and more than $147,000 in 1992.

Let's see, the IRS told Fior D'Italia: That means you owe us $11,976 for 1991 and $11,286 for 1992 in employer's FICA taxes. Pay up.

The restaurant, however, only paid a portion of the tax, and then filed suit against the IRS.

Fior D'Italia didn't dispute the IRS calculations. It just said the IRS lacked the authority to assess taxes on employers by using an aggregate estimate of tip income.

Instead, the restaurant argued, under the law the IRS must first conduct individual audits of employees, then base any assessment of employer FICA taxes on the total indicated by the audits.

A federal judge agreed with the restaurant. A federal appeals court panel, by a vote of 2-1, agreed with the judge. The IRS, acting through the Justice Department, then asked the Supreme Court for review.

The appeals court "did not point to any language in the Internal Revenue Code as support for its conclusion, and there is none," the department said in a brief to the high court. Citing the dissenting judge's opinion on the panel, the department said the appeals court decision "invites employers and employees alike to evade their statutory tax obligations."

The Justice Department said it isn't talking about small potatoes.

Since the IRS began its FICA enforcement program in response to a 1984 study, reported tips from the restaurant industry "increased from $8.52 billion in 1994 to $9.45 billion in 1995, to $10.19 billion in 1996, to $11.14 billion in 1997, to $12.17 billion in 1998 and to $14.31 billion in 1999."

By MICHAEL KIRKLAND, UPI Legal Affairs Correspondent

17. Supreme Court: COURT TO RULE ON USE OF AGGREGATE ESTIMATES OF TIPS TO ASSESS RESTAURANT'S FICA TAXES * BNA

The Bureau of National Affairs, Inc., Daily Tax Report

January 14, 2002, Monday

09 DTR G-4 (2002)

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SECTION: TAX, BUDGET & ACCOUNTING

TITLE: **Supreme Court: COURT TO RULE ON USE OF AGGREGATE ESTIMATES OF TIPS TO ASSESS RESTAURANT'S FICA TAXES**

AUTHOR: By Raul R. Cabrera

TEXT:

The U.S. Supreme Court Jan. 11 agreed to decide the propriety of the Internal Revenue Service's use of aggregate estimates derived from credit card charges to determine a restaurant's liability for payroll taxes on its employees' tip income (United States v. Fior D'Italia Inc., U.S., No. 01-463, cert. granted, 1/11/02).

The court will review a decision by the U.S. Court of Appeals for the Ninth Circuit holding that IRS, in calculating a restaurant's employment tax liability for unreported tip income, lacks authority to use aggregate estimates derived by applying a "tip rate" from meals charged to credit cards to the restaurant's gross receipts but, instead, must conduct an employee-by-employee audit to determine taxable tips earned by each employee (46 DTR K-5, 3/8/01).

Like most restaurants, Fior D'Italia employs waiters, table bussers, bartenders, and others whose earnings come in part from tips left by customers. Although these tips are paid by customers directly to employees, federal law deems them to have been paid by the employer for payroll tax purposes. Thus, for tax purposes, employers are deemed to have paid large sums of money that they have never touched and whose exact amounts they have no way of ascertaining. Yet employers need to know how much tip income employees receive in order to calculate their own tax liability under the Federal Insurance Contributions Act (FICA) and withhold appropriate amounts from the wage portion of the employees' compensation, pursuant to Section 3102 of the Internal Revenue Code.

To make this information known to employers, tipped employees are required to submit monthly statements (usually on Form 4070) reporting all tip earnings that qualify as wages under the statute. Employers, in turn, must report to the government (on Form 8027) their gross sales, charged tips, and the tip amounts reported by employees.

Average Tip Rate.

In 1991 and 1992, Fior D'Italia reported aggregate tips that were significantly less than the tips that appeared on its credit card charge slips. IRS assessed Fior D'Italia for additional FICA taxes on what it deemed was unreported tip income for those years. To determine what Fior D'Italia owed, IRS used a simple calculation: For each year, it divided total tips charged on credit cards by total credit card receipts, yielding an average tip rate of 14.49 percent and 14.29 percent for 1991 and 1992, respectively. It then applied this "tip rate" to the restaurant's gross receipts to get a presumed tip total for the year.

IRS assessed Fior D'Italia additional FICA taxes based on the difference between its presumed total and the amount of tips Fior's employees had reported. IRS did not readjust the FICA or income tax liability of the various employees who may have understated tip income on their 4070 forms. Fior D'Italia challenged the assessment method in district court, arguing that it exceeded IRS's authority. The district court agreed, and the government appealed.

In an opinion dated March 7, 2001, the Ninth Circuit affirmed. The IRS assessment suffered from a fundamental flaw in that it rested on an estimate in circumstances where Congress had not authorized IRS to use estimation as an assessment method, the Ninth Circuit said.

According to the Ninth Circuit, IRS could not rely on Section 446 of the tax code as authority for its assessment method because the section does not apply to the collection of FICA taxes.

Neither could IRS rely on code Section 3121(q), the appeals court said. That section merely says that, where employees have not provided accurate tip information to the employer, and IRS finds some other means of determining how much the employer owes, the employer must pay its share, the appeals court pointed out. Nothing in the text of Section 3121(q) speaks to the method IRS may use in making its assessment, the appeals court said.

Employee-by-Employee Determination.

The Ninth Circuit concluded that IRS cannot dispense with auditing employees' records or otherwise determining the amount each employee earned in tips. There is no way to determine the employer's FICA tax liability without making an employee-by-employee determination of the taxable tips each has earned, the Ninth Circuit said.

While auditing individual employees is much more cumbersome than slapping the employer with assessments based on aggregate estimates, the fact remains that Congress authorized IRS to use estimates in collecting income taxes but withheld such authority in collecting FICA taxes, the Ninth Circuit noted. By using an estimate -- and particularly one that ignores the statutory provisions that exclude remuneration (salary plus tips) in excess of the Social Security wage base and that also exclude all cash tips amounting to less than $ 20 per month per employee -- and putting on the employer an impossible burden in rebutting the estimated amount, IRS has effectively increased the tax payable by the employer above that provided in the Internal Revenue Code, the Ninth Circuit ruled.

If auditing individual employees proves too burdensome, IRS can seek to have Congress extend its tax code Section 446 authority to the collection of FICA taxes, the Ninth Circuit said. Alternatively, IRS may proceed by regulation, which would entail the procedural requirements of notice-and-comment rulemaking, the Ninth Circuit said.

The court's decision in this case will resolve a conflict between the Ninth Circuit, on one hand, and the

Seventh, Eleventh, and Federal Circuits, on the other.

Separate and Distinct Obligation

In its petition, the government noted that the issue presented in the case is a "frequently recurring" one. "The correct resolution of the question presented in this case affects the taxes owed by each of the tens of thousands of businesses whose employees regularly receive tip income," the government said.

In challenging the Ninth Circuit's holding, the government noted that "[t]he employer portion of the FICA tax imposed by Section 3111 [of the tax code] is a separate and distinct obligation from the employee tax in Section 3101." According to the government, nothing conditions the determination of one on any determination of the other.

The government also took issue with the Ninth Circuit's conclusion that I.R.C. Section 446(b), the provision dealing with methods of accounting, precludes IRS from basing FICA tax assessments on reasonable aggregate estimates.

18. Tips* The Washington Post

The Washington Post

January 12, 2002, Saturday, Final Edition

SECTION: A SECTION; Pg. A04

LENGTH: 657 words

HEADLINE: **Tips**
BYLINE: Charles Lane, Washington Post Staff Writer

BODY:

Separately, the court also agreed yesterday to decide a case that could have major financial implications for both business owners and employees in the nation's restaurant industry, which has taken an economic hit from the recession and the Sept. 11 terrorist attacks.

At issue are **Internal Revenue Service** rules under which the **IRS** collects millions of dollars in Social Security taxes from employers each year to match taxes workers such as waiters and busboys themselves pay on the tips from their customers.

In 1991 and 1992, the owners of the Fior D'Italia restaurant in San Francisco paid the IRS based on the amount of tips its workers reported receiving.

However, the IRS, reviewing credit card receipts, estimated that the tip total was far higher and that Fior D'Italia would have to pay more than $ 23,000 in additional taxes.

Fior D'Italia took the IRS to court, and a three-judge panel of the San Francisco-based U.S. Court of Appeals for the 9th Circuit decided 2 to 1 last year that the government could not use estimates but would instead have to audit individual employees' tip earnings to determine how much income, if any, the workers had failed to report.

The Bush administration appealed, noting that the 9th Circuit's ruling was at odds with those in other circuits.

The case is U.S. v. Fior D'Italia, No. 01-463. A ruling is expected by July.

19. IRS says tax forms were falsified * The Flint Journal

The Flint Journal

January 11, 2001

IRS says tax forms were falsified
By Ken Palmer
JOURNAL STAFF WRITER

A Flint tax preparer was arraigned Thursday on charges he prepared federal tax returns listing false expenses to gain larger tax returns for his clients.

Amos Lampley, 58, who operated Quadruple A Income Tax Service, was indicted last month on 31 counts of helping prepare false income tax returns in 1996 and 1997.

The government said Lampley prepared forms containing fictitious job expenses, charitable gifts and gambling and business losses, among other inflated deductions.

If convicted, he could face up to 3 years in prison and a $250,000 fine on each count.

Lampley is among at least four Flint-area tax preparers who have been charged with defrauding the IRS over the past few years. The agency hints that Michigan is a hotbed for shady tax preparers.

"We know it's a recurring problem in Michigan," said Stephen Moore, a special agent in the IRS criminal investigation unit.

"In Michigan, we are very aggressive in that area and have been very successful in identifying these return-preparers.

"We seem to identify more cases in the Michigan area, including the Flint area. We're going to see more, perhaps, throughout the year and in the years ahead."

Moore said at least 10 such cases were adjudicated across the state over the past year - a disproportionately large number. Nationally, 61 tax preparers were indicted or charged in fiscal year 2000, according to the IRS Web site.

The Flint cases include:

Kelvin O. Towner of Flushing was sentenced to 2 years in prison in October 2000 after admitting he inflated the amount of charitable contributions and employee expenses for a client.

The government said Towner, who was indicted on 68 counts of helping prepare false tax returns, handled similar returns for 25 other clients who underpaid a total of nearly $150,000.

Marlene Powell, a tax preparer who previously owned or operated businesses, was indicted on 17 counts of filing false income tax returns and failing to pay withholding taxes.

She pleaded guilty to two of the counts and was sentenced to 10 months of community confinement. Last year, Powell was sentenced to 9 months of home confinement for failing to notify clients that she had been convicted of a felony tax offense.

Melvin C. Bell, a Flint man who had since moved to Ypsilanti, pleaded guilty in 1999 to a count of preparing false income tax returns.

Federal officials said Bell helped friends and family fill out three tax returns and did not have a tax-preparation business.

Taxpayers who file false returns can be ordered to pay back taxes and penalties, the IRS said.

"It looks nice up front, but somewhere down the line you've got to pay your fair share," Moore said. "The bottom line is that when a taxpayer signs a return, they are ultimately responsible for that return."

Moore said people should avoid preparers who claim they get a larger refund than other preparers, as well as those who base their fee on a percentage of the refund.

20. IRS warns you to know your tax preparer * Abc12.com

Abc12.com

January 10, 2001

IRS warns you to know your tax preparer

A Flint businessman has been arraigned in federal court on 31 counts of tax fraud. Amos Lampley is accused of preparing false income tax returns for several clients

By Randy Conat <http://abclocal.go.com/wjrt/aboutus/052301_BO_conat.html>
Flint -

ABC12's Randy Conat reports the IRS is turning up the heat on dishonest tax preparers. IRS special agent Stephen Moore told ABC12 News, "Even though somebody else prepares your taxes, you are ultimately responsible for the return and the accuracy."

That's the word from the IRS, which has stepped up its prosecution of less-than-honest tax preparers. "You probably don't want to go to someone who offers you a larger refund or bases his fee on a percentage of what he gets back for you," Moore added.

Rob Selley, a Grand Blanc Township CPA, says word is getting out on crackdown. "They've hired more people There will be more audits in the future. And also, remember technology has enabled the IRS to keep track of a lot of income and expenses through electronic means that they've never been able to do before.

58-year-old Amos Lampley of Quadruple-A Income Tax Service in Flint allegedly inflated job expenses and gifts to charities on behalf of his clients in 1996 and 97. Preparing a false federal tax return is a three-year felony. Fines can be as high as 250-thousand dollars per case.

Plus...Moore warns, "The tax payer is stuck paying the additional taxes, in some cases paying penalties and criminal investigation."

So you'd be better off finding an honest tax preparer in the first place. "You can ask your friends, family members who they use. Are they happy with them," Rob Selley suggests.

Special Agent Moore says several other tax preparers in the Flint area are under investigation. The IRS has set up a hotline to report suspicious tax preparers. Call 800-829-0433. Or follow the link to the IRS website on the upper right side of this page.

01/17/2002

21. Detroit councilwoman understated income, IRS says * The Associated Press

The Associated Press

January 12, 2002

Detroit councilwoman understated income, IRS says

DATELINE: DETROIT

City Councilwoman Barbara-Rose Collins owes the federal government more than $111,000 for understating her taxable income and for filing returns late,

according to an Internal Revenue Service document.

Collins blamed her failure to file and dispute with the IRS on depression that she has suffered since shortly after leaving Congress in 1996. She said she is taking medication for the depression.

An IRS audit of Collins' tax returns from 1996 through 1998 found that she claimed improper deductions for items including charitable contributions, personal exemptions and housing costs, the Detroit Free Press reported Saturday.

In 1998, Collins failed to declare more than $114,000 that should have been taxed, the IRS said, including $55,445 she received from the sale of property.

Most of the unreported income in 1997 - $50,779 - was from pension pay.

The IRS said in its documents that many of the former congresswoman's deductions lacked proper documentation. IRS officials declined to comment.

"I don't know why they're doing this," Collins said of the IRS. "I haven't been employed for five years."

She said her accountant prepared her tax returns, all of which were filed late in June 2000.

Collins disputed the amount she owes, saying it is closer to $8,000. She appealed the findings Dec. 4 in U.S. Tax Court in Washington and said she plans to meet and negotiate with IRS examiners.

The IRS questioned $37,000 in charitable contributions Collins claimed as deductions over the three-year period, saying she did not substantiate the gifts were made, according to the documents filed in Tax Court.

Before her tax troubles, Collins came under scrutiny for her spending of public and campaign money.

When she lost her congressional seat in 1996 to Carolyn Cheeks Kilpatrick, Collins was under an ethics investigation that alleged she had misappropriated congressional and campaign funds. A grand jury in Detroit investigated her, but she was never charged with a crime.

01/17/2002

Collins said she is not in any financial trouble and her depression will not keep her from being a productive council member.

"First of all, I don't consider myself having problems. I think that any citizen of America who works or pays taxes is likely to have a tax disagreement or two," she said. "If it turns out that I owe more than $8,000, then I'll make arrangements with them to pay it."

22. Ex-Officer Tipped Off Drug Suspect; Courts: Task force member sought money before major bust * Los Angeles Times

Los Angeles Times

January 12, 2002

Ex-Officer Tipped Off Drug Suspect; Courts: Task force member sought money before major bust.

BYLINE: DAVID ROSENZWEIG, TIMES STAFF WRITER

A former Ontario police officer assigned to a federal drug task force pleaded guilty last July to tipping off a suspect in a narcotics investigation that resulted in more than 100 arrests nationwide, the U.S. attorney's office disclosed Friday.

The case against Douglas John Bos, 34, was filed under seal so as not to further damage the investigation, which ended Thursday with the arrests of suspects in 12 cities, including Los Angeles, Riverside and Fresno, authorities said.

The suspects are accused of smuggling tons of pseudoephedrine, used to make methamphetamine, from Canada to California.

Among those apprehended in the three-year probe was the man Bos was accused of tipping off, Nidal Hamayel, 45, of Moreno Valley.

According to a court document unsealed late Thursday, Bos was part of a six-member law enforcement team that was using a confidential informant to buy pseudoephedrine from Hamayel.

The informant, fitted with a concealed transmitter, was to meet with Hamayel on Oct. 28, 2000, the document said. On the morning before the meeting, Bos allegedly telephoned Hamayel, warned him about the informant and asked for money.

Assistant U.S. Atty. Rebecca S. Lonergan said that Hamayel met the government informant anyway and confronted him, saying his cover had been blown by a drug agent assigned to the case.

The Drug Enforcement Administration launched an investigation, aided by the FBI, the IRS and the Ontario Police Department, which Bos joined in 1993.

Bos, who lives in Canyon Lake, admitted in a plea agreement that he telephoned Hamayel on three dates before the Oct. 28 meeting.

Bos faces up to 10 years in prison and a $250,000 fine when he is sentenced Jan. 28 in Los Angeles.

Bos' defense lawyer, Edward Robinson, said his client made the solicitation at a time "when he was going through a dreadful emotional crisis." He declined to elaborate.

Bos remains free on $50,000 bond.

23. WOMAN'S TESTIMONY EARNS HER PROBATION * Pittsburgh Post-Gazette

Pittsburgh Post-Gazette

January 12, 2002

WOMAN'S TESTIMONY EARNS HER PROBATION

BYLINE: TORSTEN OVE, POST-GAZETTE STAFF WRITER

She laundered $3.3 million in stolen money from automated teller machines between 1996 and 1998 in one of the largest ATM frauds in the United States.

But Janette Frattaroli-Reilly also helped criminal investigators from the Internal Revenue Service put away ringleader Barry Chesla of Ligonier, the former head of an armored car company who stole millions from banks.

Chesla is in prison.

And because of her willingness to turn over records and testify against him, Frattaroli-Reilly, 53, of Sicklerville, N.J., walked out of federal court yesterday with a sentence of five years' probation instead of prison.

Federal prosecutors had asked U.S. District Court Judge Robert Cindrich for leniency because of the extensive cooperation, and federal public defender Penn Hackney requested probation so she could continue working.

"She was the one who moved all that money, but she did it at the direction of Mr. Chesla," said Hackney. "She was an automaton."

Cindrich agreed, saying she was a functionary and not an instigator in the scheme. In addition to the probation, he sentenced her to six months of home detention and ordered her to pay the remaining balance of a $52,000 civil forfeiture debt she owes to the government.

Chesla, former principal stockholder in Tri-State Armored Services of Hammonton, N.J., pleaded guilty in September to tax evasion and money laundering.

Operating out of a branch office in Ligonier, he and his co-conspirators are believed to have stolen at least $20 million.

Frattaroli-Reilly pleaded guilty in May to laundering his money through two storefront shops in New Jersey, one of them a bridal store she owned.

Chesla started out as a guard for the former National Westminster Bancorp in Atlantic City in 1988 and rose to become head of its ATM program. He later

worked for Executive Cash Services, an outfit that replenished ATMs, and in 1996 returned to Ligonier to manage one of the company's branch offices.

The company came under suspicion in 1997 when CoreStates Bank filed a claim for an unexplained loss of $2.3 million.

In October that year, Chesla and his partners incorporated Tri-State and bought the armored transport portion of Executive Cash. The company supplied cash for 3,000 ATMs.

Chesla pilfered cash from Tri-State's vault, but he tripped himself up by making large deposits by ATM into his account at Laurel Bank of Johnstown. Any deposit of more than $10,000 requires filing a currency transaction report.

When Chesla was informed about the requirement, he tried to cover his tracks by depositing hundreds of money orders in smaller amounts, most purchased by Frattaroli-Reilly.

24. FEDERAL DIARY: Many Options to Consider When Deciding on Long-Term Care Insurance * The Washington Post

The Washington Post

January 13, 2002, Sunday, Final Edition

SECTION: METRO; Pg. C02; FEDERAL DIARY STEPHEN BARR

LENGTH: 733 words

HEADLINE: **Many Options to Consider When Deciding on Long-Term Care Insurance**

BYLINE: Stephen Barr

BODY:

If you're a government employee or retiree interested in long-term care insurance, it may be time to do some homework.

The Office of Personnel Management recently announced that LTC Partners, formed by the Metropolitan Life and John Hancock insurance companies, has been selected to provide coverage to federal employees, military personnel, retirees, survivors, spouses and certain other family members.

The long-term care program could become one of the government's largest benefit programs. About 20 million people are eligible to apply for coverage, OPM estimates. The program, approved last year with bipartisan support in Congress, is intended to help government employees and retirees obtain insurance to cover such costly services as nursing home care, assisted-living care, adult day care, home health care and other long-term care.

"Most federal employees and annuitants will find that insurance being sold through the new program will be a pretty good deal," said Dan Adcock, assistant legislative director at the National Association of Retired Federal

Employees.

"But that doesn't excuse them from doing their homework," he added. "They should understand how long-term care insurance works, what it covers and what it doesn't. They should compare benefits and premiums in the federal plan to other policies on the private market, and they should decide if they can afford paying the premiums and if it is otherwise appropriate for their individual circumstances."

OPM hopes to release information in the next month or two listing what benefits will be available and what premiums will cost. The agency will then schedule an early enrollment period, probably from late March through mid-May, for employees and retirees who understand long-term care options and want to buy the insurance as soon as possible.

Most employees and retirees, OPM thinks, will wait to see the educational materials being prepared for the regular enrollment period, tentatively scheduled from late June or early July through October.

Regardless of whether you apply for early or regular enrollment, there are dozens of questions to think through. Among them:

* Will your long-term care needs be met in your home, in adult day care, in an assisted-living facility or in a nursing home?

* Have you checked out assisted-living care and nursing homes in your area to determine whether you would be comfortable with them and to find out what they cost?

* Have you estimated how much of the long-term care expenses you will be able to pay on your own?

To help people sort out such questions, OPM has published information on many aspects of long-term care at its Web site (www.opm.gov/insure/ltc). The federal insurance carriers, LTC Partners, has set up an Internet site (www.ltcfeds.com) and a toll-free telephone line (1-800-582-3337) so that employees and retirees can register to receive information about the program as it develops.

In making your decisions, you'll want to keep a few points in mind:

* Enrollees will pay the full cost of the premiums, which will be based on the options chosen and the individual's age at enrollment.

* Early enrollees may have more limited benefit choices than will be available to those who wait until the formal open season. In most cases, they will be able to change their coverage during the open season, but additional questions about health status may be required.

* Early enrollees will not be able to have the premiums withheld directly from their salaries or annuities as will those who wait until the open season. Early enrollees will be able to switch to withholding during the open season.

Arthur Stein, a financial planner with Cassady & Co. in McLean, said employees should calculate how high a daily benefit they will need and how long they want the benefit to run, and know the length of any waiting periods when they have to cover costs out of pocket.

Stein said he regularly recommends that clients purchase a long-term care option known as the "compound inflation adjustment." With it, the benefit automatically increases by a given percentage every year, typically 5 percent, while premiums remain level.

"Everyone needs to customize it to their personal financial situation, and that is not particularly easy to do," Stein said.

25. FEDERAL DIARY: Bill Would Close Salary Gap for Federal Reservists * The Washington Post

The Washington Post

January 14, 2002, Monday, Final Edition

SECTION: METRO; Pg. B02; FEDERAL DIARY STEPHEN BARR

LENGTH: 756 words

HEADLINE: **Bill Would Close Salary Gap for Federal Reservists**

BYLINE: Stephen Barr

BODY:

Legislation has been introduced in the House to protect the pay of federal employees who serve in the reserves and National Guard and have been called to active duty.

Reps. Robert Wexler (D-Fla.) and Bob Filner (D-Calif.) asked House Republican and Democratic leaders last week to move the bill to the House floor under rules permitting quick approval of legislation that is not likely to draw objections.

The Wexler-Filner bill would require federal agencies to make up the difference between a reservist's federal salary and military salary so the employee does not face a pay cut. The bill would apply to salaries paid on or after Sept. 11.

In a letter to House leaders, Wexler said American Express, Ford, Lockheed Martin, Northwest Airlines, Sprint and other companies; the states of Illinois and Florida; and some city governments make up pay shortfalls when their employees are called to active duty.

"The federal government should do the same for its civilian employees so their families can remain financially secure during a mobilization," Wexler wrote.

More than 120,000 reservists are federal employees, and, of those, about 65,000 would be required to leave their civil service jobs in a full mobilization, Wexler said.

"While many of these employees are at least being paid at a GS-11 level [$ 46,469 to $ 60,405 in the Washington area], the majority serve as enlisted personnel rather than officers. As a result, many take a pay cut when they get called up," he said.

In a letter to Wexler, the Congressional Budget Office estimated that the bill would cost about $ 3 million to cover pay shortfalls for the 2,500 federal employees called to active duty between Sept. 11 and Oct. 1, 2001.

The proposal has won the support of the Reserve Officers Association, the Enlisted Association of the National Guard, the National Air Traffic Controllers Association and the American Federation of Government Employees, Wexler and Filner said.

In the House, the bill has 14 co-sponsors, including Reps. Steny H. Hoyer (D-Md.), Constance A. Morella (R-Md.) and Albert R. Wynn (D-Md.). Sens. Richard J. Durbin (D-Ill.) and Barbara A. Mikulski (D-Md.) are sponsoring a Senate version of the bill.

"Family members of federally employed reservists are already starting to feel the pinch of service as their loved ones have left," Mikulski said. "These families are forced to sit and wait at home, with no guarantee when their loved ones will return and little means to pay for their college funds, mortgages and car loans. I fail to see why these dedicated Americans should be forced to leave their families financially vulnerable at a time when they have so many other things to worry about."

Congress last year left it to the Transportation Department to determine the pay, benefits and job rights of newly hired airport security screeners. Federal unions, naturally, are urging the department -- which should be announcing a decision soon -- to extend collective bargaining rights and civil service benefits to this new class of federal workers. In a letter to Transportation Secretary Norman Y. Mineta last week, Colleen M. Kelley, the president of the National Treasury Employees Union, urged him to give screeners the same basic benefits and rights provided to the civil service.

"The American public is well aware of the dangers of hiring airport security personnel on the cheap," Kelley wrote, adding that "It is in the sound interest of the government and the flying public that these workers have the same rights to health and life insurance, retirement benefits, whistleblower protection, equal employment opportunity, representational rights and job promotion as any other civil servant."

In a late Friday announcement, President Bush said he intends to appoint Becky Norton Dunlop, of Arlington, chairman of the Federal Service Impasse Panel.

Bush roiled federal unions last week when he dismissed the panel's seven members without indicating his plans for replacing them. All seven were Clinton administration appointees.

Dunlop, who served in the Reagan administration, is a vice president at the Heritage Foundation, a conservative think tank.

Bush's announcement also said he is naming Richard B. Ainsworth, of Cleveland, Andrea Fischer Newman, of Ann Arbor, Mich., and Joseph C. Whitaker, of Shreveport, La., to the impasse panel, which resolves disputes between federal agencies and unions.

ENRON CORP.

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6 1/4% Exchangeable Notes due December 13, 1998
Chronology of Events

Date	Event
	Enron Authorization
October 26, 1995	Enron Board of Directors approved concept and authorized Special Committee to take all action necessary to complete the transaction.
November 7, 1995	Special Committee of Enron Board of Directors approved parameters of Notes and scope of related documentation.
	Filings with SEC
November 8, 1995	Enron filed Registration Statement on Form S-3 with SEC (registering the sale of the Notes under the 1933 Act).
November __, 1995	Enron filed Form 8-A with the SEC (registering the Notes under the 1934 Act).
December 7, 1995	Enron files Amendment No. 1 to Registration Statement on Form S-3 with SEC.
	National Association of Security Dealers Matters
November 9, 1995	Registration Statement, Form of Underwriting Agreement, related documents and a filing fee were filed with NASD.
November 29, 1995	NASD advised that they had no objections to the fairness and reasonableness of the underwriting terms and arrangements and confirmed that advice by letter dated November 30, 1995.

Proceedings with the NYSE

November 20, 1995	Enron delivered to the NYSE a preliminary listing application and applicable supporting documents with respect to the Notes.
November 30, 1995	The Underwriters delivered to the NYSE certain undertakings with respect to the offering and sale of the Notes.
December 6, 1995	Enron received a letter from the NYSE advising it that the listing of the Notes under the symbol "EXG" on the NYSE was approved, subject to official notice of issuance.

Blue Sky Matters

November 9, 1995 - November 14, 1995	Filings were made in all states where required so that the Notes could be sold in all 50 states.
November 14, 1995	A Preliminary Blue Sky Letter and Preliminary Blue Sky Survey relating to the Notes was prepared.
December 7, 1995	A final Blue Sky Memorandum was prepared.

Marketing Activities

November 5, 1995	The Underwriters mailed to prospective purchasers copies of the preliminary prospectus.
November 20, 1995 - December 7, 1995	Meetings with potential investors were held at locations selected by the Underwriters. Indications of interest from prospective purchasers were noted. Over 70 meetings were held.
December 1, 1995	Enron and Harris Trust and Savings Bank, as Trustee, negotiated and executed a First Supplemental Indenture relating to the Notes. Form of Note finalized.
December 7, 1995	All "comfort letters" and opinions of counsel to be delivered in connection with the closing of the transaction were negotiated prior to execution of the Underwriting Agreement.

	Registration Statement declared effective, Notes priced and Underwriting Agreement signed.
December 13, 1995	Notes are issued and sold.

Instruments issued pursuant to a registration statement under the 1933 Act first becoming effective December 7, 1995, which were priced on December 7, 1995 and which were actively marketed prior thereto pursuant to a preliminary prospectus dated November 14, 1995 will not be subject to these proposals.

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

SUBJECT TO COMPLETION, DATED NOVEMBER 14, 1995

10,000,000 Exchangeable Notes

ENRON CORP

% Exchangeable Notes due , 1998

(Subject to Exchange into Shares of Common Stock, Par Value $.01 Per Share, of Enron Oil & Gas Company)

The principal amount of each of the % Exchangeable Notes due , 1998 (the "Exchangeable Notes") of Enron Corp. ("Enron") being offered hereby (the "Exchangeable Notes Offering") will be $ (the closing sale price of the common stock, par value $.01 per share (the "Common Stock"), of Enron Oil & Gas Company ("EOG") on 1995, as reported on the New York Stock Exchange Composite Tape) (the "Initial Price"). The Exchangeable Notes will mature on , 1998. Interest on the Exchangeable Notes, at the rate of % of the principal amount per annum, is payable quarterly in arrears on , , and , beginning , 1996. The Exchangeable Notes are not subject to redemption, defeasance or any sinking fund prior to maturity.

At maturity, including as a result of acceleration or otherwise ("Maturity"), each Exchangeable Note will be mandatorily exchanged by Enron into a number of shares of EOG Common Stock (or, at Enron's option, which may be exercised with respect to all, but not less than all, outstanding Exchangeable Notes, cash with an equal value) at the Exchange Rate. The Exchange Rate is equal to, subject to certain adjustments, (a) if the Maturity Price is greater than or equal to $ per share of EOG Common Stock (the "Threshold Appreciation Price"), shares of EOG Common Stock per Exchangeable Note, (b) if the Maturity Price is less than the Threshold Appreciation Price but is greater than the Initial Price, a fractional share of EOG Common Stock per Exchangeable Note so that the value thereof, determined at the Maturity Price, equals the Initial Price and (c) if the Maturity Price is less than or equal to the Initial Price, one share of EOG Common Stock per Exchangeable Note. The "Maturity Price" means the average Closing Price (as defined herein) per share of EOG Common Stock for the 20 Trading Days (as defined herein) immediately prior to Maturity. Accordingly, holders of the Exchangeable Notes will not necessarily receive an amount equal to the principal amount thereof. The Exchangeable Notes will be unsecured obligations of Enron ranking *pari passu* with all of its other unsecured and unsubordinated indebtedness. Enron may only exercise its option to pay outstanding Exchangeable Notes in cash from the proceeds of its sale of Enron common stock. EOG will have no obligations with respect to the Exchangeable Notes. See "Description of the Exchangeable Notes".

Concurrently with the Exchangeable Notes Offering, Enron is offering 27,000,000 shares of EOG Common Stock (31,050,000 shares if the Underwriters' over-allotment options are exercised in full in such offerings) in concurrent U.S. and international offerings (collectively, the "Stock Offerings"). The consummation of the Exchangeable Notes Offering is not contingent upon the consummation of the Stock Offerings or vice versa. Assuming the Underwriters' over-allotment options in the Exchangeable Notes Offering and the Stock Offerings are exercised in full and the maximum number of shares of EOG Common Stock is delivered upon mandatory exchange of the Exchangeable Notes at Maturity, Enron would own approximately 54% of the outstanding EOG Common Stock.

Attached hereto as Appendix A and included as part of this Prospectus is a prospectus of EOG covering the shares of EOG Common Stock which may be received by a holder of Exchangeable Notes at Maturity. The EOG prospectus relates to an aggregate of 11,000,000 shares of EOG Common Stock.

For a discussion of certain United States federal income tax consequences for holders of Exchangeable Notes, see "Certain United States Federal Income Tax Considerations".

Application has been made to list the Exchangeable Notes on the New York Stock Exchange ("NYSE"). EOG Common Stock (including the shares which may be received by a holder of Exchangeable Notes at Maturity) is listed on the NYSE under the symbol "EOG".

Prospective investors are advised to consider carefully the information contained under "Risk Factors Relating to Exchangeable Notes" beginning on page 5.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Initial Public Offering Price(1)	Underwriting Discount(2)	Proceeds to Enron(1)(3)
Per Exchangeable Note	$	$	$
Total (4)	$	$	$

(1) Plus accrued interest, if any, from , 1995.
(2) Enron and EOG have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.
(3) Before deducting expenses payable by Enron, estimated to be $
(4) Enron has granted the Underwriters an option for 30 days to purchase up to an additional 1,000,000 Exchangeable Notes at the initial public offering price, less the underwriting discount, solely to cover over-allotments. If such over-allotment option is exercised in full, the total initial public offering price, underwriting discount and proceeds to Enron will be $, $ and $, respectively. See "Underwriting".

The Exchangeable Notes offered hereby are offered severally by the Underwriters, as specified herein, subject to receipt and acceptance by them, and subject to their right to reject any order in whole or in part. It is expected that the Exchangeable Notes will be ready for delivery in New York, New York, on or about , 1995.

Goldman, Sachs & Co.

Merrill Lynch & Co.

Salomon Brothers Inc

The date of this Prospectus is , 1995.

AVAILABLE INFORMATION

Enron, a Delaware corporation, is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information can be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549; and at the following Regional Offices of the Commission: Midwest Regional Office, Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511; and Northeast Regional Office, Seven World Trade Center, Suite 1300, New York, New York 10048. Copies of such material can also be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, at prescribed rates. Enron's Common Stock and Cumulative Second Preferred Convertible Stock are listed on the New York and Midwest Stock Exchanges, and Enron's Common Stock is also listed on the Pacific Stock Exchange. Reports, proxy statements and other information concerning Enron can be inspected and copied at the respective offices of these exchanges at 20 Broad Street, New York, New York 10005; 120 South LaSalle Street, Chicago, Illinois 60603; and 301 Pine Street, San Francisco, California 94014.

This Prospectus constitutes a part of a Registration Statement on Form S-3 (together with all amendments and exhibits thereto, the "Registration Statement") filed with the Commission under the Securities Act of 1933, as amended (the "Securities Act"), with respect to the Exchangeable Notes. This Prospectus does not contain all of the information set forth in such Registration Statement, certain parts of which are omitted in accordance with the rules and regulations of the Commission. Reference is made to such Registration Statement and to the exhibits relating thereto for further information with respect to Enron and the Exchangeable Notes. Any statements contained herein concerning the provisions of any document filed as an exhibit to the Registration Statement or otherwise filed with the Commission or incorporated by reference herein are not necessarily complete, and in each instance reference is made to the copy of such document so filed for a more complete description of the matter involved. Each such statement is qualified in its entirety by such reference.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed with the Commission by Enron (File No. 1-3423) pursuant to Section 13(a) of the Exchange Act are incorporated herein by reference:

(a) Annual Report on Form 10-K for the year ended December 31, 1994;

(b) Quarterly Report on Form 10-Q for the quarter ended March 31, 1995;

(c) Quarterly Report on Form 10-Q for the quarter ended June 30, 1995; and

(d) Quarterly Report on Form 10-Q for the quarter ended September 30, 1995

Each document filed by Enron pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this Prospectus and prior to the termination of the offering of the Exchangeable Notes pursuant hereto shall be deemed to be incorporated herein by reference and to be a part hereof from the date of filing of such document. Any statement contained herein or in a document all or a portion of which is incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Enron will provide without charge to each person to whom a copy of this Prospectus is delivered, on the request of any such person, a copy of any or all of the foregoing documents incorporated herein by reference other than exhibits to such documents (unless such exhibits are specifically incorporated by reference into the documents that this Prospectus incorporates). Requests should be directed to Secretary Division, Enron Corp., at its principal executive offices, 1400 Smith Street, Houston, Texas 77002 (telephone: 713-853-6161).

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE EXCHANGEABLE NOTES OR THE EOG COMMON STOCK AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE, IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUMMARY

The following is a summary of certain information contained in this Prospectus. It is not intended to be complete and is qualified in its entirety by the more detailed information contained elsewhere in this Prospectus. Capitalized terms which are not defined in this summary are used as defined elsewhere in this Prospectus.

Enron Corp.

Enron, organized in 1930, is an integrated natural gas company with headquarters in Houston, Texas. Essentially all of Enron's operations are conducted through its subsidiaries and affiliates which are principally engaged in the gathering, transportation and wholesale marketing of natural gas to markets throughout the United States and internationally through approximately 44,000 miles of natural gas pipelines; the exploration for and production of natural gas and crude oil in the United States and internationally; the production, purchase, transportation and worldwide marketing of natural gas liquids and refined petroleum products; the independent (i.e., non-utility) development, promotion, construction and operation of power plants, natural gas liquids facilities and pipelines in the United States and internationally; and the non-price regulated purchasing and marketing of energy related commitments.

Enron Oil & Gas Company

EOG, together with its subsidiaries, is one of the largest independent (non-integrated) oil and gas companies in the United States in terms of domestic proved reserves. It is engaged, directly and through its subsidiaries, in the exploration for, and the development, production and marketing of, natural gas and crude oil primarily in major producing basins in the United States, as well as in Canada, Trinidad and India, and to a lesser extent, selected other international areas.

The Exchangeable Notes Offering

Exchangeable Notes Offered	10,000,000 Exchangeable Notes.
Principal Amount	$ per Exchangeable Note.
Stated Maturity	, 1998.
Interest Rate	% per annum, or $ per Exchangeable Note per quarter, payable quarterly in arrears.
Interest Payment Dates	, , , and , beginning ,1996.
Exchange at Maturity	At Maturity, the principal amount of each Exchangeable Note will be mandatorily exchanged by Enron into a number of shares of EOG Common Stock (or, at Enron's option, which may be exercised with respect to all, but not less than all, of the outstanding Exchangeable Notes, cash with an equal value) at the Exchange Rate. The Exchange Rate is equal to, subject to certain adjustments, (a) if the Maturity Price is greater than or equal to the Threshold Appreciation Price, shares of EOG Common Stock per Exchangeable Note, (b) if the Maturity Price is less than the Threshold Appreciation Price but is greater than the Initial Price, a fractional share of EOG Common Stock per Exchangeable Note so that the value thereof (determined at the Maturity Price) equals the Initial Price and (c) if the Maturity Price is less than or equal to the Initial Price, one share of EOG Common Stock per Exchangeable Note. The "Maturity Price" means the average Closing Price per share of EOG Common Stock for the 20 Trading Days immediately prior to Maturity. Accordingly, holders of the Exchangeable Notes will not necessarily receive an amount equal to the principal

amount thereof. The Exchangeable Notes are not exchangeable for EOG Common Stock at the option of the holder. Enron may only exercise its option to pay outstanding Exchangeable Notes in cash from the proceeds of its sale of Enron common stock. See "Description of the Exchangeable Notes - General."

No Redemption or Sinking Fund ..	The Exchangeable Notes are not subject to redemption, defeasance or any sinking fund prior to Maturity.
Ranking	The Exchangeable Notes will be unsecured obligations of Enron ranking *pari passu* with all of its other unsecured and unsubordinated indebtedness.
Relationship to EOG Common Stock	The Exchangeable Notes will bear interest at % per annum, a yield substantially in excess of the % anticipated dividend yield of EOG Common Stock based on the Initial Price of $ and the current quarterly dividend payable on EOG Common Stock. However, the opportunity for equity appreciation afforded by an investment in the Exchangeable Notes is less than the opportunity for equity appreciation afforded by an investment in EOG Common Stock because the amount receivable by a holder of an Exchangeable Note upon exchange at Maturity will only exceed the principal amount of such Exchangeable Note if the Maturity Price exceeds the Threshold Appreciation Price (which represents an appreciation of % over the Initial Price). Moreover, holders of the Exchangeable Notes will only be entitled to receive upon exchange at Maturity % (the percentage equal to the Initial Price divided by the Threshold Appreciation Price) of any appreciation of the value of EOG Common Stock in excess of the Threshold Appreciation Price. Holders of the Exchangeable Notes will not be entitled to any rights with respect to EOG Common Stock (including, without limitation, voting rights and rights to receive any dividends or other distributions in respect thereof) until such time, if any, as Enron shall have exchanged shares of EOG Common Stock for Exchangeable Notes at Maturity thereof and unless the applicable record date, if any, for the exercise of such rights occurs after such exchange.
Use of Proceeds	The net proceeds will be added to Enron's general funds and are expected to be used to retire existing indebtedness and for general corporate purposes. See "Use of Proceeds."

RISK FACTORS RELATING TO EXCHANGEABLE NOTES

As described in more detail below, the trading price of the Exchangeable Notes may vary considerably prior to Maturity due to, among other things, fluctuations in the price of EOG Common Stock and other events that are difficult to predict and beyond Enron's control.

Comparison to Other Debt Securities; Relationship to EOG Common Stock

The terms of the Exchangeable Notes differ from those of ordinary debt securities in that the amount that a holder of the Exchangeable Notes will receive upon mandatory exchange at Maturity is not fixed, but is based on the price of the EOG Common Stock as specified in the Exchange Rate. There can be no assurance that the amount received by such holder upon exchange at Maturity (whether in stock or cash) will be equal to or greater than the principal amount of an Exchangeable Note because the price of the EOG Common Stock is subject to market fluctuations, and the value of the EOG Common Stock (or, at the option of Enron, the amount of cash) received by a holder of an Exchangeable Note upon exchange at Maturity, determined as described herein, may be more or less than the prinicpal amount of the Exchangeable Note. For example, if the Maturity Price of the EOG Common Stock is less than the Initial Price, the amount received upon exchange will be less than the principal amount paid for the Exchangeable Note, in which case an investment in Exchangeable Notes will result in a loss.

In addition, the opportunity for equity appreciation afforded by an investment in the Exchangeable Notes is less than the opportunity for equity appreciation afforded by an investment in the EOG Common Stock because the amount received by a holder of an Exchangeable Note upon exchange at Maturity will only exceed the principal amount of such Exchangeable Note if the Maturity Price exceeds the Threshold Appreciation Price (which represents an appreciation of % over the Initial Price). Holders of the Exchangeable Notes will only be entitled to receive upon exchange at Maturity % of any appreciation of the value of EOG Common Stock in excess of the Threshold Appreciation Price.

It is impossible to predict whether the price of EOG Common Stock will rise or fall. Trading prices of EOG Common Stock will be influenced by EOG's operational results and by complex and interrelated political, economic, financial and other factors that can affect natural gas and crude oil commodity markets generally. See the prospectus relating to EOG and to EOG Common Stock attached hereto as Appendix A and included as part of this Prospectus.

In addition, in the event Enron does not exercise its option to deliver cash, holders of the Exchangeable Notes will not be entitled to any rights with respect to the EOG Common Stock (including, without limitation, voting rights and rights to receive any dividends or other distributions in respect thereof) until such time as Enron shall have exchanged shares of EOG Common Stock for Exchangeable Notes at Maturity thereof and unless the applicable record date, if any, for the exercise of such rights occurs after such exchange.

Dilution of EOG Common Stock

The amount that holders of the Exchangeable Notes are entitled to receive upon the mandatory exchange at Maturity is subject to adjustment for certain events arising from stock splits and combinations, stock dividends and certain other actions of EOG that modify its capital structure. See "Description of the Exchangeable Notes – Dilution Adjustments." The amount to be received by holders of Exchangeable Notes upon mandatory exchange at Maturity may not be adjusted for other events, such as offerings of EOG Common Stock for cash or in connection with acquisitions, that may adversely affect the price of the EOG Common Stock and, because of the relationship of such amount to be received upon exchange to the price of EOG Common Stock, such other events may adversely affect the trading price of the Exchangeable Notes. There can be no assurance that EOG will not make offerings of EOG Common Stock or take other action in the future.

Possible Illiquidity of the Secondary Market

It is not possible to predict how the Exchangeable Notes will trade in the secondary market or whether such market will be liquid or illiquid. Exchangeable Notes are novel securities and there is currently no secondary market for the Exchangeable Notes. The Underwriters currently intend, but are not obligated, to make a market in the Exchangeable Notes. There can be no assurance that a secondary market will develop or, if a secondary market does develop, that it will provide the holders of the Exchangeable Notes with liquidity of investment or that it will continue for the life of the Exchangeable Notes.

Enron has applied for listing of the Exchangeable Notes on the NYSE. However, there can be no assurance that the Exchangeable Notes will not later be delisted or that trading in the Exchangeable Notes on the NYSE will not be suspended. If the Exchangeable Notes are not listed or traded on any securities exchange or trading market, or if trading of the Exchangeable Notes is suspended, pricing information for the Exchangeable Notes may be more difficult to obtain, and the liquidity of the Exchangeable Notes may be adversely affected.

No Obligation on the Part of EOG with Respect to the Exchangeable Notes

EOG has no obligations with respect to the Exchangeable Notes or amounts to be paid to holders thereof, including any obligation to take the needs of holders of the Exchangeable Notes into consideration for any reason. EOG will not receive any of the proceeds of the offering of the Exchangeable Notes made hereby and is not responsible for the determination of the timing of, prices for or quantities of the Exchangeable Notes to be issued or the determination or calculation of the amount to be paid upon mandatory exchange at Maturity.

Tax Uncertainties

The Indenture (as defined herein) requires that any holder subject to U.S. federal income tax include currently in income, for U.S. federal income tax purposes, payments denominated as interest that are made with respect to the Exchangeable Notes, in accordance with such holder's method of accounting, and the amount of original issue discount ("OID"), if any, attributable to the Exchangeable Notes as it accrues. The Indenture also requires holders to treat the Exchangeable Notes as a unit consisting of (i) an exchange note, which is a debt obligation with a fixed principal amount unconditionally payable at Maturity equal to the principal amount of the Exchangeable Notes, and (ii) a forward purchase contract pursuant to which the holder agrees to use the principal payment due on the Exchangeable Notes to purchase at Maturity the EOG Common Stock that the holder is entitled to receive at that time (subject to Enron's right to deliver cash in lieu of the EOG Common Stock). It is contemplated that, upon a holder's sale or other disposition of the Exchangeable Notes prior to Maturity, the amount realized will be allocated between these two components of the Exchangeable Notes on the basis of their then relative fair market values. Because of an absence of authority as to the proper characterization of the Exchangeable Notes for tax purposes, these tax characterizations and results are uncertain. This uncertainty extends to characterization of any gain or loss recognized with respect to the Exchangeable Notes at Maturity as capital gain or loss or ordinary income or loss and, in the event Enron delivers EOG Common Stock at Maturity, as to whether any gain or loss can be deferred until a sale or disposition of such stock. As a result of these uncertainties, Enron has not received an opinion of counsel with respect to the specific tax consequences of owning or disposing of the Exchangeable Notes. See "Certain United States Federal Income Tax Considerations."

ENRON CORP.

Enron, a Delaware corporation organized in 1930, is an integrated natural gas company with headquarters in Houston, Texas. Essentially all of Enron's operations are conducted through its subsidiaries and affiliates which are principally engaged in the gathering, transportation and wholesale marketing of natural gas to markets throughout the United States and internationally through approximately 44,000 miles of natural gas pipelines; the exploration for and development and production of natural gas and crude oil in the United States and internationally; the production, purchase, transportation and worldwide marketing of natural gas liquids and refined petroleum products; the independent (i.e., non-utility) development, promotion, construction and operation of power plants, natural gas liquids facilities and pipelines in the United States and internationally; and the non-price regulated purchasing and marketing of energy related commitments.

Transportation and Operation. Enron's operations include the interstate and intrastate transmission of natural gas, construction, management and operation of natural gas and natural gas liquids pipelines, liquids plants, clean fuel plants and power facilities. Enron and its subsidiaries operate domestic interstate pipelines extending from Texas to the Canadian border and across the southern United States from Florida to California. Included in Enron's domestic interstate natural gas pipeline operations are Northern Natural Gas Company ("Northern"), Transwestern Pipeline Company ("Transwestern"), and Florida Gas Transmission Company ("Florida Gas") (indirectly 50% owned by Enron), and all such pipelines are subject to the regulatory jurisdiction of the Federal Energy Regulatory Commission. Each pipeline serves customers in a specific geographical area: Northern, the upper Midwest; Florida Gas, the State of Florida; and Transwestern, principally the California market. In addition, Enron holds a 13% interest in Northern Border Partners, L.P., which owns a 70% interest in the Northern Border Pipeline system. An Enron subsidiary operates the Northern Border Pipeline system, which transports gas from western Canada to delivery points in the midwestern United States. Also, Enron has an approximate 15% interest in Enron Liquids Pipeline, L.P., which is engaged in pipeline transportation of natural gas liquids, refined petroleum products and carbon dioxide, operates coal terminalling, gas processing and natural gas liquids fractionation facilities, and is operated by a wholly owned subsidiary of Enron.

Domestic Gas and Power Services. Enron Capital & Trade Resources Corp. and its affiliated companies ("ECT") purchase natural gas, natural gas liquids and power through a variety of contractual arrangements, including both short- and long-term contracts, the arrangement of production payment and other financing transactions, and other contractual arrangements. ECT markets these energy products to local distribution companies, electric utilities, cogenerators, and both commercial and industrial end-users. ECT also provides price risk management services in connection with natural gas, gas liquids and power transactions through both physical delivery and financial arrangements.

ECT offers a broad range of non-price regulated natural gas merchant services by tailoring a variety of supply and marketing options to its customers' specific needs. ECT's strategy is to provide predictable pricing, reliable delivery and low cost capital to its customers. ECT provides these services through a variety of instruments, including forward contracts, swap agreements and other contractual commitments.

Certain Enron subsidiaries are engaged domestically in the extraction of natural gas liquids (ethane, propane, normal butane, isobutane and natural gasoline), which are typically extracted from natural gas in liquid form under low temperature and high pressure conditions. Ethane, propane, normal butane, isobutane and natural gasoline are used as feedstocks for petrochemical plants in the production of plastics, synthetic rubber and other products. Normal butane and natural gasoline are used by refineries in the blending of motor gasoline. Isobutane is used in the alkylation process to enhance the octane content of motor gasoline and is also used in the production of MTBE, which is used to produce cleaner burning motor gasoline. Propane is used as fuel for home heating and cooking, crop drying and industrial facilities and as an engine fuel for vehicles, and ethane is used as a feedstock for synthetic fuels production.

International Gas and Power Services. Enron's international activities principally involve the independent (non-utility) development, acquisition, promotion and operation of natural gas and power projects and the marketing of natural gas liquids. As is the case in the United States, Enron's emphasis is on businesses in which natural gas or its components play a significant role. Development projects are focused on power plants, gas processing and terminalling facilities, and gas pipelines, while marketing activities center on fuels used by or transported through such facilities. Enron's international activities include management of direct and indirect ownership interests in and operation of power plants in England, Germany, Guatemala and the Phillippines; a pipeline system in southern Argentina; retail gas and propane sales in the Caribbean basin; processing of natural gas liquids at Teesside, England; and marketing of natural gas liquids worldwide. Enron is also involved in power and pipeline projects in varying stages of development in China, the Dominican Republic, Colombia, Turkey, Bolivia and Brazil, Indonesia and elsewhere.

Enron Global Power & Pipelines L.L.C., a Delaware limited liability company ("EPP"), was formed in November 1994 by Enron to own and manage Enron's operating power plant and natural gas pipeline business conducted outside the United States, Canada and Western Europe, and to expand such business through acquisitions. EPP's initial assets consist of interests contributed by Enron in two power plants in the Phillippines (with 226 megawatts of aggregate net generating capacity), a power plant in Guatemala (with 110 megawatts of net generating capacity) and a 6,548 kilometer (4,069 mile) natural gas pipeline system in Argentina. The public offering of common shares of EPP was completed in November 1994. Enron owns approximately 52% of the common shares of EPP. Enron formed EPP to attract public equity capital to emerging market infrastructure projects, to enable public investors to better evaluate and participate directly in the growth of Enron's operating power plant and natural gas pipeline activities in emerging markets and to generate additional capital for Enron to reinvest in future development efforts and for other corporate purposes.

Exploration and Production. Substantially all of Enron's natural gas and crude oil exploration and production operations are conducted by its subsidiary EOG. EOG is engaged in the exploration for, and development, production and marketing of, natural gas and crude oil primarily in major producing basins in the United States, as well as in Canada, Trinidad, India and to a lesser extent, selected other international areas. At December 31, 1994, EOG had estimated net proved natural gas reserves of 1,910 billion cubic feet and estimated net proved crude oil, condensate and natural gas liquids reserves of 37 million barrels, and at such date, approximately 70% of EOG's reserves (on a natural gas equivalent basis) was located in the United States, 16% in Canada, 11% in Trinidad and 3% in India. A limited partnership in which ECT owns a 50% general partner interest has entered into an agreement to acquire a controlling interest in Coda Energy, Inc. ("Coda"). Coda is engaged in the exploration for, and the development, production and marketing of, natural gas and crude oil primarily in North Texas and Oklahoma. Crude oil accounts for approximately 86% of Coda's proved reserves. At December 31, 1994, Coda reported estimated proved natural gas reserves of 39,808 million cubic feet ("MMcf") and estimated proved crude oil, condensate and natural gas liquids reserves of 39,207 thousand barrels ("MBbls"). See "Relationship Between Enron and EOG – Conflicts of Interest."

RECENT EVENTS

In connection with a Power Purchase Agreement dated December 8, 1993, as amended, between Dabhol Power Company, Enron's 80%-owned subsidiary, and the Maharashtra State Electricity Board (the "MSEB"), Dabhol Power Company has been developing Phase I (approximately 695 megawatts) of a 2,015 megawatt electricity generating power plant south of Bombay, State of Maharashtra, India (the "Project"). Financial closing occurred and Project construction began on March 1, 1995. After construction had begun, and following elections to the Maharashtra Legislative Assembly, a new coalition government took office in the State of Maharashtra. The new coalition government appointed a review committee to study the Project, and on August 3, 1995, announced the State government's intention to terminate the Project. Work on the Project was ordered stopped by the MSEB, and construction ceased on August 8, 1995. Enron believes that such actions were in clear violation of the contract and in response to these actions, Dabhol Power

Company is pursuing two courses of action. First, pursuant to Dabhol Power Company's remedies in the agreements with the State government, arbitration has commenced in London against the State government for the actions it has taken to terminate the Project. Dabhol Power Company seeks to recover all of its construction and other expenses, in addition to lost profits. The arbitration tribunal has been appointed and one arbitration hearing has occurred in London with a subsequent hearing scheduled for late November 1995. Second, Dabhol Power Company has both orally and in writing communicated to the Maharashtra State government its desire to go forward with construction of the Project and its willingness to resolve any outstanding issues, and discussions to resolve outstanding issues have begun. Although the outcome of neither the arbitration nor the renegotiation process can be predicted with certainty, based on currently available information, Enron believes that the ultimate outcome of the Project will not have a materially adverse effect on its financial position.

In March 1993, Enron entered into long-term gas contracts with Phillips Petroleum Company United Kingdom Limited, British Gas Exploration and Production Limited and Agip (U.K.) Limited to purchase all of the future gas production from the J-Block field which is located in the North Sea offshore the United Kingdom (the "J-Block Contracts"). Such agreements provide for Enron to take or pay for the gas at a fixed price (with possible escalations throughout the contract period). Gas paid for, but not taken, may be recovered in later contract years. The J-Block Contracts provide for a first delivery date of not later than October 1, 1996. The contract price for such natural gas is in excess of current spot market prices in the United Kingdom. In September 1995, Enron announced that, in accordance with its contractual rights, it had notified the J-Block sellers that Enron's nominations for gas from the J-Block field were estimated to be zero from the first delivery date through September 30, 1997. In addition, in accordance with its contractual rights, Enron has made no estimated nominations for J-Block gas to date under the J-Block Contracts for the contract year ending September 30, 1998. Enron continues its good faith efforts to develop mutually beneficial solutions regarding pricing terms so that production from J-Block can begin as soon as possible. Enron believes that there are many commercial reasons for the parties to resolve any contract issues, but efforts have not been successful to date. Enron has advised the J-Block sellers that it intends to assert all legal rights, exercise all available commercial flexibility and pursue all available commercial and legal remedies under the J-Block Contracts, and stands ready and able to perform all legal obligations under the J-Block Contracts, including potential prepayments for gas to be taken in later years. The long-term market demand for J-Block gas supply remains favorable and Enron anticipates being able to meet all of its various short- and long-term market commitments. Although no assurances can be given, based upon the foregoing and other information currently available, Enron does not at this time anticipate that the J-Block Contracts will have a materially adverse effect on Enron's financial position.

SELECTED FINANCIAL DATA OF ENRON

The financial information set forth below has been derived from the audited and unaudited consolidated financial statements of Enron. The information should be read in connection with, and is qualified in its entirety by reference to, Enron's financial statements and notes thereto incorporated by reference herein. See "Incorporation of Certain Documents by Reference." The interim data reflects all adjustments which, in the opinion of the management of Enron, are necessary to present fairly such information for the interim periods. The results of operations for the nine-month periods are not necessarily indicative of the results expected for a full year or any other interim period.

	Year Ended December 31,					Nine Months Ended September 30,	
	1990	1991	1992	1993	1994	1994	1995
				(In millions)			
Income Statement Data:							
Revenues	$5,460	$5,698	$6,415	$7,985	$8,984	$6,397	$6,639
Costs and expenses							
Cost of gas and other products sold	3,528	3,646	4,222	5,587	6,517	4,631	4,726
Operating expenses	861	914	936	1,057	1,033	714	751
Amortization of deferred contract reformation costs	102	125	101	89	91	65	19
Oil and gas exploration costs	68	59	59	76	84	58	61
Depreciation, depletion and amortization	356	366	376	458	441	328	321
Taxes, other than income taxes	82	75	101	108	102	78	85
	4,997	5,185	5,795	7,355	8,268	5,874	5,963
Operating income	463	513	620	630	716	523	676
Other income and deductions							
Equity in earnings of unconsolidated subsidiaries	56	55	56	73	112	74	49
Other, net	143	147	91	95	116	112	116
Income before interest, minority interest and income taxes	662	715	767	798	944	709	841
Interest and related charges, net	395	373	330	300	273	202	214
Dividends on preferred stock of subsidiary company	—	—	—	2	20	14	24
Minority interest	7	7	18	28	31	21	34
Income taxes	58	103	90	135	167	127	180
Income before extraordinary items	202	232	329	333	453	345	389
Extraordinary items	—	—	(23)	—	—	—	—
Net income(1)	202	232	306	333	453	345	389
Preferred stock dividends	25	25	22	17	15	11	11
Earnings on Common Stock	$ 177	$ 207	$ 284	$ 316	$ 438	$ 334	$ 378

	December 31,					September 30, 1995
	1990	1991	1992	1993	1994	
				(In millions)		
Balance Sheet Data:						
Total assets	$ 9,849	$10,070	$10,312	$11,504	$11,966	$13,029
Short-term debt	—	—	—	—	—	—
Long-term debt (including amounts reclassified from short-term debt)	2,983	3,109	2,459	2,661	2,805	3,425
Preferred stock of subsidiary company	—	—	—	214	377	396
Minority interest	97	101	179	196	290	316
Shareholders' equity	1,838	1,901	2,518	2,623	2,880	3,107

(1) Net income for the year ended December 31, 1993 includes a primarily non-cash charge of $54 million to adjust for the increase in the corporate federal income tax rate from 34 percent to 35 percent.

CAPITALIZATION

The following table sets forth the capitalization of Enron and its consolidated subsidiaries as of September 30, 1995, and as adjusted to give effect to the issuance on October 11, 1995 of $100 million aggregate principal amount of 6⅞% Notes due 2007, and the issuance of the Exchangeable Notes offered hereby and, in each case, the use of the proceeds therefrom.

	Actual	As Adjusted
	(In thousands)	
Short-term debt		
Notes payable	$ —	$ —
Current maturities of long-term debt	—	—
Total short-term debt	—	—
Long-term debt		
Enron:		
Amount reclassified from short-term debt	587,032	
Notes due 1996-2023 (6¾% to 10.75%)	1,753,139	1,753,139
Exchangeable Notes due 1998 (%)	—	
Notes due 2007 (6⅞%)	—	100,000
Subsidiary companies:		
Notes due 1998-2005 (4.52% to 9.2%)	636,000	636,000
Notes due 1998-1999 (floating rates)	55,000	55,000
Other	53,674	53,674
Enron:		
Senior subordinated debentures due 2005-2012 (6.75%-8.25%)	350,000	350,000
Unamortized debt discount and premium	(9,641)	
Total long-term debt	3,425,204	
Minority interests	315,821	315,821
Preferred stock of subsidiary companies	395,750	395,750
Shareholders' equity		
Convertible preferred stock	138,605	138,605
Common stock	25,373	25,373
Additional paid-in capital	1,792,544	1,792,544
Retained earnings	1,574,335	1,574,335
Cumulative foreign currency translation adjustment	(149,570)	(149,570)
Common stock held in treasury	(62,827)	(62,827)
Other, including Flexible Equity Trust	(210,969)	(210,969)
Total shareholders' equity	3,107,491	3,107,491
Total capitalization	$7,244,266	$

RELATIONSHIP BETWEEN ENRON AND EOG

Ownership of Common Stock

Through its ability to elect all directors of EOG, Enron has the ability to control all matters relating to the management of EOG, including any determination with respect to acquisition or disposition of EOG assets, future issuance of Common Stock or other securities of EOG and any dividends payable on the Common Stock. Enron also has the ability to control EOG's exploration, development, acquisition and operating expenditure plans. The sale by Enron of EOG Common Stock pursuant to the Stock Offerings will cause Enron's ownership interest in EOG to fall below 80% with the result that (i) EOG will cease to be included in the consolidated federal income tax return filed by Enron and (ii) the Tax Allocation Agreement between EOG and Enron described below will terminate. There is no agreement between Enron and EOG that would prevent Enron from acquiring additional shares of Common Stock of EOG.

Contractual Arrangements

EOG entered into a Services Agreement (the "Services Agreement") with Enron effective January 1994, pursuant to which Enron provides various services, such as maintenance of certain employee benefit plans, provision of telecommunications and computer services, lease of office space and the provision of purchasing and operating services and certain other corporate staff and support services. Such services historically have been supplied to EOG by Enron, and the Services Agreement provides for the further delivery of such services substantially identical in nature and quality to those services previously provided. EOG has agreed to a fixed rate for the rental of office space and to reimburse Enron for all other direct costs incurred in rendering services to EOG under the contract and to pay Enron for allocated indirect costs incurred in rendering such services up to a maximum of $6.7 million for 1994, such cap to be increased in subsequent years for inflation and certain changes in EOG's allocation bases with any increase not to exceed 7.5% per year. Approximately $6.6 million was paid under the Services Agreement by EOG to Enron in 1994. The Services Agreement is for an initial term of five years through December 1998 and will continue thereafter until terminated by either party.

In March 1995, in a series of transactions with Enron and an affiliate of Enron, EOG exchanged all of its fuel supply and purchase contracts and related price swap agreements associated with the Texas City cogeneration plant (the "Cogen Contracts") for certain natural gas price swap agreements (the "Swap Agreements") of equivalent value. As a result of the transactions, EOG has been relieved of all performance obligations associated with the Cogen Contracts. EOG will realize net operating revenues and receive corresponding cash payments of approximately $91 million during the period extending through December 31, 1999 under the terms of the Swap Agreements. The estimated fair value of the Swap Agreements was approximately $81 million at the date the Swap Agreements were received. The net of this series of transactions will result in increases in net operating revenues and cash receipts for EOG during 1995 and 1996 of approximately $13 million and $7 million, respectively, with offsetting decreases in 1998 and 1999 versus that anticipated under the Cogen Contracts.

EOG has been included in the consolidated federal income tax return filed by Enron as the common parent for itself and its subsidiaries and affiliated companies, excluding any foreign subsidiaries. Consistent therewith and pursuant to a Tax Allocation Agreement between EOG, EOG's subsidiaries and Enron, either Enron has paid to EOG and each subsidiary an amount equal to the tax benefit realized in the Enron consolidated federal income tax return resulting from the utilization of EOG's or the subsidiary's net operating losses and/or tax credits, or EOG and each subsidiary has paid to Enron an amount equal to the federal income tax computed on its separate taxable income less the tax benefits associated with any net operating losses and/or tax credits generated by EOG or the subsidiary which were utilized in the Enron consolidated return. Enron has paid EOG and each subsidiary for the tax benefits associated with their net operating losses and tax credits utilized in the Enron consolidated return, provided that a tax benefit was realized except as discussed below, even if such benefits could not have been used by EOG or the subsidiary on a separately filed tax return. EOG entered into an agreement with Enron providing for EOG to be paid for all realizable benefits associated with tight gas sand federal income tax credits concurrent with tax reporting and settlement for the periods in which they were generated. The Tax Allocation

Agreement applies to EOG and each of its subsidiaries for all years in which EOG or any of its subsidiaries are or were included in the Enron consolidated return. To the extent a state or other taxing jurisdiction requires or permits a consolidated, combined, or unitary tax return to to be filed and such return includes EOG or any of its subsidiaries, the principles expressed with respect to consolidated federal income tax allocation shall apply. The Tax Allocation Agreement will cease to be effective from the time at which deconsolidation occurs for future periods, but will remain in effect with regard to periods prior to deconsolidation. EOG has entered into a supplemental agreement with Enron clarifying future potential adjustments associated with the final settlement on audit of taxes for periods prior to the deconsolidation for issues not addressed in the original agreement. Enron and EOG do not believe that the cessation of consolidated tax reporting and effectiveness of the Tax Allocation Agreement concurrently with deconsolidation will have a material adverse effect on the financial condition or results of operations of either Enron or EOG.

Conflicts of Interest

The nature of the respective businesses of EOG and Enron and its affiliates is such as to potentially give rise to conflicts of interest between the two companies. Conflicts could arise, for example, with respect to transactions involving purchases, sales and transportation of natural gas and other business dealings between EOG and Enron and its affiliates, potential acquisitions of businesses or oil and gas properties, the issuance of additional shares of voting securities, the election of directors or the payment of dividends by EOG.

Circumstances may also arise that would cause Enron to engage in the exploration for and/or development and production of natural gas and crude oil in competition with EOG. For example, opportunities might arise which would require financial resources greater than those available to EOG, which are located in areas or countries in which EOG does not intend to operate or which involve properties that EOG would be unwilling to acquire. Also, Enron might acquire a competing oil and gas business as part of a larger acquisition. In addition, as part of Enron's strategy of securing supplies of natural gas or capital, Enron may from time to time acquire producing properties or interests in entities owning producing properties, and thereafter engage in exploration, development and production activities with respect to such properties or indirectly engage in such activities through such companies. Enron may also acquire interests in oil and gas properties or companies in connection with its financing activities. For example, in its financing activities Enron or any entity in which it has an interest may make loans secured by oil and gas properties or securities of oil and gas companies, may acquire production payments or may receive interests in oil and gas properties as equity components of lending transactions. As a result of its lending activities, Enron may also acquire oil and gas properties or companies upon foreclosure of secured loans or as part of a borrower's rearrangement of its obligations. Such acquisition, exploration, development and production activities may directly or indirectly compete with EOG's business. There can be no assurance that Enron will not engage directly or indirectly through entities other than EOG, in the natural gas and crude oil exploration, development and production business in competition with EOG.

Joint Energy Development Investments Limited Partnership ("JEDI"), a limited partnership in which ECT owns a 50% general partner interest, has entered into an agreement to acquire a controlling interest in Coda. Coda is engaged in the exploration for, and the development, production and marketing of, natural gas and crude oil primarily in North Texas and Oklahoma. Crude oil accounts for approximately 86% of Coda's proved reserves. At December 31, 1994, Coda reported estimated proved natural gas reserves of 39,808 MMcf and estimated proved crude oil, condensates and natural gas liquids reserves of 39,207 MBbls. Enron anticipates that the transaction will be consummated in early 1996, subject to Coda stockholder approval and other conditions. Conflicts may arise between Coda and JEDI, and if the acquisition of Coda occurs Enron will be required to resolve such conflicts in a manner that is consistent with its fiduciary and contractual duties to other investors in Coda and JEDI and its fiduciary duties to EOG. ECT has entered into an agreement with JEDI and other investors in Coda designed to minimize certain conflicts of interest that may arise and providing, among other things, that EOG has no obligation to offer any business opportunities to Coda.

EOG and Enron and its affiliates have in the past entered into significant intercompany transactions and agreements incident to their respective businesses, and EOG and Enron and its affiliates may be expected to enter into material transactions and agreements from time to time in the future. Such transactions and agreements have related to, among other things, the purchase and sale of natural gas and crude oil, the financing of exploration and development efforts by EOG, and the provision of certain corporate services. Enron believes that its existing transactions and agreements with EOG have been at least as favorable to Enron as could be obtained from third parties, and Enron intends that the terms of any future transactions and agreements between Enron and EOG and its affiliates will be at least as favorable to Enron as could be obtained from third parties.

USE OF PROCEEDS

The net proceeds from the sale of the Exchangeable Notes will be added to Enron's general funds and are expected to be used to retire existing indebtedness and for general corporate purposes. At , 1995 the weighted average interest rate on such indebtedness was approximately %.

RATIO OF ENRON'S EARNINGS TO FIXED CHARGES

	Year Ended December 31,					Nine Months Ended September, 1995
	1990	1991	1992	19[illegible]	1994	
Ratio of Earnings to Fixed Charges	1.58	1.66	1.74	1.[illegible]	2.40	2.87

The ratio of earnings to fixed charges is based on continuing [illegible]erations. "Earnings" represent the aggregate of (a) the pre-tax income of Enron and its majority owned subsidiaries, (b) Enron's share of pre-tax income of its 50% owned companies, (c) any income actually received from less than 50% owned companies, and (d) fixed charges, net of interest capitalized. "Fixed Charges" represent interest (whether expensed or capitalized), amortization of debt discount and expense and that portion of rentals considered to be representative of the interest factor.

PRICE RANGE OF EOG COMMON STOCK AND CASH DIVIDENDS

The following table sets forth, for the periods indicated, the high and low sale prices per share for the EOG Common Stock, as reported on the New York Stock Exchange Composite Tape, and the amount of cash dividends paid per share. The 1993 and First and Second Quarter 1994 sales prices and cash dividends per share have been restated to reflect the two-for-one stock split on May 31, 1994.

	Price Range		Cash
	High	Low	Dividends
1993			
First Quarter	$20.31	$13.38	$.03
Second Quarter	22.50	17.88	.03
Third Quarter	26.81	19.88	.03
Fourth Quarter	27.00	17.06	.03
1994			
First Quarter	$23.75	$19.31	$.03
Second Quarter	24.63	22.38	.03
Third Quarter	23.00	18.50	.03
Fourth Quarter	22.75	17.38	.03
1995			
First Quarter	$24.88	$17.12	$.03
Second Quarter	24.75	20.25	.03
Third Quarter	25.38	20.00	.03
Fourth Quarter (through November 13, 1995)	22.75	18.75	

The last reported sale price of the EOG Common Stock on November 13, 1995 as reported on the New York Stock Exchange Composite Tape was $20⅝.

As of November 1, 1995, there were approximately 270 record holders of EOG's Common Stock, including individual participants in security position listings. There are an estimated 5,100 beneficial owners of EOG's Common Stock, including shares held in street name.

Following the initial public offering and sale of its Common Stock in October 1989, EOG paid quarterly dividends of $0.025 per share beginning with an initial dividend paid in January 1990 with respect to the fourth quarter of 1989. Beginning in January 1993 with respect to the fourth quarter of 1992, EOG has paid quarterly dividends of $0.03 per share. The determination of the amount of future cash dividends, if any, to be declared and paid will depend upon, among other things, the financial condition, funds from operations, level of exploration and development expenditure opportunities and future business prospects of EOG.

Enron makes no representation as to the amount of dividends, if any, that EOG will pay in the future. In any event, holders of the Exchangeable Notes will not be entitled to receive any dividends that may be payable on the EOG Common Stock until such time as Enron, if it so elects, delivers EOG Common Stock at Maturity of the Exchangeable Notes and the record date for such dividend occurs after such exchange. See "Description of the Exchangeable Notes."

DESCRIPTION OF THE EXCHANGEABLE NOTES

The Exchangeable Notes are one series of debt securities to be issued under an Indenture dated as of November 1, 1985, between Enron and Harris Trust and Savings Bank, as trustee, as supplemented by a First Supplemental Indenture dated as of , 1995, between Enron and Harris Trust and Savings Bank, as trustee (the "Trustee") (the Indenture dated as of November 1, 1985, as supplemented from time to time, the "Indenture"). All references herein to "Indenture Securities" shall refer to debt securities issued under the Indenture. The following summary of certain provisions of the Indenture does not purport to be complete and is qualified in its entirety by reference to the Indenture, a copy of which is filed as an exhibit to the Registration Statement of which this Prospectus is a part. All capitalized terms have the meanings specified in the Indenture.

General

The Exchangeable Notes will be unsecured and will rank on a parity with all other unsecured and unsubordinated indebtedness of Enron. The aggregate number of Exchangeable Notes to be issued will be 10,000,000, plus such additional number of Exchangeable Notes as may be issued pursuant to the over-allotment option granted by Enron to the Underwriters (see "Underwriting"). The Stated Maturity of the Exchangeable Notes is , 1998. The Indenture does not limit the amount of Indenture Securities which may be issued thereunder.

Each Exchangeable Note, which will be issued with a principal amount of $, will bear interest at the rate of % of the principal amount per annum (or $ per annum) from , or from the most recent Interest Payment Date (as defined below) to which interest has been paid or provided for until the principal amount thereof is exchanged at Maturity pursuant to the terms of the Exchangeable Notes. Interest on the Exchangeable Notes will be payable quarterly in arrears on , , and , commencing , 1996, (each, an "Interest Payment Date"), to the persons in whose names the Exchangeable Notes are registered at the close of business on the , , , and immediately preceding such Interest Payment Date; provided that interest payable at Maturity is payable to the person to whom the principal is payable. Interest on the Exchangeable Notes will be computed on the basis of a 360-day year of twelve 30-day months. If an Interest Payment Date falls on a day that is not a Business Day (as defined below) the interest payment to be made on such Interest Payment Date will be made on the next succeeding Business Day with the same force and effect as if made on such Interest Payment Date, and no additional interest will accrue as a result of such delayed payment.

At Maturity, the principal amount of each Exchangeable Note will be mandatorily exchanged by Enron into a number of shares of EOG Common Stock at the Exchange Rate (as defined below) or, at Enron's option with respect to all, but not less than all, of the Exchangeable Notes, cash with an equal value. Accordingly, Holders of the Exchangeable Notes will not necessarily receive an amount equal to the principal amount thereof. The "Exchange Rate" is equal to, subject to adjustment as a result of certain dilution events (see "Dilution Adjustments" below), (a) if the Maturity Price (as defined below) of EOG Common Stock is greater than or equal to $ per share of EOG Common Stock (the "Threshold Appreciation Price"), shares of EOG Common Stock per Exchangeable Note, (b) if the Maturity Price is less than the Threshold Appreciation Price but is greater than the Initial Price, a fractional share of EOG Common Stock per Exchangeable Note so that the value thereof (determined at the Maturity Price) is equal to the Initial Price and (c) if the Maturity Price is less than or equal to the Initial Price, one share of EOG Common Stock per Exchangeable Note. No fractional shares of EOG Common Stock will be issued at Maturity as provided under "Fractional Shares" below. Notwithstanding the foregoing, Enron may, at its option, deliver cash at Maturity in lieu of delivering shares of EOG Common Stock, in an amount equal to the value of such number of shares of EOG Common Stock at the Maturity Price. Such option, if exercised, must be exercised with respect to all of the outstanding Exchangeable Notes. If Enron elects to deliver cash in lieu of shares of EOG Common Stock upon the mandatory exchange of the Exchangeable Notes, on or prior to seven Business Days preceding the Stated Maturity, Enron will so notify the Trustee and publish a notice to that effect in a daily newspaper of national circulation. If Enron elects to deliver shares of EOG Common Stock, Holders of the Exchangeable Notes will be responsible for the payment of any and all brokerage costs upon the Holder's subsequent sale of such stock.

The "Maturity Price" is defined as the average Closing Price per share of EOG Common Stock for the 20 Trading Days immediately prior to (but not including) Maturity. The "Closing Price" of any security on any date of determination means the closing sale price (or, if no closing price is reported, the last reported sale price) of such security on the NYSE on such date or, if such security is not listed for trading on the NYSE on any such date, as reported in the composite transactions for the principal United States securities exchange on which such security is so listed, or if such security is not so listed on a United States national or regional securities exchange, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System, or, if such security is not so reported, the last quoted bid price for such security in the over-the-counter market as reported by the National Quotation Bureau or similar organization, or, if such bid price is not available, the market value of such security on such date as determined by a nationally recognized independent investment banking firm retained for this purpose by Enron. A "Trading Day" is defined as a Business Day on which the security the Closing Price of which is being determined (A) is not suspended from trading on any national or regional securities exchange or association or over-the-counter market at the close of business and (B) has traded at least once on the national or regional securities exchange or association or over-the-counter market that is the primary market for the trading of such security. "Business Day" means any day that is not a Saturday or Sunday or a day on which the NYSE, banking institutions or trust companies in The City of New York are authorized or obligated by law or executive order to close.

The Indenture pursuant to which the Exchangeable Notes are issued contains a covenant by Enron to the effect that should Enron exercise its option to pay all outstanding Exchangeable Notes in cash, such cash must be provided by the proceeds from a sale by Enron of its common stock. Such sale of common stock by Enron must have occurred not more than 540 days prior to the notice by Enron to Holders of Exchangeable Notes of its election to deliver cash in lieu of EOG Common Stock.

For illustrative purposes only, the following chart shows the number of shares of EOG Common Stock or the amount of cash that a Holder of Exchangeable Notes would receive for each Exchangeable Note at various Maturity Prices. The table assumes that there will be no adjustments to the Exchange Rate described under "– Dilution Adjustments" below. There can be no assurance that the Maturity Price will be within the range set forth below. Given the Initial Price of $ per Exchangeable Note and the Threshold Appreciation Price of $, a Holder of an Exchangeable Note would receive at Maturity the following number of shares of EOG Common Stock or amount of cash (if Enron elects to pay the Exchangeable Notes in cash):

Maturity Price of EOG Common Stock	Number of Shares of EOG Common Stock	Amount of Cash

Interest on the Exchangeable Notes will be payable, and delivery of EOG Common Stock (or, at the option of Enron, its cash equivalent) in exchange for the Exchangeable Notes at Maturity will be made upon surrender of such Exchangeable Notes, at the office or agency of Enron maintained for such purposes, which will initially be the principal corporate trust office of the Trustee, currently 311 West Monroe, 12th Floor, Chicago, Illinois 60609 or at the Trustee's office maintained for such purpose in New York, New York, provided that payment of interest may be made at the option of Enron by check mailed to the persons in whose names the Exchangeable Notes are registered at the close of business on each , , and .

The Exchangeable Notes will be transferable on the books of Enron at any time and from time to time. No service charge will be made to the Holder for any such transfer except for any tax or governmental charge incidental thereto.

The Indenture does not contain any restriction on the ability of Enron to sell, pledge or otherwise convey all or any portion of the EOG Common Stock held by it, and no such shares of EOG Common Stock will be pledged or otherwise held in escrow for use at Maturity of the Exchangeable Notes. Consequently, in the event of a bankruptcy, insolvency or liquidation of Enron, the EOG Common Stock, if any, owned by Enron will be subject to the claims of the creditors of Enron. In addition, as described herein, Enron will have the option, exercisable in its sole discretion, to satisfy its obligations pursuant to the mandatory exchange for the principal amount of each Exchangeable Note at Maturity by delivering to Holders of the Exchangeable Notes either the specified number of shares of EOG Common Stock or cash in an amount equal to the value of such number of shares at the Maturity Price. In the event that Enron does sell, pledge or convey all or a portion of the EOG Common Stock held by it, Enron may be more likely to deliver cash in lieu of EOG Common Stock. As a result, there can be no assurance that Enron will elect at Maturity to deliver EOG Common Stock or, if it so elects, that it will use all or a portion of its current holdings of EOG Common Stock to make such delivery. Holders of the Exchangeable Notes will not be entitled to any rights with respect to the EOG Common Stock (including without limitation voting rights and rights to receive any dividends or other distributions in respect thereof) until such time, if any, as Enron shall have delivered shares of EOG Common Stock to holders of the Exchangeable Notes at Maturity thereof and the applicable record date, if any, for the exercise of such rights occurs after such date.

Dilution Adjustments

The Exchange Rate is subject to adjustment if EOG shall (i) pay a stock dividend or make a distribution with respect to EOG Common Stock in shares of such stock, (ii) subdivide or split the outstanding shares of EOG Common Stock, (iii) combine the outstanding shares of EOG Common Stock into a smaller number of shares, (iv) issue by reclassification of shares of EOG Common Stock any shares of common stock of EOG, (v) issue rights or warrants to all holders of EOG Common Stock entitling them to subscribe for or purchase shares of EOG Common Stock at a price per share less than the market price of the EOG Common Stock (other than rights to purchase EOG Common Stock pursuant to a plan for the reinvestment of dividends or interest); or (vi) pay a dividend or make a distribution to all holders of EOG Common Stock of evidences of indebtedness or other assets (excluding any dividends or distributions referred to in clause (i) above or any cash dividends other than any Extraordinary Cash Dividends (as defined below) or issue to all holders of EOG Common Stock rights or warrants to subscribe for or purchase any of its securities (other than those referred to in clause (v) above). In the case of the events referred to in clauses (i), (ii), (iii) and (iv) above, the Exchange Rate in effect immediately prior to such event shall be adjusted so that the holder of any Exchangeable Note shall thereafter be entitled to receive, upon mandatory exchange of the principall amount of the Exchangeable Note at Maturity, the number of shares of EOG Common Stock that such holder would have owned or been entitled to receive immediately following any event described above had such Exchangeable Note been exchanged immediately prior to such event on any record date with respect thereto. In the case of the event referred to in clause (v) above, the Exchange Rate shall be adjusted by multiplying the Exchange Rate in effect immediately prior to the date of issuance of the rights or warrants referred to in clause (v) above, by a fraction, the numerator of which shall be the number of shares of EOG Common Stock outstanding on the date of issuance of such rights or warrants, immediately prior to such issuance, plus the number of additional shares of EOG Common Stock offered for subscription or purchase pursuant to such rights or warrants, and the denominator of which shall be the number of shares of EOG Common Stock outstanding on the date of issuance of such rights or warrants, immediately prior to such issuance, plus the number of additional shares of EOG Common Stock that the aggregate offering price of the total number of shares of EOG Common Stock so offered for subscription or purchase pursuant to such rights or warrants would purchase at the market price (determined as the average Closing Price per share of EOG Common Stock for the 20 Trading Days immediately prior to the date such rights or warrants are issued), which shall be determined by multiplying such total number of shares by the exercise price of such rights or warrants and dividing the product so obtained by such market price. To the extent that shares of EOG Common Stock are not delivered after the expiration of such rights or warrants, the Exchange Rate shall be readjusted to the Exchange Rate which would then be in effect had such adjustments for the issuance of such rights or warrants been made upon the basis of delivery of only the number of shares of EOG Common Stock actually delivered. In the case of the event referred to in clause (vi) above, the Exchange Rate shall be adjusted by multiplying the Exchange Rate in effect on the record date by a fraction, the numerator of which shall be the market price per share of the EOG Common Stock on the record date for the determination of stockholders entitled to receive the dividend or distribution referred to in clause (vi) above (such market price being determined as the average Closing Price per share of EOG Common Stock for the 20 Trading Days immediately prior to such record date), and the denominator of which shall be such market price per share of EOG Common Stock less the fair market value (as determined by the Board of Directors of Enron, whose determination shall be conclusive, and described in a resolution adopted with respect thereto) as of such record date of the portion of the assets or evidences of indebtedness so distributed or of such subscription rights or warrants applicable to one share of EOG Common Stock. An "Extraordinary Cash Dividend" means, with respect to any 365-day period, all cash dividends on the EOG Common Stock during such period to the extent such dividends exceed on a per share basis 10% of the average Closing Price of the EOG Common Stock over such period (less any such dividends for which a prior adjustment to the Exchange Rate was previously made). All adjustments to the Exchange Rate will be calculated to the nearest 1/10,000th of a share of EOG Common Stock (or if there is not a nearest 1/10,000th of a share to the next lower 1/10,000th of a share). No adjustment in the Exchange Rate shall be required unless such adjustment would require an increase or decrease of at least one percent therein; *provided, however*, that any adjustments which by reason of the foregoing are not required to be made shall be carried forward and taken into account in any subsequent adjustment.

In the event of (i) any consolidation or merger of EOG, or any surviving entity or subsequent surviving entity of EOG (an "EOG Successor"), with or into another entity (other than a merger or consolidation in which EOG is the continuing corporation and in which the EOG Common Stock outstanding immediately prior to the merger or consolidation is not exchanged for cash, securities or other property of EOG or another Person), (ii) any sale, transfer, lease or conveyance to another Person of the property of EOG or any EOG Successor as an entirety or substantially as an entirety, (iii) any statutory exchange of securities of EOG, or any EOG Successor with another Person (other than in connection with a merger or acquisition); or (iv) any liquidation, dissolution or winding up of EOG or any EOG Successor (any such event being a "Reorganization Event"), the Exchange Rate used to determine the amount payable upon exchange at Maturity for each Exchangeable Note will be adjusted to provide that each Holder of Exchangeable Notes will receive at Maturity cash in an amount equal to (a) if the Transaction Value (as defined below) is greater than or equal to the Threshold Appreciation Price, multiplied by the Transaction Value, (b) if the Transaction Value is less than the Threshold Appreciation Price but greater than the Initial Price, the Initial Price and (c) if the Transaction Value is less than or equal to the Initial Price, the Transaction Value. "Transaction Value" means (i) for any cash received in any such Reorganization Event, the amount of cash received per share of EOG Common Stock, (ii) for any property other than cash or securities received in any such Reorganization Event, an amount equal to the market value at Maturity of such property received per share of EOG Common Stock as determined by a nationally recognized independent investment banking firm retained for this purpose by Enron and (iii) for any securities received in any such Reorganization Event, an amount equal to the average Closing Price per share of such securities for the 20 Trading Days immediately prior to Maturity multiplied by the number of such securities received for each share of EOG Common Stock.

Notwithstanding the foregoing, in lieu of delivering cash as provided above, Enron may at its option deliver an equivalent value of securities or other property received in such Reorganization Event, determined in accordance with clause (ii) or (iii) above, as applicable. If Enron elects to deliver securities or other property, holders of the Exchangeable Notes will be responsible for the payment of any and all brokerage and other transaction costs upon the sale of such securities or other property. The kind and amount of securities into which the Exchangeable Notes shall be exchangeable after consummation of such transaction shall be subject to adjustment as described in the immediately preceding paragraph following the date of consummation of such transaction.

Enron is required, within ten Business Days following the occurrence of an event that requires an adjustment to the Exchange Rate (or if Enron is not aware of such occurrence, as soon as practicable after becoming so aware), to provide written notice to the Trustee for distribution to all Holders of Exchangeable Notes of the occurrence of such event and a statement in reasonable detail setting forth the method by which the adjustment to the Exchange Rate was determined and setting forth the revised Exchange Rate.

Fractional Shares

No fractional shares of EOG Common Stock will be issued if Enron exchanges the Exchangeable Notes for shares of EOG Common Stock. If more than one Exchangeable Note shall be surrendered for exchange at one time by the same holder, the number of full shares of EOG Common Stock which shall be delivered upon exchange shall be computed on the basis of the aggregate number of Exchangeable Notes so surrendered at Maturity. In lieu of any fractional share otherwise issuable in respect of all Exchangeable Notes of any Holder which are exchanged at Maturity, such Holder shall be entitled to receive an amount in cash equal to the value of such fractional share at the Maturity Price.

Redemption and Defeasance

The Exchangeable Notes are not subject to redemption or defeasance prior to Maturity and do not contain any sinking fund or other mandatory redemption provisions.

Limitations on Mortgages and Liens

The Indenture provides that so long as any of the Indenture Securities issued under the Indenture (including the Exchangeable Notes) are outstanding, Enron will not, and will not permit any Subsidiary (as defined in the Indenture and herein) to, pledge, mortgage or hypothecate, or permit to exist, except in favor of Enron or any Subsidiary, any mortgage, pledge or other lien upon, any Principal Property (as defined in the Indenture and herein) at any time owned by it, to secure any indebtedness (as defined in the Indenture), unless effective provision is made whereby outstanding Indenture Securities (including the Exchangeable Notes) will be equally and ratably secured with any and all such indebtedness and with any other indebtedness similarly entitled to be equally and ratably secured. This restriction does not apply to prevent the creation or existence of: (a) mortgages, pledges, liens or encumbrances on any property held or used by Enron or a Subsidiary in connection with the exploration for, development of or production of, oil, gas, natural gas (including liquified gas and storage gas), other hydrocarbons, helium, coal, metals, minerals, steam, timber, geothermal or other natural resources or synthetic fuels, such properties to include, but not be limited to, Enron's or a Subsidiary's interest in any mineral fee interests, oil, gas or other mineral leases, royalty, overriding royalty or net profits interests, production payments and other similar interests, wellhead production equipment, tanks, field gathering lines, leasehold or field separation and processing facilities, compression facilities and other similar personal property and fixtures; (b) mortgages, pledges, liens or encumbrances on oil, gas, natural gas (including liquified gas and storage gas), other hydrocarbons, helium, coal, metals, minerals, steam, timber, geothermal or other natural resources or synthetic fuels produced or recovered from any property, an interest in which is owned or leased by Enron or a Subsidiary; (c) mortgages, pledges, liens or encumbrances (or certain extensions, renewals or refundings thereof) upon any property acquired before or after the date of the Indenture, created at the time of acquisition or within one year thereafter to secure all or a portion of the purchase price thereof, or existing thereon at the date of acquisition, whether or not assumed by Enron or a Subsidiary, provided that every such mortgage, pledge, lien or encumbrance applies only to the property so acquired and fixed improvements thereon; (d) mortgages, pledges, liens or encumbrances upon any property acquired before or after the date of the Indenture by any corporation that is or becomes a Subsidiary after the date of the Indenture ("Acquired Entity"), provided that every such mortgage, pledge, lien or encumbrance (1) shall either (i) exist prior to the time the Acquired Entity becomes a Subsidiary or (ii) be created at the time the Acquired Entity becomes a Subsidiary or within one year thereafter to secure all or a portion of the acquisition price thereof and (2) shall only apply to those properties owned by the Acquired Entity at the time it becomes a Subsidiary or thereafter acquired by it from sources other than Enron or any other Subsidiary; (e) pledges of current assets, in the ordinary course of business, to secure current liabilities; (f) deposits to secure public or statutory obligations; (g) liens to secure indebtedness other than Funded Debt (as defined in the Indenture and herein); (h) mortgages, pledges, liens or encumbrances upon any office, data processing or transportation equipment; (i) mortgages, pledges, liens or encumbrances created or assumed by Enron or a Subsidiary in connection with the issuance of debt securities the interest on which is excludable from gross income of the holder of such security pursuant to the Internal Revenue Code of 1986, as amended, for the purpose of financing the acquisition or construction of property to be used by Enron or a Subsidiary; (j) pledges or assignments of accounts receivable or conditional sales contracts or chattel mortgages and evidences of indebtedness secured thereby received in connection with the sale by Enron or a Subsidiary of goods or merchandise to customers; or (k) certain other liens or encumbrances.

Notwithstanding the foregoing, Enron or a Subsidiary may issue, assume or guarantee indebtedness secured by a mortgage which would otherwise be subject to the foregoing restrictions in an aggregate amount which, together with all other indebtedness of Enron or a Subsidiary secured by a mortgage which (if originally issued, assumed or guaranteed at such time) would otherwise be subject to the foregoing restrictions (not including secured indebtedness permitted under the foregoing exceptions), does not at the time exceed 10% of the Consolidated Net Tangible Assets (total assets less (a) total current liabilities, excluding indebtedness due within 12 months, and (b) goodwill, patents and trademarks) of Enron, as shown on the audited consolidated financial statements of Enron as of the end of the fiscal year preceding the date of determination.

The holders of at least 50% in principal amount of the outstanding Indenture Securities under the Indenture (including the Exchangeable Notes) may waive compliance by Enron with the covenant described above (and certain other covenants of Enron).

The Indenture defines the term "Subsidiary" to mean a corporation all of the voting shares (that is, shares entitled to vote for the election of directors, but excluding shares entitled so to vote only upon the happening of some contingency unless such contingency shall have occurred) of which shall be owned by Enron or by one or more Subsidiaries or by Enron and one or more Subsidiaries. The term "Principal Property" is defined to mean any oil or gas pipeline, gas processing plant or chemical plant located in the United States, except any such property, pipeline or plant that in the opinion of the Board of Directors of Enron is not of material importance to the total business conducted by Enron and its Subsidiaries. "Principal Property" does not include any oil or gas property or the production or any proceeds of production from an oil or gas producing property or the production or any proceeds of production of gas processing plants or oil or gas or petroleum products in any pipeline.

The term "indebtedness", as applied to Enron or any Subsidiary, is defined to mean bonds, debentures, notes and other instruments representing obligations created or assumed by any such corporation for the repayment of money borrowed (other than unamortized debt discount or premium). All indebtedness secured by a lien upon property owned by Enron or any Subsidiary and upon which indebtedness any such corporation customarily pays interest, even though such corporation has not assumed or become liable for the payment of such indebtedness, is also deemed to be indebtedness of any such corporation. All indebtedness for money borrowed incurred by other persons which is directly guaranteed as to payment of principal by Enron or any Subsidiary is for all purposes of the Indenture deemed to be indebtedness of any such corporation, but no other contingent obligation of any such corporation in respect to indebtedness incurred by other persons is for any purpose deemed indebtedness of such corporation. Indebtedness of Enron or any Subsidiary does not include (i) amounts which are payable only out of all or a portion of the oil, gas, natural gas, helium, coal, metals, minerals, steam, timber or other natural resources produced, derived or extracted from properties owned or developed by such corporation; (ii) any amount representing capitalized lease obligations; (iii) any indebtedness incurred to finance oil, gas, natural gas, helium, coal, metals, minerals, steam, timber, hydrocarbons or geothermal or other natural resources or synthetic fuel exploration or development, payable, with respect to principal and interest, solely out of the proceeds of oil, gas, natural gas, helium, coal, metals, minerals, steam, timber, hydrocarbons or geothermal or other natural resources or synthetic fuel to be produced, sold and/or delivered by Enron or any Subsidiary; (iv) indirect guarantees or other contingent obligations in connection with the indebtedness of others, including agreements, contingent or otherwise, with such other persons or with third persons with respect to, or to permit or ensure the payment of, obligations of such other persons, including without limitation, agreements to purchase or repurchase obligations of such other persons, agreements to advance or supply funds to or to invest in such other persons or agreements to pay for property, products or services of such other persons (whether or not conferred, delivered or rendered) and any demand charge, throughput, take-or-pay, keep-well, make-whole, cash deficiency, maintenance of working capital or earnings or similar agreements; and (v) any guarantees with respect to lease or other similar periodic payments to be made by other persons.

The term "Funded Debt" as applied to any corporation means all indebtedness incurred, created, assumed or guaranteed by such corporation, or upon which it customarily pays interest charges, which matures, or is renewable by such corporation to a date, more than one year after the date as of which Funded Debt is being determined; provided, however, that the term "Funded Debt" shall not include (i) indebtedness incurred in the ordinary course of business representing borrowings, regardless of when payable, of such corporation from time to time against, but not in excess of the face amount of, its installment accounts receivable for the sale of appliances and equipment sold in the regular course of business or (ii) advances for construction and security deposits received by such corporation in the ordinary course of business.

The foregoing limitations on mortgages, pledges and liens are intended to limit other creditors of Enron from obtaining preference or priority over holders of the Indenture Securities issued under the Indenture, but are not intended to prevent other creditors from sharing equally and ratably and without preference ("pari passu") over the holders of such Indenture Securities. While such limitations on mortgages and liens do provide protection to the holders of the Indenture Securities, there are a number of exceptions to such restrictions which could result in certain assets of Enron and its Subsidiaries being encumbered without equally and ratably securing the Indenture Securities issued under the Indenture. Specifically, the restrictions apply only to pledges, mortgages or liens upon "Principal Property" (as defined in the Indenture and herein) to secure any "indebtedness" (as defined in the Indenture and herein), unless effective provision is made whereby outstanding Securities will be equally and ratably secured with any such indebtedness and with any other indebtedness similarly entitled to be equally and ratably secured. There are certain exceptions to the definition of "indebtedness," which are enumerated in the Indenture and herein. In addition, the restrictions do not apply to prevent the creation or existence of mortgages, pledges, liens or encumbrances on certain types of properties or pursuant to certain types of transactions, all as enumerated in the Indenture and above. Also, up to 10% of Consolidated Net Tangible Assets (as defined in the Indenture and herein) is not subject to the mortgage and lien limitations contained in the Indenture.

Modification of the Indenture

With certain exceptions, the Indenture provides that, with the consent of the holders of not less than 50% in principal amount of all outstanding Indenture Securities (including, where applicable, the Exchangeable Notes) affected thereby, Enron and the Trustee may enter into a supplemental indenture for the purpose of adding to, changing or eliminating any of the provisions of the Indenture or of modifying in any manner the rights of the holders of Indenture Securities under the Indenture. Notwithstanding the foregoing, the consent of the holder of each outstanding Indenture Security affected thereby will be required to: (a) change the Stated Maturity (as defined in the Indenture) of the principal of, or any installment of principal of or interest on, any Indenture Security, or reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption thereof, or change any Place of Payment (as defined in the Indenture) where, or change the coin or currency in which, any Indenture Security or any premium or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date, as defined in the Indenture) or change the terms under which any Exchangeable Notes are exchangeable; (b) reduce the percentage in principal amount of the outstanding Indenture Securities of any series, the consent of whose holders is required for any supplemental indenture or for any waiver provided for in the Indenture; or (c) with certain exceptions, modify any of the provisions of the sections of the Indenture which concern waivers of past defaults, waivers of certain covenants or consent to supplemental indentures, except to increase the percentage of principal amount of Indenture Securities of any series, the holders of which are required to effect such waiver or consent, or to provide that certain other provisions of the Indenture cannot be modified or waived without the consent of the holder of each outstanding Indenture Security affected thereby. The Indenture provides that a supplemental indenture which changes or eliminates any covenant or other provision of the Indenture which has expressly been included solely for the benefit of one or more particular series of Indenture Securities, or which modifies the rights of the holders of Indenture Securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under the Indenture of the holders of Indenture Securities of any other series.

Events of Default and Rights Upon Default

Under the Indenture, the term "Event of Default" with respect to any series of Indenture Securities, means any one of the following events which shall have occurred and is continuing: (a) default in the payment of any interest upon any Indenture Security of that series when it becomes due and payable or default in the payment of any mandatory sinking fund payment provided for by the terms of any series of Indenture Securities, and continuance of such default for a period of 30 days; (b) default in the payment of the principal of (or premium, if any, on) any Indenture Security of that series at its maturity; (c) default in the performance, or breach, of any convenant or warranty of Enron in the Indenture (other than a covenant or warranty a default in the performance of which or the breach of which is otherwise specifically dealt with in the Indenture or which has been expressly included in the Indenture solely for the benefit of one or more series of Indenture Securities other than that series), and continuance of such default or breach for 60 days after there has been given to

Enron by the Trustee, or to Enron and the Trustee by the holders of at least 25% in principal amount of all outstanding Indenture Securities, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" under the Indenture; or (d) certain events involving Enron in bankruptcy, receivership or other insolvency proceedings or an assignment for the benefit of creditors.

If an Event of Default described in clause (a) or (b) in the foregoing paragraph has occurred and is continuing with respect to Indenture Securities of any series, the Indenture provides that the Trustee or the holders of not less than 25% in principal amount of the outstanding Indenture Securities of that series may declare the principal amount of all of the Indenture Securities of that series to be due and payable immediately, and upon any such declaration such principal amount shall become immediately due and payable. If an Event of Default described in clause (c) or (d) of the foregoing paragraph occurs and is continuing, the Trustee or the holders of not less than 25% in principal amount of all of the Indenture Securities then outstanding may declare the principal amount of all of the Indenture Securities to be due and payable immediately, and upon any such declaration such principal amount shall become immediately due and payable.

A default under other indebtedness of Enron is not an Event of Default under the Indenture, and an Event of Default under one series of Indenture Securities will not necessarily be an Event of Default under another series.

At any time after such a declaration of acceleration with respect to Indenture Securities of any series (or of all series, as the case may be) has been made and before judgment or decree for payment of the money due has been obtained by the Trustee, the holders of a majority in principal amount of the outstanding Indenture Securities of that series (or of all series, as the case may be) may rescind and annul such declaration and its consequences, if, subject to certain conditions, all Events of Default with respect to Indenture Securities of that series (or of all series, as the case may be), other than the non-payment of the principal of the Indenture Securites due solely by such declaration of acceleration, have been cured or waived and all payments due (other than by acceleration) have been paid or deposited with the Trustee. With certain exceptions, the holders of not less than a majority in principal amount of the outstanding Indenture Securities of any series, on behalf of the holders of all the Indenture Securities of such series, may waive any past default described in clause (a) or (b) of the first paragraph of this heading "Events of Default and Rights Upon Default" (or, in the case of a default described in clause (c) or (d) of such paragraph, the holders of a majority in principal amount of all outstanding Indenture Securities may waive any such past default), and its consequences, except a default (a) in the payment of the principal of (or premium, if any) or interest on any Indenture Security, or (b) in respect of a covenant or provision of the Indenture which under the Indenture cannot be modified or amended without the consent of the holder of each outstanding Indenture Security of such series affected.

The holders of not less than a majority in principal amount of the Indenture Securities of any series at the time outstanding are empowered under the terms of the Indenture, subject to certain limitations, to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee.

The Indenture further provides that no holder of an Indenture Security of any series may enforce the Indenture except in the case of failure by the Trustee to act for 60 days after notice of a continuing Event of Default with respect to the Indenture Securities of that series and after request by the holders of not less than 25% in principal amount of the outstanding Indenture Securities of such series and the offer to the Trustee of reasonable indemnity, but this provision will not prevent a holder of any Indenture Security from enforcing the payment of the principal of, and interest on, such holder's Indenture Security.

The Indenture requires that Enron deliver to the Trustee, within 120 days after the end of each fiscal year, an Officer's Certificate, stating whether to the best knowledge of the signers thereof, Enron is in default in the performance and observance of certain of the terms of the Indenture and, if so, specifying each such default and the nature and status thereof of which the signers may have knowledge.

Concerning the Trustee

Harris Trust and Savings Bank is the Trustee under the Indenture. Such bank also acts as a depository of funds for, makes loans to, and performs other services for, Enron in the normal course of business, including acting as trustee under other indentures of Enron.

The Indenture contains the provisions required by the Trust Indenture Act of 1939 with reference to the disqualification of the Trustee if it shall have or acquire any "conflicting interest", as therein defined. The Indenture also contains certain limitations on the right of the Trustee, as a creditor of Enron, to obtain payment of claims in certain cases, or to realize on certain property received by it in respect of any such claims, as security or otherwise.

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of certain U.S. federal income tax consequences that may be relevant to a citizen or resident of the United States, a corporation, partnership or other entity created or organized under the laws of the United States, or an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source (any of the foregoing, a "U.S. Person") who is the beneficial owner of Exchangeable Notes (a "U.S. Holder"). All references to "holders" (including U.S. Holders) are to beneficial owners of the Exchangeable Notes. This summary is based on current U.S. federal income tax law and is for general information only.

This summary deals only with holders who are initial holders of the Exchangeable Notes and who will hold the Exchangeable Notes as capital assets. It does not address tax considerations applicable to investors that may be subject to special U.S. federal income tax treatment, such as dealers in securities or persons holding the Exchangeable Notes as a position in a "straddle" for U.S. federal income tax purposes or as part of a "synthetic security" or other integrated investment, and does not address the consequences under state, local or foreign law.

No statutory, judicial or administrative authority directly addresses the characterization of the Exchangeable Notes or instruments similar to the Exchangeable Notes for U.S. federal income tax purposes. As a result, significant aspects of the U.S. federal income tax consequences of an investment in the Exchangeable Notes are not certain. No ruling is being requested from the Internal Revenue Service (the "IRS") with respect to the Exchangeable Notes and no assurance can be given that the IRS will agree with the characterization and tax treatment of the Exchangeable Notes described herein. **ACCORDINGLY, A PROSPECTIVE INVESTOR (INCLUDING A TAX-EXEMPT INVESTOR) IN THE EXCHANGEABLE NOTES SHOULD CONSULT ITS TAX ADVISOR IN DETERMINING THE TAX CONSEQUENCES OF AN INVESTMENT IN THE EXCHANGEABLE NOTES, INCLUDING THE APPLICATION OF STATE, LOCAL OR OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN FEDERAL OR OTHER TAX LAWS.**

Pursuant to the terms of the Indenture, Enron and all holders of the Exchangeable Notes will agree to treat an Exchangeable Note as a unit (the "Unit") consisting of (i) an exchange note ("Exchange Note") which is a debt obligation with a fixed principal amount unconditionally payable at Maturity equal to the principal amount of the Exchangeable Note, bearing interest at the stated interest rate on the Exchangeable Note, and (ii) a forward purchase contract (the "Purchase Contract") pursuant to which the holder agrees to use the principal payment due on the Exchange Note to purchase at Maturity the EOG Common Stock which the holder is entitled to receive at that time (subject to Enron's right to deliver cash in lieu of EOG Common Stock). The Indenture will require that a U.S. Holder include currently in income payments denominated as interest that are made with respect to the Exchangeable Notes, in accordance with such holder's method of accounting, and the amount of OID, if any, attributable to the Exchangeable Notes.

Pursuant to the agreement to treat the Exchangeable Notes as a Unit, a holder will be required to allocate the purchase price of the Exchangeable Note between the two components of the Unit (the Exchange Note and the Purchase Contract) on the basis of their relative fair market values. The purchase price so allocated will generally constitute the tax basis for each component. Pursuant to the terms of the Indenture, Enron and the holders agree to allocate the entire purchase price of an Exchangeable Note to the Exchange Note unless the stated interest on the Exchangeable Note represents a yield that is lower than Enron's normal cost of issuing debt with a similar term to the Exchangeable Note ("Enron's Mid-Term Borrowing Rate"). If the stated interest on the Exchangeable Note represents a yield that is lower than Enron's Mid-Term Borrowing Rate of percent, Enron and the holders agree to allocate to the Exchange Note an amount, less than the principal amount of the Exchange Note, calculated by discounting the cash flows relating to the Exchange Note at a rate equal to Enron's Mid-Term Borrowing Rate, and to allocate to the Purchase Contract the remainder of the purchase price of the Exchangeable Note.

If the amount allocated to the Exchange Note (its deemed issue price) is less than the stated principal amount of the Exchangeable Note, the Exchange Note will be treated as having OID. In that event, a U.S. Holder will be required to include in income OID as it accrues, in accordance with a constant-yield method, in an aggregate amount equal to the difference between the stated principal amount of the Exchangeable Note and the deemed issue price of the Exchange Note. However, if the amount of OID relating to an Exchange Note is less than three-fourths of one percent of the stated principal amount of the Exchangeable Note, no amount of OID will be deemed to exist with respect to the Exchange Note. A U.S. Holder's tax basis in the Exchange Note will increase over its term by the amount of OID included in such holder's income with respect to the Exchangeable Note.

Upon the sale or other disposition of an Exchangeable Note, a U.S. Holder generally will be required to allocate the amount realized between the two components of the Exchangeble Note on the basis of their then relative fair market values. A U.S. Holder will recognize gain or loss with respect to each component equal to the difference between the amount realized on the sale or other disposition for each such component and the U.S. Holder's tax basis in such component. Such gain or loss generally will be long-term capital gain or loss if the U.S. Holder has held the Exchangeable Note for more than a year at the time of disposition.

At Maturity, pursuant to the agreement to treat the Exchangeable Note as a Unit, on the repayment of the Exchange Note a U.S. Holder will recognize capital gain or loss which will be long-term capital gain or loss unless Maturity occurs within one year of issuance of the Exchangeable Note (as a result of acceleration or otherwise) equal to any difference beween its tax basis and the principal amount of the Exchange Note. If Enron delivers EOG Common Stock at Maturity, a U.S. Holder will recognize no additional gain or loss on the exchange, pursuant to the Purchase Contract, of the principal payment due on the Exchange Note for the EOG Common Stock. However, a U.S. Holder will recognize additional capital gain or loss, which should be short-term capital gain or loss, equal to the difference between the cash received in lieu of fractional shares and the portion of the principal amount of the Exchange Note allocable to fractional shares. A U.S. Holder will have a tax basis in such shares of EOG Common Stock equal to the principal amount of the Exchange Note less the amount of the portion of the principal amount of the Exchange Note allocable to any fractional shares. The U.S. Holder will have a holding period for the EOG Common Stock that begins on the day after the Maturity date, and will realize short- or long-term capital gain or loss upon the subsequent sale or disposition of such stock. Alternatively, at Maturity, if Enron pays the Exchangeable Note in cash, a U.S. Holder will have additional gain or loss (which might be ordinary income or loss rather than capital gain or loss) equal to the difference between the principal amount of the Exchangeable Note and the amount of cash received from Enron.

Due to the absence of authority as to the proper characterization of the Exchangeable Note, no assurance can be given that the IRS will accept or that a court will uphold the characterization agreed to in the Indenture or the tax treatment described above. Proposed Treasury regulations with respect to "contingent payment" debt instruments (the "Proposed Regulations") would provide for a different tax result under some circumstances for instruments having characteristics similar to the Exchangeable Notes, but the Proposed Regulations would be effective only for instruments issued 60 days or more after their publication as final regulations. Under the Proposed Regulations, the amount of interest included in a holder's taxable income for any year would generally be determined by projecting the amounts of contingent payments (which might include the value of the EOG Common Stock to be delivered at Maturity) and the yield on the instrument. Taxable interest income would be measured with reference to the projected yield, which might be less than or greater than the stated interest rate under the instrument. In the event that the amount of an actual contingent payment differed from the projected amount of that payment, the difference would generally increase or reduce taxable interest income, or create a loss. Because of their prospective effective date, the Proposed Regulations, if finalized in their current form, would not apply to the Exchangeable Notes.

Even in the absence of regulations applicable to the Exchangeable Notes, the Exchangeable Notes may be characterized under current law in a manner that results in tax consequences different from those reflected in the agreement pursuant to the Indenture and as described above. Under alternative characterizations of the Exchangeable Notes, it is possible, for example, that (i) a U.S. Holder may be taxed upon the receipt of EOG Common Stock with a value in excess of the principal amount of the Exchange Note, rather than upon the sale of such stock, (ii) any gain recognized at Maturity (whether a U.S. Holder received EOG Common Stock or cash) may be treated as ordinary income rather than capital gain, (iii) all or part of the interest income on the Exchange Note may be treated as nontaxable, increasing the gain (or decreasing the loss) at Maturity or upon disposition of the Exchangeable Note (or disposition of the EOG Common Stock) or (iv) if the stated interest rate exceeds Enron's Mid-Term Borrowing Rate, the Exchange Notes could be considered as issued at a premium which, if amortized, would reduce the amount of interest income currently includible in income by a holder and increase the taxable gain (or decrease the loss) realized at Maturity or upon disposition of the Exchangeable Notes (or disposition of the EOG Common Stock).

The Revenue Reconciliation Act of 1993 added Section 1258 to the Code, which may require certain holders of the Exchangeable Notes who have entered into hedging transactions or offsetting positions with respect to the Exchangeable Notes to recognize ordinary income rather than capital gain upon the disposition of the Exchangeable Notes. Holders should consult their tax advisors regarding the applicability of this provision to an investment in the Exchangeable Notes.

Non-United States Person

In the case of a holder of the Exchangeable Notes that is not a U.S. Person, payments made with respect to the Exchangeable Notes should not be subject to U.S. withholding tax; *provided* that such holder complies with applicable certification requirements. Any capital gain realized upon the sale or other disposition of the Exchangeable Notes by a holder that is not a U.S. Person will generally not be subject to U.S. federal income tax if (i) such gain is not effectively connected with a U.S. trade or business of such holder and (ii) in the case of an individual, such individual is not present in the United States for 183 days or more in the taxable year of the sale or other disposition and either such individual does not have a "tax home" in the United States or the gain is not attributable to a fixed place of business maintained by such individual in the United States.

Backup Withholding and Information Reporting

A holder of the Exchangeable Notes may be subject to information reporting requirements and to backup withholding at a rate of 31 percent of certain amounts paid to the holder unless such holder provides proof of an applicable exemption or a correct taxpayer identification number, and otherwise complies with applicable requirements of the backup withholding rules.

UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, Enron has agreed to sell to each of the Underwriters named below (the "Underwriters"), and each of such Underwriters, for whom Goldman, Sachs & Co. are acting as representatives, has severally agreed to purchase from Enron, the respective number of Exchangeable Notes set forth opposite its name below:

Underwriter	Number of Exchangeable Notes
Goldman, Sachs & Co.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Salomon Brothers Inc	
Total	10,000,000

Under the terms and conditions of the Underwriting Agreement, the Underwriters are committed to take and pay for all of the Exchangeable Notes offered hereby, if any are taken.

The Underwriters propose to offer the Exchangeable Notes in part directly to the public at the initial public offering price set forth on the cover page of this Prospectus, and in part to certain securities dealers at such price less a concession of $. per Exchangeable Note. The Underwriters may allow, and each of such dealers may reallow, a concession not exceeding $ per Exchangeable Note to certain dealers and brokers. After the Exchangeable Notes are released for sale to the public, the offering price and the other selling terms may from time to time be varied by the representatives.

Enron has granted the Underwriters an option exercisable for 30 days after the date of this Prospectus to purchase up to 1,000,000 additional Exchangeable Notes solely to cover over-allotments, if any. If the Underwriters exercise their over-allotment option, the Underwriters have severally agreed, subject to certain conditions, to purchase approximately the same percentage thereof that the number of Exchangeable Notes to be purchased by each of them, as shown in the foregoing table, bears to the 10,000,000 Exchangeable Notes offered.

Enron, EOG and EOG's Chief Executive Officer have agreed that during the period beginning from the date of this Prospectus and continuing to and including the date 270 days after the date of this Prospectus, subject to certain exceptions set forth in the Underwriting Agreement, they will not offer, sell, contract to sell or otherwise dispose of any EOG Common Stock, any securities of EOG which are substantially similar to shares of EOG Common Stock or any securities which are convertible into or exchangeable for EOG Common Stock or such substantially similar securities without the prior written consent of Goldman, Sachs & Co., except for the shares of EOG Common Stock offered in connection with the concurrent Stock Offering.

Application has been made to list the Exchangeable Notes on the NYSE. The EOG Common Stock (including the shares of EOG Common Stock which may be received by a holder of Exchangeable Notes at Maturity) is listed on the NYSE.

The Underwriters and/or their affiliates have provided investment banking and financial advisory services to Enron, its subsidiaries or affiliates in the past, for which they have received customary compensation and expense reimbursement, and may do so again in the future.

Enron and EOG have agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Underwriters may be required to make in respect thereof.

VALIDITY OF THE EXCHANGEABLE NOTES

The validity of the Exchangeable Notes will be passed upon for Enron by James V. Derrick, Jr., Senior Vice President and General Counsel of Enron. Mr. Derrick owns substantially less than 1% of the outstanding shares of Common Stock of Enron. Certain matters will be passed upon for Enron by Vinson & Elkins L.L.P. The validity of the Exchangeable Notes will be passed upon for the Underwriters by Bracewell & Patterson, L.L.P. Bracewell & Patterson, L.L.P. currently provides services to Enron and certain of its subsidiaries and affiliates as outside counsel on matters unrelated to the issuance of the Exchangeable Notes.

EXPERTS

The consolidated financial statements and schedules included in Enron's Annual Report on Form 10-K for the year ended December 31, 1994, incorporated by reference in this Prospectus, have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto and are incorporated by reference herein in reliance upon the authority of said firm as experts in accounting and auditing in giving said reports.

The letter report of DeGolyer and MacNaughton, independent petroleum consultants, included as an exhibit to Enron's Annual Report on Form 10-K for the year ended December 31, 1994, and the estimates from the reports of that firm appearing in such Annual Report, are incorporated by reference herein on the authority of said firm as experts in petroleum engineering and in giving such reports.

SUBJECT TO COMPLETION, DATED NOVEMBER 14, 1995

APPENDIX A

Enron Oil & Gas Company

Common Stock

(par value $.01 per share)

This Prospectus relates to up to 11,000,000 shares of common stock, par value $.01 per share (the "Common Stock"), of Enron Oil & Gas Company (the "Company"), which may be delivered by Enron Corp. upon mandatory exchange of the % Exchangeable Notes due , 1998 (the "Exchangeable Notes") of Enron Corp., subject to Enron Corp.'s right to deliver cash in lieu of such shares. This Prospectus is Appendix A to a prospectus of Enron Corp. covering the sale of the Exchangeable Notes (the "Exchangeable Notes Prospectus"). The Company will not receive any of the proceeds from the sale of the Exchangeable Notes or the delivery of shares of Common Stock upon mandatory exchange of the Exchangeable Notes at maturity.

Enron Corp. has granted the underwriters of the Exchangeable Notes a 30-day option to purchase up to an additional 1,000,000 Exchangeable Notes at the initial offering price per Exchangeable Note, less the underwriting discount, which may be exchangeable at their maturity for additional shares of Common Stock. Such option has been granted solely to cover over-allotments, if any.

Concurrently with the offering of the Exchangeable Notes made by the Exchangeable Notes Prospectus (the "Exchangeable Notes Offering"), Enron Corp. is offering for sale 27,000,000 shares of Common Stock (31,050,000 shares if the underwriters' over-allotment options in such offerings are exercised in full) in concurrent U.S. and international offerings (collectively, the "Stock Offerings"). The consummation of the Exchangeable Notes Offering is not contingent upon the consummation of the Stock Offerings, or vice versa.

On November 13, 1995, the last reported sale price of Common Stock on the New York Stock Exchange Composite Tape was $20[illegible] per share. See "Price Range of Common Stock and Cash Dividends".

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is , 1995.

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information can be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549; and at the following Regional Offices of the Commission: Midwest Regional Office, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661; and Northeast Regional Office, Seven World Trade Center, Suite 1300, New York, New York 10048. Copies of such material can also be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, at prescribed rates. The Company's Common Stock is listed on the New York Stock Exchange, Inc. ("NYSE"), and reports, proxy statements and other information concerning the Company can be inspected and copied at the offices of the New York Exchange at 20 Broad Street, New York, New York 10005.

This Prospectus constitutes a part of a Registration Statement on Form S-3 (together with all amendments and exhibits thereto, the "Registration Statement") filed by the Company with the Commission under the Securities Act of 1933, as amended (the "Securities Act"), with respect to the shares of Common Stock offered hereby. This Prospectus does not contain all of the information set forth in such Registration Statement, certain parts of which are omitted in accordance with the rules and regulations of the Commission. Reference is made to such Registration Statement and to the exhibits relating thereto for further information with respect to the Company and the shares of Common Stock offered hereby. Any statements contained herein concerning the provisions of any document filed as an exhibit to the Registration Statement or otherwise filed with the Commission or incorporated by reference herein are not necessarily complete, and in each instance reference is made to the copy of such document so filed for a more complete description of the matter involved. Each such statement is qualified in its entirety by such reference.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Company's Annual Report on Form 10-K for the year ended December 31, 1994, Quarterly Reports on Form 10-Q for the quarters ended March 31, 1995, June 30, 1995 and September 30, 1995 and the description of the Common Stock contained in the Registration Statement on Form 8-A declared effective on October 3, 1989, are incorporated herein by reference.

Each document filed by the Company pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this Prospectus and prior to the termination of the offering of the shares of Common Stock pursuant hereto shall be deemed to be incorporated herein by reference and to be a part hereof from the date of filing of such document. Any statement contained herein or in a document all or a portion of which is incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

The Company will provide without charge to each person to whom a copy of this Prospectus is delivered, on the request of any such person, a copy of any or all of the foregoing documents incorporated herein by reference, other than exhibits to such documents (unless such exhibits are specifically incorporated by reference into the documents that this Prospectus incorporates). Requests should be directed to Secretary Division, Enron Oil & Gas Company, at its principal executive offices, 1400 Smith Street, Houston, Texas 77002 (telephone: 713-853-6161).

IN CONNECTION WITH THE OFFERING OF THE EXCHANGEABLE NOTES AND COMMON STOCK OF THE COMPANY BY ENRON CORP., THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE EXCHANGEABLE NOTES OR THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE, IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUMMARY

The following is a summary of certain information contained in this Prospectus. It is not intended to be complete and is qualified in its entirety by the more detailed information contained elsewhere in this Prospectus. Certain terms are defined in this summary under "Certain Definitions." Capitalized terms which are not defined in this summary are used as defined elsewhere in this Prospectus.

The Company

Enron Oil & Gas Company (together with its subsidiaries, "the Company") is one of the largest independent (non-integrated) oil and gas companies in the United States in terms of domestic proved reserves. It is engaged, directly and through its subsidiaries, in the exploration for, and the development, production and marketing of, natural gas and crude oil primarily in major producing basins in the United States, as well as in Canada, Trinidad and India and to a lesser extent, selected other international areas. At December 31, 1994, the Company's estimated net proved natural gas reserves were 1,910 Bcf and estimated net proved crude oil, condensate and natural gas liquids reserves were 37 MMBbl, a net increase of 8% and 78%, respectively, over year end 1993. The Company has increased its reserves for six consecutive years. At December 31, 1994, approximately 70% of the Company's reserves (on a natural gas equivalent basis) was located in the United States, 16% in Canada, 11% in Trinidad and 3% in India. At such date, approximately 90% of the Company's total proved reserves was classified as developed.

While year end reserve evaluations will not be available for some time, based on the results of the Company's drilling program for the first nine months of 1995, it is expected that extensions, discoveries and other additions to reserves for the year will exceed production for both North America and Trinidad, as well as in total. Additionally, reserves acquired are expected to substantially exceed those sold, with the resulting replacement of production from all sources expected to exceed 150%.

Business Strategy. The Company's strategy is to maximize the rate of return on investment of capital by controlling both operating and capital costs and enhancing the certainty of future revenues through the use of various marketing mechanisms. This strategy enhances the generation of both income and cash flow from each unit of production and allows for the growth of production on a cost-effective basis by optimizing the reinvestment of cash flow. Through this strategy, the Company has increased its net income in each of the last five years, despite the volatile natural gas price environment, and achieved a return on equity ranging from 8% in 1990 to 15% in 1994. For the first nine months of 1995, net income increased 5% compared to the same period for 1994.

The Company refocused its 1995 drilling activity away from natural gas deliverability and toward natural gas reserve enhancement and crude oil exploitation in the United States in response to the decline in United States natural gas prices in recent periods. The Company also is focusing on the cost-effective utilization of advances in technology associated with gathering, processing and interpretation of 3-D seismic data, developing reservoir simulation models and drilling operations through the use of new and/or improved drill bits, mud motors, mud additives, formation logging techniques and reservoir fracturing methods. These advanced technologies are used, as appropriate, throughout the Company to reduce the risks associated with all aspects of oil and gas reserve exploration, exploitation and development.

The Company implements its strategy by emphasizing the drilling of internally generated prospects in order to find and develop low cost reserves. By following this strategy, the Company has increased production in each of the last four years with a compound annual growth rate of 13.1%, while increasing proved reserves approximately 32%, both on a natural gas equivalent basis. For 1994, net equivalent production reached a new high of 307 Bcfe, an increase of 9% over 1993. Natural gas production in 1994 averaged approximately 749 MMcf per day, which represents an increase of 6% over 1993. Crude oil and condensate production averaged 12.6 MBbl per day in 1994 which represents an increase of 42% over 1993. Natural gas production for the first nine months of 1995 averaged 719 MMcf per day, down 24 MMcf per day from the first nine months of 1994. Lower volumes in 1995 reflect the voluntary curtailment by the Company of United States production at a higher rate than in 1994 because United States natural gas prices were down by 26% period to period, the impact of the sale of reserves and related assets and the effect of the reduction and redirection of natural gas drilling activities early in 1995. Crude oil and condensate volumes for the first nine months of 1995 averaged 18.6 MBbl per day, an increase of 55% over the first nine months of 1994.

Achieving and maintaining the lowest possible cost structure are also important goals in the implementation of the Company's strategy. Over the last five years, the Company has reduced total cash operating expenses, including lease and well, general and administrative, taxes other than income, and interest expenses from $.95/Mcfe in 1989 to $.49/Mcfe in 1994, a reduction of 48%. At the same time non-cash expenses (depreciation, depletion and amortization) have been reduced from $.93/Mcfe in 1989 to $.80/Mcfe in 1994, a reduction of 14%. For the first nine months of 1995, cash operating expenses averaged $.56/Mcfe compared to $.50/Mcfe for the first nine months of 1994 and non-cash expenses averaged $.69/Mcfe and $.81/Mcfe for the two periods, respectively.

Consistent with the Company's desire to optimize the use of its assets, the Company also maintains a strategy of selling select oil and gas properties that for various reasons no longer fit into future operating plans, or which are not assessed to have sufficient future growth potential and when the economic value to be obtained by selling the properties and reserves in the ground is evaluated to be greater than what would be obtained by holding the properties and producing the reserves over time. As a result, the Company typically receives each year a varying but substantial level of proceeds related to such sales which proceeds are available for general corporate use. Proceeds from property sales in 1994 were $91 million ($71 million after tax) and in the first nine months of 1995 were $101 million ($77 million after tax).

North American Operations. The Company's seven principal United States producing areas are the Big Piney area of Wyoming, South Texas area, East Texas area, Offshore Gulf of Mexico area, Canyon Trend area of West Texas, Pitchfork Ranch area of New Mexico and Vernal area of Utah. Properties in these areas comprised approximately 76% of the Company's United States reserves (on a natural gas equivalent basis) and 85% of the Company's United States net natural gas deliverability as of December 31, 1994 and are substantially all operated by the Company. The Company's other United States natural gas and crude oil producing properties are located primarily in other areas of Texas, Utah, New Mexico and in Oklahoma.

At December 31, 1994, 93% of the Company's proved United States reserves (on a natural gas equivalent basis) was natural gas and 7% was crude oil, condensate and natural gas liquids. A substantial portion of the Company's United States natural gas reserves is in long-lived fields with well-established production histories. The Company believes that opportunities exist to increase production in many of these fields through continued infill and other development drilling.

The Company also has natural gas and crude oil producing properties located in Western Canada, primarily in the provinces of Alberta, Saskatchewan and Manitoba. The Company produces natural gas from seven major areas and crude oil from three major areas. The Sandhills area in

Southern Saskatchewan is the largest single producing area, contributing 51% of Canadian deliverability at September 30, 1995. Canadian natural gas deliverability net to the Company at September 30, 1995 was approximately 70 MMcf per day and the Company held approximately 350,000 net undeveloped acres in Canada.

Outside North America Operations. The Company has operations offshore Trinidad and India and is conducting exploration in selected other international areas. Properties offshore Trinidad and India comprise 100% of the Company's current reserves and production outside of North America. The Company's reserves at December 31, 1994 included 236 Bcf of natural gas and 12 MMBbl of liquids in these two areas. The Company's net production from offshore Trinidad was approximately 100 MMcf per day of natural gas and 6.2 MBbl per day of crude oil and condensate at September 30, 1995. The Company's net production from offshore India was approximately 3.5 MBbl per day of crude oil net to the Company at September 30, 1995. In addition, the Company is pursuing other exploitation opportunities in countries, including China, Mozambique and Qatar, where indigenous natural gas reserves have been identified, particularly where synergies in natural gas transportation, processing and power cogeneration can be optimized with other Enron Corp. affiliated companies.

Relationship Between the Company and Enron Corp.

All of the shares of Common Stock offered hereby and in the Stock Offerings are being sold by Enron Corp., and the Company will receive no proceeds from such sales. Concurrently with the offering of the Exchangeable Notes, Enron Corp. is offering for sale 27,000,000 shares of Common Stock (31,050,000 shares if the Underwriters' over-allotment options in such Stock Offerings are exercised in full). Following the consummation of the Stock Offerings, Enron Corp. will own an aggregate of 101,000,000 shares of Common Stock or approximately 63% of the outstanding shares (or, assuming that the Underwriters' over-allotment options in the Stock Offerings are exercised in full, 96,950,000 shares of Common Stock or approximately 61% of the outstanding shares). At maturity, the Exchangeable Notes may be exchanged for no more than 10,000,000 shares of Common Stock (no more than 11,000,000 shares if the over-allotment option of the underwriters in the Exchangeable Notes Offering is exercised in full), subject to adjustment under certain circumstances and to Enron Corp.'s option to pay an amount of cash in lieu of such mandatory exchange. Assuming the underwriters' over-allotment options in the Stock Offerings and the Exchangeable Notes Offering are exercised in full and the maximum number of shares is mandatorily exchanged at maturity of the Exchangeable Notes, Enron Corp.'s remaining ownership of Common Stock would be approximately 54% of the outstanding shares. Any market that develops in the Exchangeable Notes is likely to influence, and be influenced by, the market for the Common Stock. For example, the price of the Common Stock could become more volatile and could be depressed by possible sales of Common Stock by investors who view the Exchangeable Notes as a more attractive means of equity participation in the Company and by hedging and arbitrage activity that may develop involving the Exchangeable Notes and the Common Stock.

Neither the Stock Offerings nor the delivery of shares of Common Stock pursuant to the terms of the Exchangeable Notes will affect the existing agreements between the Company and Enron Corp. and their respective affiliates, except for the Tax Allocation Agreement which will cease to be effective from the time at which deconsolidation occurs (when Enron Corp. ceases to own 80% of the outstanding shares of Common Stock) for future periods, but will remain in effect with regard to periods prior to deconsolidation. For issues not addressed in the original agreement, the Company has entered into a supplemental agreement with Enron Corp. clarifying future potential adjustments associated with the final settlement on audit of taxes for periods prior to the deconsolidation. The

Company does not believe that the cessation of consolidated tax reporting with Enron Corp. and effectiveness of the Tax Allocation Agreement concurrent with deconsolidation will have a material adverse effect on its financial condition or results of operations. See "Relationship Between the Company and Enron Corp."

The nature of the respective businesses of the Company and Enron Corp. and its affiliates is such as to potentially give rise to conflicts of interest between the two companies. The Company's operations account for substantially all of Enron Corp.'s natural gas and crude oil exploration and production operations. An affiliate of Enron Corp. has entered into an agreement to acquire a controlling interest in Coda Energy, Inc. ("Coda"), a company engaged in domestic oil and gas exploration, development and production. Crude oil accounts for approximately 86% of Coda's proved reserves. At December 31, 1994, Coda reported estimated proved natural gas reserves of 39,808 MMcf and estimated proved crude oil, condensate and natural gas liquids reserves of 39,207 MBbls. If the transaction is consummated, conflicts of interest could arise between the Company and Coda. See "Relationship Between the Company and Enron Corp. – Conflicts of Interest."

Summary Financial and Operating Information

The following table sets forth a summary of selected consolidated financial and operating data for the Company for each of the five years in the period ended December 31, 1994 and for the nine-month periods ended September 30, 1994 and 1995. This information should be read in conjunction with the consolidated financial statements of the Company and related notes thereto incorporated by reference herein (see "Incorporation of Certain Documents by Reference") and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Prospectus. Financial information for each of the five years in the period ended December 31, 1994 has been derived from audited financial statements. Financial information for the nine-month periods ended September 30, 1994 and 1995 has been derived from unaudited financial statements. The interim data reflects all adjustments which, in the opinion of the management of the Company, are necessary to present fairly such information for the interim periods. Results of the nine-month periods are not necessarily indicative of the results expected for a full year or any other interim period.

	Year Ended December 31,					Nine Months Ended September 30,	
	1990	1991	1992	1993	1994	1994	1995
	(In Thousands, Except Per Share Amounts and Operating Data)						
Statement of Income Data:							
Net operating revenues(1)	$ 403,137	$ 402,588	$ 459,026	$ 581,020	$ 625,823	$ 474,340	$ 492,342
Income before income taxes	34,614	45,669	79,844	112,273	153,935	128,166	144,175
Net income	45,468	47,916	97,580	138,025	147,998	105,438	110,731
Earnings per share of common stock(2)	$.30	$.32	$.63	$.86	$.93	$.66	$.69
Average number of common shares(2)	151,800	151,800	154,533	159,966	159,845	159,826	159,951
Balance Sheet Data (at period end):							
Net oil and gas properties	$1,305,136	$1,339,666	$1,468,011	$1,546,045	$1,684,811	$1,637,762	$1,843,150
Total assets	1,417,939	1,455,608	1,731,012	1,811,162	1,861,867	1,855,819	2,109,971
Long-term debt							
Affiliate	277,918	132,836	-(3)	-	25,000	25,000	16,320
Other	140,442	289,556	150,000(3)	153,000	165,337	158,862	247,552
Deferred revenue	-	-	301,395	227,528	184,183	195,109	224,085
Shareholders' equity	610,042	643,185	826,966(3)	933,073	1,043,419	1,019,712	1,140,295
Operating Data:							
Wellhead Volumes and Prices							
Natural Gas Volumes (MMcf per day)(4)	455	491	564	709	749	743	719
Average Natural Gas Prices ($/Mcf)(5)	$1.51	$1.37	$1.58	$1.92	$1.62	$1.69	$1.23
Crude/Condensate Volumes (MBbl per day)	8.2	8.2	8.5	8.9	12.6	12.0	18.6
Average Crude/Condensate Prices ($/Bbl)	$21.67	$18.78	$17.90	$16.37	$15.82	$15.24	$16.77

(1) Net operating revenues for the years 1990 and 1991 and for the first nine months of 1994 have been revised to include gains from sales of reserves and related assets for consistency with current year reporting.

(2) In May 1994, the Board of Directors declared a two-for-one split of the Company's Common Stock to be effected as a non-taxable dividend of one share for each share outstanding on May 31, 1994. All share and per share amounts presented herein are reflected on a post-split basis.

(3) In August 1992, the Company completed the sale of 8.2 million shares of Common Stock resulting in aggregate net proceeds to the Company of approximately $112 million used primarily to repay long-term debt. In September 1992, the Company completed the sale of a volumetric production payment, resulting in net proceeds of approximately $327 million used to repay long-term debt and for other general corporate purposes.

(4) Includes 28 MMcf per day in 1992, 81 MMcf per day in 1993 and 48 MMcf per day in 1994 and in the nine-month periods ended September 30, 1994 and 1995 delivered under the terms of a volumetric production payment agreement effective October 1, 1992, as amended.

(5) Includes an average equivalent wellhead value of $1.70 per Mcf in 1992, $1.57 per Mcf in 1993, $1.27 per Mcf in 1994 and $1.32 per Mcf and $.78 per Mcf in the nine-month periods ended September 30, 1994 and 1995, respectively, for the volumes described in note (4), net of transportation costs.

Summary Oil and Gas Reserve Information

The following table sets forth summary information with respect to the Company's estimates of its net proved natural gas, crude oil, condensate and natural gas liquids reserves at December 31, 1994. For additional information relating to reserves, see "Business – Oil and Gas Exploration and Production Properties and Reserves."

	Natural Gas (Bcf)	Liquids (MBbl)(1)	Natural Gas Equivalents (Bcfe)	
			Developed	Undeveloped
Net proved reserves at December 31, 1994:				
United States	1,307	17,787	1,229	185
Canada	297	7,237	330	10
Trinidad	206	4,429	233	-
India	29	7,585	46	29
Total	1,839	37,038	1,838	224

Reserve amounts set out above have been revised to exclude volumes attributable to a volumetric production payment from owned reserves.

The Company's estimates of its net proved natural gas, crude oil, condensate and natural gas liquids reserves at December 31, 1994, including amounts attributable to a volumetric production payment, are shown below. This disclosure is presented as additional information and is not intended to represent required disclosure pursuant to Statement of Financial Accounting Standards ("SFAS") No. 69 – "Disclosures about Oil and Gas Producing Activities."

	Natural Gas (Bcf)	Liquids (MBbl)(1)	Natural Gas Equivalents (Bcfe)	
			Developed	Undeveloped
Net proved reserves at December 31, 1994, including amounts attributable to volumetric production payment:				
United States	[illegible]	17,787	1,300	185
Canada	[illegible]	7,237	330	10
Trinidad	206	4,429	233	-
India	29	7,585	46	29
Total	1,910	37,038	1,909	224

(1) Includes crude oil, condensate and natural gas liquids.

Certain Definitions

Unless otherwise indicated in this Prospectus, natural gas volumes are stated at the legal pressure base of the state, area or country in which the reserves are located and at 60° Fahrenheit. Natural gas equivalents are determined using the ratio of 6.0 Mcf of natural gas to 1.0 barrel of crude oil, condensate or natural gas liquids.

As used herein, the following terms have the specific meanings set out: "Mcf" means thousand cubic feet, "MMcf" means million cubic feet, "Bcf" means billion cubic feet, "Bbl" means barrel, "MBbl" means thousand barrels, "MMBbl" means million barrels, "Mcfe" means thousand cubic feet equivalent, "MMcfe" means million cubic feet equivalent, "Bcfe" means billion cubic feet equivalent, "MMBtu" means million British thermal units, "BBtu" means billion British thermal units and "TBtu" means trillion British thermal units.

With respect to information on the Company's working interest in wells or acreage, "net" oil and gas wells or acreage are determined by multiplying "gross" oil and gas wells or acreage by the Company's working interest in the wells or acreage.

"Exploration and development expenditures" include costs associated with exploratory and development drilling (including exploratory dry holes), leasehold acquisitions, seismic data acquisitions, geological and land related overhead expenditures, delay rentals, producing property acquisitions, capitalized interest and other miscellaneous capital expenditures. "Total finding costs" is the ratio of total exploration and development expenditures to reserves added as a result of the drilling and acquisition program. Reserves added include the total net natural gas equivalent volume of all natural gas, crude oil, condensate and natural gas liquids added from extensions, discoveries and other additions, purchases in place and revisions of previous estimates.

"Infill drilling" means drilling for the development and production of net proved undeveloped reserves.

USE OF PROCEEDS

The shares of Common Stock of the Company being offered hereby and the Exchangeable Notes are being sold by Enron Corp. Accordingly, the Company will not receive any of the proceeds from the Stock Offerings or the sale of the Exchangeable Notes or delivery of shares of Common Stock pursuant thereto.

PRICE RANGE OF COMMON STOCK AND CASH DIVIDENDS

The following table sets forth, for the periods indicated, the high and low sale prices per share for the Common Stock, as reported on the New York Stock Exchange Composite Tape, and the amount of cash dividends paid per share. The 1993 and First and Second Quarter 1994 sales prices and cash dividends per share have been restated to reflect the two-for-one stock split on May 31, 1994.

	Price Range		Cash Dividends
	High	Low	
1993			
First Quarter	$20.31	$13.38	$.03
Second Quarter	22.50	17.88	.03
Third Quarter	26.81	19.88	.03
Fourth Quarter	27.00	17.06	.03
1994			
First Quarter	$23.75	$19.31	$.03
Second Quarter	24.63	22.38	.03
Third Quarter	23.00	18.50	.03
Fourth Quarter	22.75	17.38	.03
1995			
First Quarter	$24.88	$17.12	$.03
Second Quarter	24.75	20.25	.03
Third Quarter	25.38	20.00	.03
Fourth Quarter (through November 13, 1995)	22.75	18.75	

See the cover page of this Prospectus for the last reported sale price of the Common Stock on the NYSE as of a recent date.

As of November 1, 1995, there were approximately 270 record holders of the Company's Common Stock, including individual participants in security position listings. There are an estimated 5,100 beneficial owners of the Company's Common Stock, including shares held in street name.

Following the initial public offering and sale of its Common Stock in October 1989, the Company paid quarterly dividends of $0.025 per share beginning with an initial dividend paid in January 1990 with respect to the fourth quarter of 1989. Beginning in January 1993 with respect to the fourth quarter of 1992, the Company has paid quarterly dividends of $0.03 per share. The Company currently intends to continue to pay quarterly cash dividends on its outstanding shares of Common Stock. However, the determination of the amount of future cash dividends, if any, to be declared and paid will depend upon, among other things, the financial condition, funds from operations, level of exploration and development expenditure opportunities and future business prospects of the Company.

BUSINESS

General

The Company, a Delaware corporation organized in 1985, is engaged, either directly or through a marketing subsidiary with regard to domestic operations or through various subsidiaries with regard to international operations, in the exploration for, and the development, production and marketing of, natural gas and crude oil primarily in major producing basins in the United States, as well as in Canada, Trinidad and India and to a lesser extent, selected other international areas. At December 31, 1994, the Company's estimated net proved natural gas reserves were 1,910 Bcf and estimated net proved crude oil, condensate and natural gas liquids reserves were 37 MMBbl. At such date, approximately 70% of the Company's reserves (on a natural gas equivalent basis) was located in the United States, 16% in Canada, 11% in Trinidad and 3% in India.

The Company pursues its oil and gas exploration and development operations primarily by the acquisition, through various means including but not limited to leasing, purchasing and farming-in of acreage that is either undeveloped or lightly developed, and drilling of internally generated prospects. The Company also maintains a strategy of selling selected oil and gas properties that, for various reasons, no longer fit into future operating plans or which are not assessed to have sufficient future growth potential and when the economic value to be obtained by selling the properties and reserves in the ground is evaluated to be greater than what would be obtained by holding the properties and producing the reserves over time. As a result, the Company typically receives each year a varying but substantial level of proceeds related to such sales which proceeds are available for general corporate use.

Exploration and Production

North American Operations

The Company's seven principal United States producing areas are the Big Piney area, South Texas area, East Texas area, Offshore Gulf of Mexico area, Canyon Trend area, Pitchfork Ranch area and Vernal area. Properties in these areas comprised approximately 78% of the Company's United States reserves (on a natural gas equivalent basis) and 85% of the Company's United States net natural gas deliverability as of December 31, 1994 and are substantially all operated by the Company. At September 30, 1995, properties in these areas comprised approximately 87% of the Company's United States net natural gas deliverability. The Company's other United States natural gas and crude oil producing properties are located primarily in other areas of Texas, Utah, New Mexico and in Oklahoma.

At December 31, 1994, 93% of the Company's proved United States reserves (on a natural gas equivalent basis) was natural gas and 7% was crude oil, condensate and natural gas liquids. A substantial portion of the Company's United States natural gas reserves is in long-lived fields with well-established production histories. The Company believes that opportunities exist to increase production in many of these fields through continued infill and other development drilling.

The Company also has natural gas and crude oil producing properties located in Western Canada, primarily in the provinces of Alberta, Saskatchewan and Manitoba.

Big Piney Area. The Company's largest reserve accumulation is located in the Big Piney area in Sublette and Lincoln counties in southwestern Wyoming. The Company is the holder of the largest productive acreage base in this area, with approximately 219,000 net acres under lease directly within field limits. The Company operates approximately 650 natural gas wells in this area in which it owns a 91% average working interest. Deliveries from the area net to the Company averaged 124 MMcf per day of natural gas and 1.5 MBbl per day of crude oil, condensate, and natural gas liquids in 1994. At September 30, 1995, natural gas deliverability net to the Company was approximately 138 MMcf per day.

The current principal producing intervals are the Frontier and Mesaverde formations. The Frontier formation, which occurs at 6,500-10,000 feet, contains approximately 66% of the Company's current Big Piney reserves. The Company drilled 67 wells in the Big Piney area in 1994. Although natural gas drilling has been curtailed in this area during 1995 in response to market conditions, numerous drilling opportunities will be available for several years.

During the fourth quarter of 1995, the Company anticipates recording as proved undeveloped reserves approximately 1,100 Bcf of methane contained, along with high concentrations of carbon dioxide and nitrogen as well as small amounts of other gaseous substances, in the deep Wyoming Paleozoic formation located under acreage leased by the Company and held by production in the Big Piney area. The Company is actively pursuing the consummation of a market or markets from several different potential sources to facilitate realizing the value of these reserves.

South Texas Area. The Company's activities in South Texas are focused in the Wilcox, Expanded Wilcox, Frio and Lobo producing horizons. The principal area of activity is in the Lobo Trend which occurs primarily in Webb and Zapata counties.

The Company operates approximately 470 wells in the South Texas area. Production is primarily from the Lobo sand of the Wilcox formation at depths ranging from 7,000 to 11,000 feet. The Company has approximately 250,000 net acres under lease in this area. Natural gas deliveries net to the Company averaged 181 MMcf per day in 1994. At September 30, 1995, natural gas deliverability from this area net to the Company was approximately 150 MMcf per day which was impacted during 1995 by the sale of selected properties. The Company drilled 56 wells in the South Texas area in 1994 and anticipates an active drilling program will continue for several years.

East Texas Area. The Company's activities in the East Texas area are primarily in the Carthage field, located in Panola County, and the North Milton field, located in northern Harris County.

The Carthage field is the Company's newest area of concentration. This field is one of the most prolific fields in east Texas with production primarily from the Cotton Valley, Travis Peak and Pettit formations. In 1995, properties were acquired that doubled the Company's acreage position to 17,000 acres. An active drilling program is planned for the remainder of 1995 and for several years. The Company has an average 71% working interest in its holdings. The Company has continued its activity in the North Milton field where it now operates 19 wells and holds a 100% working interest in the acreage. Further drilling is planned for 1996. At September 30, 1995, deliverability from the East Texas area was approximately 35 MMcf per day of natural gas with almost 1.0 MBbl per day of condensate, both net to the Company.

Offshore Gulf of Mexico Area. At September 30, 1995, the Company held an interest in 191 blocks in the Offshore Gulf of Mexico area totaling 561,000 net acres. Of the 191 blocks, 133 are operated by the Company. These interests are located predominantly in federal waters offshore Texas and Louisiana. During 1995, the Company acquired a 50% interest in operations previously owned by Santa Fe Minerals complementing previously owned interests and adding significantly to the Company's offshore operations. Natural gas deliveries from this area averaged 83 MMcf per day during 1994 and 118 MMcf per day during the first nine months of 1995, both net to the Company. A substantial portion of such deliveries was from interests in the Matagorda trend with significant volumes also coming from the Mustang Island area. Deliverability from this area at September 30, 1995 was 160 MMcf per day net to the Company sourced principally as noted above. The Company has maintained an active drilling program in this area during 1994 and 1995 and anticipates a similar program to continue for several years.

Canyon Trend Area. The Company's activities in this area have been concentrated in Crockett, Sutton, Terrell and Val Verde Counties, Texas where the Company drilled 331 natural gas wells during the period 1992 through 1994. The Company holds approximately 91,800 net acres and now operates approximately 500 natural gas wells in this area in which it owns a 97% average working interest. Production is from the Canyon sands and Strawn limestone at depths from 5,500 to 11,500 feet. In 1994, natural gas deliveries from this area net to the Company averaged 65 MMcf per day. At September 30, 1995, natural gas deliverability from this area net to the Company was approximately 54 MMcf per day. The Company has maintained an active drilling program in the Canyon Trend area during 1995 and expects a similar program to continue for several years.

Pitchfork Ranch Field. The Pitchfork Ranch field located in Lea County, New Mexico, produces primarily from the Bone Spring, Atoka and Morrow formations. In 1994, deliveries net to the Company from this area averaged 36 MMcf per day of natural gas and approximately 2 MBbl per day of crude oil, condensate and natural gas liquids. At September 30, 1995, deliverability from this area net to the Company was approximately 32 MMcf per day of natural gas and 3.6 MBbl per day of crude oil, condensate and natural gas liquids. The Company holds approximately 27,900 net acres and expects to maintain an active drilling program in this field for several years.

Vernal Area. In the Vernal area, located primarily in Uintah County, Utah, the Company operates approximately 195 producing wells and presently controls approximately 79,000 net acres. For the first nine months of 1995, natural gas deliveries net to the Company from the Vernal area averaged 24 MMcf per day which represents deliverability. Production is from the Green River and Wasatch formations located at depths between 4,500-8,000 feet. The Company has an average working interest of approximately 60%. The Company drilled 20 wells in the Vernal area in 1994 and has maintained a comparable drilling program during 1995.

Canada. The Company is engaged in the exploration for and the development, production and marketing of natural gas and crude oil and the operation of natural gas processing plants in western Canada, principally in the provinces of Alberta, Saskatchewan, and Manitoba. The Company conducts operations from offices in Calgary. The Company produces natural gas from seven major areas and crude oil from three major areas. The Sandhills area in Southern Saskatchewan is the largest single producing area where 160 wells were drilled in 1994 resulting in deliverability net to the Company from the field of approximately 38 MMcf per day at December 31, 1994. Canadian natural gas deliverability net to the Company at September 30, 1995 was approximately 70 MMcf per day and the Company held approximately 350,000 net undeveloped acres in Canada. The Company expects to maintain an active drilling program in Canada for several years.

Outside North America Operations

The Company has operations offshore Trinidad and India and is conducting exploration in selected other international areas. Properties offshore Trinidad and India comprised 100% of the Company's proved reserves and production outside of North America at year end 1994.

Trinidad. In November 1992, the Company was awarded a 95% working interest concession in the South East Coast Consortium ("SECC") block offshore Trinidad, encompassing three undeveloped fields, previously held by three government-owned energy companies. The Kiskadee field has been developed, the Ibis field is under development and the Oil Bird field is anticipated to be developed over the next three to five years. Existing surplus processing and transportation capacity at the Pelican field facilities owned and operated by Trinidad and Tobago government-owned companies is being used to process and transport the production. Natural gas is being sold into the local market under a take-or-pay agreement with the National Gas Company of Trinidad and Tobago. In 1994, deliveries net to the Company averaged 63 MMcf per day of natural gas and 2.6 MBbl per day of crude oil and condensate. At September 30, 1995, deliverability net to the Company was approximately 166 MMcf per day of natural gas and 8.0 MBbls per day of crude oil and condensate. The Company's net production from offshore Trinidad was approximately 100 MMcf per day of natural gas and 6.2 MBbl per day of crude oil and condensate at September 30, 1995. The Company held approximately 71,000 net undeveloped acres in Trinidad.

The Company recently has been awarded the right to develop the U(a) block adjacent to the SECC block and is presently negotiating the terms of a production sharing contract with the Government of Trinidad and Tobago.

India. In December 1994, the Company signed agreements covering profit sharing, joint operations and product sales, and was granted a 30% working interest in, the Tapti, Panna and Mukta blocks located offshore Bombay, India. The Company is designated operator of all three areas. The blocks were previously operated by the Indian national oil company, Oil & Natural Gas Corporation Limited, which retained a 40% working interest. The 363,000 acre Tapti Block contains two major proved gas accumulations delineated by 22 expendable exploration wells that have been plugged. The Company has initiated a development plan for the Tapti Block accumulations. The 106,000 acre Panna Block and the 192,000 acre Mukta Block are partially developed with 30 wells producing from five producing platforms located in the Panna and Mukta fields. The fields were producing approximately 3.5 MBbl per day of crude oil net to the Company as of September 30, 1995; all associated natural gas was being flared. The Company intends to continue development of the accumulations and to expand processing capacity to allow crude oil production at full deliverability as well as to permit natural gas sales.

Other International. The Company continues to evaluate other selected conventional natural gas and crude oil opportunities outside North America. The Company is pursuing other exploitation opportunities in countries where indigenous natural gas reserves have been identified, particularly where synergies in natural gas transportation, processing and power cogeneration can be optimized with other Enron Corp. affiliated companies. In early 1995, the Company and the Qatar General Petroleum Corporation signed a nonbinding letter of intent concerning the possible development of a liquefied natural gas project for natural gas to be produced from the North Dome Field. The Company and Enron Corp. may jointly hold up to a 40% working interest in the joint venture and drill and develop to-be-agreed-upon reserves. In addition, the Company signed letters of intent in early 1995 with the National Oil Corporation of Uzbekistan, and Gazprom, the Russian natural gas company, to pursue the feasibility of joint venture development and marketing of previously discovered conventional hydrocarbon reserves in Uzbekistan. The Company is also in discussions concerning the potential for conventional oil and gas development opportunities in China, Mozambique and Qatar. The Company holds nonoperating working interests in two conventional oil and gas exploration prospects in the U.K. North Sea.

The Company continues evaluation and assessment of its international opportunity portfolio in the coalbed methane recovery arena, including projects in South Wales in the U.K., the Lorraine Basin in France, Galilee Basin in Queensland, Australia and Hedong basin in China.

Marketing

Wellhead Marketing

The Company's North America wellhead natural gas production is currently being sold on the spot market and under long-term natural gas contracts at market responsive prices. In many instances, the long-term contract prices closely approximate the prices received for natural gas being sold on the spot market. Wellhead natural gas volumes from Trinidad are sold at prices that are based on a fixed price schedule with annual escalations. Natural gas volumes in India will be sold to the Gas Authority of India, Ltd. under a take-or-pay contract at a price linked to a basket of world market fuel oil quotations with floor and ceiling limits. Approximately 45% of the Company's wellhead natural gas production is currently being sold to pipeline and marketing subsidiaries of Enron Corp. The Company believes that the terms of its transactions and agreements with Enron Corp. and/or its affiliates are and intends that future such transactions and agreements will be at least as favorable to the Company as could be obtained from third parties.

Substantially all of the Company's wellhead crude oil and condensate is sold under short-term contracts at market responsive prices.

Other Marketing

Enron Oil & Gas Marketing, Inc. ("EOGM") is a wholly-owned subsidiary of the Company engaged in various marketing activities. Both the Company and EOGM contract to provide, under short and long-term agreements, natural gas to various purchasers and then aggregate the necessary supplies for the sales with purchases from various sources including third-party producers, marketing companies, pipelines or from the Company's own production. In addition, EOGM has purchased and constructed several small gathering systems in order to facilitate its entry into the gathering business on a strategic basis. Both the Company and EOGM utilize other short and long-term hedging and trading mechanisms including sales and purchases utilizing NYMEX-related commodity market transactions. All of these activities are currently conducted with companies affiliated with Enron Corp. These marketing activities have provided an effective balance in managing the Company's exposure to commodity price risks for both natural gas and crude oil and condensate wellhead prices. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources and Liquidity – Hedging Transactions."

Wellhead Volumes and Prices, and Lease and Well Expenses

The following table sets forth certain information regarding the Company's wellhead volumes of and average prices for natural gas per Mcf, crude oil and condensate, and natural gas liquids per Bbl, and average lease and well expenses per Mcfe delivered during each of the three years in the period ended December 31, 1994 and the nine-month periods ended September 30, 1994 and 1995.

	Year Ended December 31,			Nine Months Ended September 30,	
	1992	1993	1994	1994	1995
Volumes (per day)					
Natural Gas (MMcf)					
United States(1)	534	649	614	609	534
Canada	30	58	72	71	75
Trinidad	-	2	63	63	110
Total(1)	564	709	749	743	719
Crude Oil and Condensate (MBbl)					
United States	6.3	6.6	8.0	7.5	9.1
Canada	2.2	2.2	2.0	1.9	2.4
Trinidad	-	.1	2.5	2.6	4.8
India	-	-	.1	-	2.3
Total	8.5	8.9	12.6	12.0	18.6
Natural Gas Liquids (MBbl)					
United States	.3	.2	.3	.2	1.2
Canada	.4	.4	.4	.5	.3
Total	.7	.6	.7	.7	1.5
Average Prices					
Natural Gas ($/Mcf)					
United States(2)	$ 1.61	$ 1.97	$ 1.71	$ 1.79	$ 1.33
Canada	1.18	1.34	1.42	1.51	.95
Trinidad	-	.89	.93	.93	.97
Composite(2)	1.58	1.92	1.62	1.69	1.23
Crude Oil and Condensate ($/Bbl)					
United States	$18.29	$16.96	$16.06	$15.64	$17.20
Canada	16.80	14.63	14.05	13.72	16.31
Trinidad	-	14.36	15.50	15.20	16.16
India	-	-	15.70	-	16.82
Composite	17.90	16.37	15.62	15.24	16.77
Natural Gas Liquids ($/Bbl)					
United States	$11.56	$13.85	$12.45	$12.50	$11.76
Canada	10.05	9.46	8.45	7.86	9.69
Composite	10.69	11.12	9.90	9.43	11.27
Lease and Well Expenses ($/Mcfe)					
United States	$ .20	$ .18	$ .19	$ .19	$ .20
Canada	.50	.48	.34	.35	.35
Trinidad	-	1.46	.17	.15	.14
India	-	-	.13	-	1.59
Composite	.22	.21	.20	.20	.23

(1) Includes 28 MMcf per day in 1992, 81 MMcf per day in 1993 and 48 MMcf per day in 1994 and in the nine-month periods ended September 30, 1994 and 1995 delivered under the terms of a volumetric production payment agreement effective October 1, 1992, as amended.

(2) Includes an average equivalent wellhead value of $1.70 per Mcf in 1992, $1.57 per Mcf in 1993, $1.27 per Mcf in 1994 and $1.32 per Mcf and $.76 per Mcf in the nine-month periods ended September 30, 1994 and 1995, respectively, for the volumes described in note (1), net of transportation costs.

Other Natural Gas Marketing Volumes and Prices

The following table sets forth certain information regarding the Company's volumes of natural gas delivered under other marketing and volumetric production payment arrangements, and resulting average per unit gross revenue and per unit amortization of deferred revenues along with associated costs during each of the three years in the period ended December 31, 1994 and the nine-month periods ended September 30, 1994 and 1995.

	Year Ended December 31,			Nine Months Ended September 30,	
	1992	1993	1994	1994	1995
Volumes (MMcf per day)(1)	255	293	324	327	266
Average Gross Revenue ($/Mcf)(2)	$ 2.62	$ 2.57	$ 2.38	$ 2.41	$ 1.87
Associated Costs ($/Mcf)(3)(4)	1.99	2.32	2.06	2.13	1.49
Margin ($/Mcf)	$ 0.63	$ 0.25	$ 0.32	$ 0.28	$ 0.38

(1) Includes 28 MMcf per day in 1992, 81 MMcf per day in 1993 and 48 MMcf per day in 1994 and in the nine-month periods ended September 30, 1994 and 1995 delivered under the terms of volumetric production payment and exchange agreements effective October 1, 1992, as amended.

(2) Includes per unit deferred revenue amortization for the volumes detailed in note (1) at an equivalent of $2.51 per Mcf in 1992, $2.50 per Mcf in 1993, $2.46 per Mcf in 1994 and $2.46 per Mcf and $2.47 per Mcf in the nine-month periods ended September 30, 1994 and 1995, respectively.

(3) Includes an average value of $2.37 per Mcf in 1992, $2.20 per Mcf in 1993, $1.92 per Mcf in 1994 and $1.99 per Mcf and $1.50 per Mcf in the nine-month periods ended September 30, 1994 and 1995, respectively, including average equivalent wellhead value, any applicable transportation costs and exchange differentials, for the volumes detailed in note (1).

(4) Including transportation and exchange differentials.

Oil and Gas Exploration and Production Properties and Reserves

The following tables set forth the Company's net proved and proved developed reserves at December 31, 1993 and 1994, and the changes in the net proved reserves for the year 1994 as estimated by the Company's engineering staff. The additional disclosures that include volumes attributable to a volumetric production payment set forth in the following tables are presented as additional information and are not intended to represent required disclosure pursuant to SFAS No. 69 — "Disclosures about Oil and Gas Producing Activities."

	United States	Canada	Trinidad	India	Total
Natural Gas (Bcf)					
Net proved reserves at December 31, 1993	1,313.2	271.0	100.5	-	1,684.7
Additional disclosures:					
Volumes attributable to volumetric production payment	87.5	-	-	-	87.5
Net proved reserves at December 31, 1993, including volumes attributable to volumetric production payment	1,400.7	271.0	100.5	-	1,772.2
Net proved reserves at December 31, 1993	1,313.2	271.0	100.5	-	1,684.7
Revisions of previous estimates	(17.1)	(6.5)	15.0	-	(8.6)
Purchases in place	18.8	9.2	-	29.3	57.3
Extensions, discoveries and other additions	233.8	50.2	113.9	-	397.9
Sales in place	(29.3)	(1.0)	-	-	(30.3)
Production	(212.0)	(26.3)	(23.2)	-	(261.5)
Net proved reserves at December 31, 1994	1,307.4	296.6	206.2	29.3	1,839.5

(Continued on next page)

	United States	Canada	Trinidad	India	Total
Additional disclosures:					
Volumes attributable to volumetric production payment	70.9	-	-	-	70.9
Net proved reserves at December 31, 1994, including volumes attributable to volumetric production payment	1,378.3	296.6	206.2	29.3	1,910.4
Liquids (MBbl)(1)					
Net proved reserves at December 31, 1993	13,172	5,471	2,218	-	20,861
Revisions of previous estimates	2,179	(177)	455	-	2,457
Purchases in place	358	-	-	7,617	7,975
Extensions, discoveries and other additions	5,332	2,848	2,687	-	10,867
Sales in place	(257)	-	-	-	(257)
Production	(2,997)	(905)	(931)	(32)	(4,865)
Net proved reserves at December 31, 1994	17,787	7,237	4,429	7,585	37,038

	United States	Canada	Trinidad	India	Total
Net proved developed reserves at					
Natural Gas (Bcf)					
December 31, 1993	1,079.8	250.6	71.4	-	1,401.8
December 31, 1994	1,128.2	288.3	206.2	-	1,622.7
Liquids (MBbl)(1)					
December 31, 1993	11,165	5,409	1,591	-	18,165
December 31, 1994	16,770	7,073	4,429	7,585	35,857

	United States	Canada	Trinidad	India	Total
Net proved developed reserves, including amounts attributable to volumetric production payment at					
Natural Gas (Bcf)					
December 31, 1993	1,167.3	250.6	71.4	-	1,489.3
December 31, 1994	1,199.1	288.3	206.2	-	1,693.6
Liquids (MBbl)(1)					
December 31, 1993	11,165	5,409	1,591	-	18,165
December 31, 1994	16,770	7,073	4,429	7,585	35,857

(1) Includes crude oil, condensate and natural gas liquids.

Estimates of proved and proved developed reserves at December 31, 1993 and 1994 were based on studies performed by the Company's engineering staff for reserves in the United States, Canada, Trinidad and India. Opinions by DeGolyer and MacNaughton, independent petroleum consultants, for the years ended December 31, 1993 and 1994 covering producing areas containing 65% and 59%, respectively, of proved reserves of the Company on a net-equivalent-cubic-feet-of-gas basis, indicate that the estimates of proved reserves prepared by the Company's engineering staff for the properties reviewed by DeGolyer and MacNaughton, when compared in total on a net-equivalent-cubic-feet-of-gas basis, do not differ materially from the estimates prepared by DeGolyer and MacNaughton. Such estimates by DeGolyer and MacNaughton in the aggregate varied by not more than 5% from those prepared by the Company's engineering staff. All reports by DeGolyer and MacNaughton were developed utilizing geological and engineering data provided by the Company.

There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures, including many factors beyond the control of the producer. The reserve data set forth herein represent only estimates. Reserve engineering is a subjective process of estimating underground accumulations of natural gas and liquids, including crude oil, condensate and natural gas liquids, that cannot be measured in an exact manner. The accuracy of any reserve estimate is a function of the amount and quality of available data and of engineering and geological interpretation and judgment. As a result, estimates of different engineers normally vary. In addition, results of drilling, testing and production subsequent to the date of an estimate may justify revision of such estimate. Accordingly, reserve estimates are often different from the quantities ultimately recovered. The meaningfulness of such estimates is highly dependent upon the accuracy of the assumptions upon which they were based.

In general, the volume of production from oil and gas properties owned by the Company declines as reserves are depleted. Except to the extent the Company acquires additional properties containing proved reserves or conducts successful exploration and development activities, or both, the proved reserves of the Company will decline as reserves are produced. Volumes generated from future activities of the Company are therefore highly dependent upon the level of success in acquiring or finding additional reserves and the costs incurred in doing so.

Acreage

The following tables summarize the Company's developed and undeveloped acreage at December 31, 1994 and September 30, 1995. Excluded is acreage in which the Company's interest is limited to owned royalty, overriding royalty and other similar interests.

	Developed		Undeveloped		Total	
	Gross	Net	Gross	Net	Gross	Net
At December 31, 1994:						
United States	978,427	637,870	1,952,656	1,705,716	2,931,083	2,343,586
Canada	501,989	307,996	437,523	353,550	939,512	661,546
India	60,000	18,000	602,207	180,662	662,207	198,662
Trinidad	4,200	3,990	74,851	71,108	79,051	75,098
Other International	–	–	13,913,600	11,756,800	13,913,600	11,756,800
Total	1,544,616	967,856	16,980,837	14,067,836	18,525,453	15,035,692
At September 30, 1995:						
United States	1,554,024	661,647	2,321,727	1,775,151	3,875,751	2,436,798
Canada	559,534	335,559	424,302	349,503	983,836	685,062
India	60,000	18,000	602,207	180,662	662,207	198,662
Trinidad	4,200	3,990	74,851	71,108	79,051	75,098
Other International	–	–	13,422,400	11,773,100	13,422,400	11,773,100
Total	2,177,758	1,019,196	16,845,487	14,149,524	19,023,245	15,168,720

Drilling and Acquisition Activities

During the years ended December 31, 1992, 1993 and 1994 and the nine months ended September 30, 1995 the Company spent approximately $396, $430, $494 and $401 million, respectively, for exploratory and development drilling and acquisition of leases and producing properties. The Company drilled, participated in the drilling of or acquired wells as set out in the table below for the periods indicated:

	Year Ended December 31,						Nine Months Ended September 30,	
	1992		1993		1994		1995	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Development Wells Completed								
Domestic								
*Gas	484	399.06	352	279.00	308	244.23	99	77.78
Oil	19	10.80	45	19.01	34	29.57	36	32.06
Dry	64	56.12	59	46.83	41	32.15	38	30.80
Total	567	465.98	456	344.84	383	305.95	173	140.64
International								
Gas	2	2.00	227	190.10	250	190.30	116	107.66
Oil	13	11.70	4	3.50	11	5.10	13	8.21
Dry	5	4.05	11	7.60	13	11.50	11	8.38
Total	20	17.75	242	201.20	274	206.90	140	124.25
Total Development	587	483.73	698	546.04	657	512.85	313	264.89
Exploratory Wells Completed								
Domestic								
Gas	11	8.72	14	10.03	13	9.80	4	2.52
Oil	1	.40	3	2.50	3	2.57	3	2.63
Dry	16	13.42	32	22.08	23	18.17	6	4.47
Total	28	22.54	49	34.61	39	30.54	13	9.62
International								
Gas	7	5.75	14	11.40	9	7.90	2	1.24
Oil	4	3.69	2	.90	1	.50	2	2.00
Dry	4	2.85	10	7.35	14	12.50	5	3.70
Total	15	12.29	26	19.65	24	20.90	9	6.94
Total Exploratory	43	34.83	75	54.26	63	51.44	22	16.56
Total	630	518.56	773	600.30	720	564.29	335	281.45
Wells in Progress at end of period	82	60.75	82	61.09	45	28.79	53	38.72
Total	712	579.31	855	661.39	765	593.08	388	320.17
Wells Acquired								
Gas	641	597.29*	44	26.44*	41	40.90*	271	97.37*
Oil	28	25.80*	-	12.80*	60	38.99*	5	.93*
Total	669	623.09	44	39.24	101	79.89	276	98.30

* Includes the acquisition of additional interests in certain wells in which the Company previously held an interest.

All of the Company's drilling activities are conducted on a contract basis with independent drilling contractors. The Company owns no drilling equipment.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following table sets forth a summary of selected consolidated financial and operating information for the Company for each of the five years in the period ended December 31, 1994 and the nine-month periods ended September 30, 1994 and 1995. This information should be read in conjunction with the consolidated financial statements of the Company and related notes thereto incorporated by reference herein (see "Incorporation of Certain Documents by Reference") and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Prospectus. Financial information for each of the five years in the period ended December 31, 1994 has been derived from audited financial statements. Financial information for the nine-month periods ended September 30, 1994 and 1995 has been derived from unaudited financial statements. The interim data reflects all adjustments which, in the opinion of the management of the Company, are necessary to present fairly such information for the interim periods. Results of the nine-month periods are not necessarily indicative of the results expected for a full year or any other interim period.

	Year Ended December 31,					Nine Months Ended September 30,	
	1990	1991	1992	1993	1994	1994	1995
	(In Thousands, Except Per Share Amounts)						
Statement of Income Data:							
Net operating revenues							
Natural gas	$ 301,645	$ 321,603	$ 388,988	$ 505,162	$ 489,893	$ 365,654	$ 332,015
Crude oil, condensate and natural gas liquids	66,165	62,836	58,927	55,834	76,338	52,632	90,342
Gains on sales of reserves and related assets	31,802	14,983	6,037	13,318	54,014	52,212	62,546
Other	3,525	3,166	5,074	6,706	5,578	3,842	7,439
Total	403,137	402,588	459,026	581,020	625,823	474,340	492,342
Operating expenses							
Lease and well	43,806	49,922	49,406	59,344	60,384	44,782	52,918
Exploration	35,031	31,470	33,278	36,921	41,811	29,647	31,590
Dry hole	12,986	14,696	10,764	18,355	17,197	10,803	8,586
Impairment of unproved oil and gas properties	20,571	12,791	15,136	20,467	24,936	17,364	20,453
Depreciation, depletion and amortization	155,877	160,885	179,839	249,704	242,182	181,645	157,875
General and administrative	38,254	36,218	36,648	45,274	51,418	38,050	41,186
Taxes other than income	22,966	18,222	28,346	35,396	28,254	22,010	25,606
Total	329,491	324,204	353,417	465,461	466,182	344,301	338,214
Operating income	73,646	78,384	105,609	115,559	159,641	130,039	154,128
Other income (expense)	(2,153)	(3,215)	(3,476)	6,635	2,783	2,238	(1,143)
Interest expense (net of interest capitalized)	36,879	29,500	22,289	9,921	8,489	6,111	8,810
Income before income taxes	34,614	45,669	79,844	112,273	153,935	126,166	144,175
Income tax provision (benefit)(1)	(10,854)	(2,247)	(17,736)	(25,752)(2)	5,937(3)	20,728	33,444(4)
Net income	$ 45,468	$ 47,916	$ 97,580	$ 138,025	$ 147,998	$ 105,438	$ 110,731
Earnings per share of common stock(5)	$ .30	$ .32	$ .63	$ .86	$ .93	$ .66	$ .69
Average number of common shares(5)	151,800	151,800	154,533	159,996	159,845	159,826	159,951
Balance Sheet Data (at period end):							
Net oil and gas properties	$1,306,136	$1,339,666	$1,468,011	$1,546,045	$1,684,811	$1,637,762	$1,843,150
Total assets	1,417,939	1,455,606	1,731,012	1,811,162	1,861,867	1,855,819	2,109,971
Long-term debt							
Affiliate	277,918	132,836	-(6)	-	25,000	25,000	16,320
Other	140,442	289,556	150,000(6)	153,000	165,337	158,862	247,552
Deferred revenue	-	-	301,396	227,528	184,183	195,109	224,085
Shareholders' equity	610,042	643,185	826,986(6)	933,073	1,043,419	1,019,712	1,140,295

(Continued on next page)

	Year Ended December 31,					Nine Months Ended September 30,	
	1990	1991	1992	1993	1994	1994	1995
Operating Data:							
Wellhead Volumes and Prices							
Natural Gas Volumes (MMcf per day)							
United States(7)	437	466	534	649	613	609	534
Canada	18	25	30	58	73	71	75
Trinidad	-	-	-	2	63	63	110
Total(7)	455	491	564	709	749	743	719
Average Natural Gas Prices ($/Mcf)							
United States	$ 1.51	$ 1.38	$ 1.61	$ 1.97	$ 1.71	$ 1.79	$ 1.33
Canada	1.47	1.32	1.16	1.34	1.42	1.51	.95
Trinidad	-	-	-	.89	.93	.93	.97
Composite	1.51	1.37	1.58	1.92	1.62	1.69	1.23
Crude/Condensate Volumes (MBbl per day)							
United States	5.8	5.9	6.3	6.6	8.0	7.5	9.1
Canada	2.4	2.3	2.2	2.2	2.0	1.9	2.4
Trinidad	-	-	-	.1	2.5	2.6	4.8
India	-	-	-	-	.1	-	2.3
Total	8.2	8.2	8.5	8.9	12.6	12.0	18.6
Average Crude/Condensate Prices ($/Bbl)							
United States	$21.95	$19.24	$18.29	$16.96	$16.06	$15.64	$17.20
Canada	21.01	17.58	16.80	14.63	14.05	13.72	16.31
Trinidad	-	-	-	14.36	15.50	15.20	16.16
India	-	-	-	-	15.70	-	16.82
Composite	21.67	18.78	17.90	16.37	15.62	15.24	16.77
Natural Gas Liquids Volumes (MBbl per day)							
United States	.4	.3	.3	.2	.3	.2	1.2
Canada	-	.3	.4	.4	.4	.5	.3
Total	.4	.6	.7	.6	.7	.7	1.5
Average Natural Gas Liquids Prices ($/Bbl)							
United States	$10.59	$10.79	$11.56	$13.85	$12.45	$12.50	$11.76
Canada	-	12.48	10.05	9.46	8.45	7.86	9.69
Composite	10.59	11.64	10.69	11.12	9.90	9.43	11.27

(1) Includes benefits of approximately $17 million, $43 million, $65 million and $36 million in 1991, 1992, 1993 and 1994, respectively, and $29 million and $16 million in the nine-month periods ended September 30, 1994 and 1995, respectively, relating to tight gas sand federal income tax credits and $25 million and $7 million in 1990 and 1991, respectively, associated with the utilization of a net operating loss carryforward.

(2) Includes a benefit of $12 million from the reduction of the Company's deferred federal income tax liability resulting from a reevaluation of deferred tax requirements partially offset by an approximate $7 million predominantly non-cash charge primarily to adjust the Company's accumulated deferred income tax liability for the increase in the corporate federal income tax rate from 34% to 35%.

(3) Includes a benefit of approximately $8 million related to reduced estimated state income taxes and certain franchise taxes, a portion of which is treated as income tax under SFAS No. 109 – "Accounting for Income Taxes", and a $5 million benefit from the reduction of the Company's deferred federal income tax liability resulting from a reevaluation of deferred tax requirements.

(4) Includes a $12 million benefit associated with the successful resolution on audit of federal income taxes for certain prior years.

(5) In May 1994, the Board of Directors declared a two-for-one split of the Company's Common Stock to be effected as a non-taxable dividend of one share for each share outstanding. Shares were issued on June 15, 1994 to shareholders of record as of May 31, 1994. All share and per share amounts presented herein are reflected on a post-split basis.

(6) In August 1992, the Company completed the sale of an additional 8.2 million shares of Common Stock resulting in aggregate net proceeds to the Company of approximately $112 million used primarily to repay long-term debt. In September 1992, the Company completed the sale of a volumetric production payment, resulting in net proceeds of approximately $327 million used to repay long-term debt and for other general corporate purposes.

(7) Includes 28 MMcf per day in 1992, 81 MMcf per day in 1993 and 48 MMcf per day in 1994 and in the nine-month periods ended September 30, 1994 and 1995 delivered under the terms of a volumetric production payment effective October 1, 1992, as amended.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following review of operations for each of the three years in the period ended December 31, 1994 and for the nine-month periods ended September 30, 1994 and 1995 should be read in conjunction with the consolidated financial statements of the Company and notes thereto and other financial data incorporated by reference herein. See "Incorporation of Certain Documents by Reference."

Results of Operations

Net Operating Revenues

Wellhead volume and price statistics for the specified periods were as follows:

	Year Ended December 31,			Nine Months Ended September 30,	
	1992	1993	1994	1994	1995
Natural Gas Volumes (MMcf per day)					
North America(1)	564	707	686	680	609
Trinidad	-	2	63	63	110
Total	564	709	749	743	719
Average Natural Gas Prices ($/Mcf)					
North America(2)	$ 1.58	$ 1.92	$ 1.68	$ 1.76	$ 1.28
Trinidad	-	.89	.93	.93	.97
Composite	1.58	1.92	1.62	1.69	1.23
Crude/Condensate Volumes (MBbl per day)					
North America	8.5	8.8	10.0	9.4	11.5
Trinidad	-	.1	2.5	2.6	4.8
India	-	-	.1	-	2.3
Total	8.5	8.9	12.6	12.0	18.6
Average Crude/Condensate Prices ($/Bbl)					
North America	$ 17.90	$ 16.39	$ 15.65	$15.25	$17.01
Trinidad	-	14.36	15.50	15.20	16.16
India	-	-	15.70	-	16.82
Composite	17.90	16.37	15.62	15.24	16.77

(1) Includes 28 MMcf per day in 1992, 81 MMcf per day in 1993 and 48 MMcf per day in 1994 and in the nine-month periods ended September 30, 1994 and 1995 delivered under the terms of volumetric production payment and exchange agreements effective October 1, 1992, as amended.

(2) Includes an average equivalent wellhead value of $1.70 per Mcf in 1992, $1.57 per Mcf in 1993, $1.27 per Mcf in 1994 and $1.32 per Mcf and $.76 per Mcf in the nine-month periods ended September 30, 1994 and 1995, respectively, for the volumes detailed in note (1), net of transportation costs.

Nine months 1995 compared to nine months 1994. During the first nine months of 1995, net operating revenues increased $18 million to $492 million as compared to the same period in 1994.

Average wellhead natural gas prices for the first nine months of 1995 were down approximately 27% from the same period in 1994 reducing net operating revenues by approximately $90 million. In addition, a decrease of 3% in wellhead natural gas volumes from the first nine months of 1994 reduced net operating revenues by approximately $11 million. The Company voluntarily curtailed its United States wellhead natural gas delivered volumes by an average of approximately 140 MMcf per day during the first nine months of 1995 compared to approximately 110 MMcf per day during the same period in 1994 due to significantly lower United States wellhead natural gas prices. In addition, the impact of the sales of oil and gas reserves and related assets (net of purchases of similar assets) resulted in a reduction of approximately 40 MMcf per day in delivered volumes for the first nine months of 1995 as compared to the first nine months of 1994. The Company refocused its 1995 drilling activity away from natural gas deliverability and toward natural gas reserve enhancement and crude oil exploitation in the United States in response to the significant decline in United States natural gas prices in recent periods. Wellhead crude oil and condensate average prices increased 10% adding approximately $8 million to net operating revenues compared to the first nine months of 1994. Crude oil and condensate wellhead volumes increased 55% adding approximately $27 million to net operating revenues compared to the same period a year ago primarily reflecting new production on stream offshore India, and higher volumes offshore Trinidad and in North America.

Other marketing activities associated with sales and purchases of natural gas, natural gas price swap transactions, other commodity price hedging of natural gas and crude oil and condensate prices utilizing NYMEX-related commodity market transactions, and volumetric production payment related margins added approximately $91 million to net operating revenues during the first nine months of 1995, an increase of approximately $67 million from the same period in 1994. This increase primarily resulted from a gain of $51 million on natural gas commodity price hedging activities utilizing NYMEX-related commodity market transactions in the first nine months of 1995 compared to a $2 million loss during the same period in 1994 and increased margins associated with other natural gas marketing activities. The average associated costs of natural gas marketing, price swap and volumetric production payment transactions, including, where appropriate, average wellhead value, transportation costs and exchange differentials, decreased $.64 per Mcf. The average price received for these transactions decreased $.54 per Mcf. Related other natural gas marketing volumes decreased 19%. The reduction in other natural gas marketing volumes and prices relates primarily to the exchange of the fuel contracts noted below, lower wellhead market prices and decreased other marketing activities. The $.10 per Mcf margin increase partially offset by the reduction in other natural gas marketing volumes increased net operating revenues by approximately $3 million compared to the first nine months of 1994. The Company realized an $11 million gain in the first nine months of 1995 related to certain NYMEX-related commodity market transactions with an Enron Corp. affiliated company that were designated for trading purposes in late 1994. The Company had no open trading positions at September 30, 1995. See "Trading Transactions."

In March 1995, the Company exchanged existing fuel supply and purchase contracts and related price swap agreements associated with a Texas City cogeneration plant for certain natural gas price swap agreements of equivalent value issued by an Enron Corp. affiliated company. As a result of these transactions, the Company realized a $8.4 million increase in net operating revenues in the first nine months of 1995 over the amount realized from the exchanged fuel supply and purchase contracts in the same period of 1994. See "Relationship Between the Company and Enron Corp. – Contractual Agreements."

Gains on sales of reserves and related assets during the first nine months of 1995 increased $10 million to $63 million when compared to the same period in 1994 which increase was attributable to the Company's continuing efforts in optimizing the use of its assets.

1994 compared to 1993. During 1994, net operating revenues increased to $626 million, up $45 million as compared to 1993.

Average wellhead natural gas volumes increased approximately 6% compared to 1993 primarily reflecting the effects of development activities offshore Trinidad and in Canada partially offset by voluntary curtailments of production in the United States in 1994. The volume reductions in the United States as a result of voluntary curtailments were more than offset by the new natural gas deliveries from the Kiskadee field offshore Trinidad and increased deliveries in Canada. The increase in wellhead natural gas volumes added $28 million to net operating revenues. Average wellhead natural gas prices were down significantly from 1993 reducing net operating revenues by approximately $83 million. This 16% reduction in average wellhead natural gas prices reflects the overall decline in the United States natural gas markets during the last half of 1994 and increased volumes offshore Trinidad sold under a long-term contract at a price considerably below North America spot market prices. A 42% increase in wellhead crude oil and condensate volumes over 1993 added $22 million to net operating revenues primarily reflecting development activities offshore Trinidad and increased production in the United States. A 5% decrease in wellhead crude oil and condensate average prices decreased net operating revenues by approximately $3 million.

Other marketing activities associated with sales and purchases of natural gas, natural gas and crude oil price swap transactions, other commodity price hedging of natural gas and crude oil prices utilizing NYMEX-related commodity market transactions, and margins relating to the volumetric production payment added $50 million to net operating revenues during 1994. This increase of $41 million from the same period in 1993 primarily results from a gain of $11 million on natural gas commodity price hedging activities utilizing NYMEX-related commodity market transactions in 1994 versus an $18 million loss during 1993 and increased margins associated with other natural gas marketing activities. The average associated costs of natural gas marketing, price swap and volumetric production payment transactions, including, where appropriate, average wellhead value, transportation costs and exchange differentials, decreased $.26 per Mcf. The average price received for these transactions decreased $.19 per Mcf. Related other natural gas marketing volumes increased 10%.

Gains on sales of selected oil and gas reserves and related assets were $54 million in 1994 as compared to $13 million in 1993. While the quantity of equivalent reserves sold in 1994 was slightly less than 1993, higher average proceeds received per equivalent unit in 1994 as compared to 1993 primarily contributed to the increased gain recognition. In continuing its strategy of fully utilizing its assets in optimizing profitability, cash flow and return on investments, the Company expects to continue the sale of similar properties from time to time.

1993 compared to 1992. During 1993, net operating revenues increased to $581 million, up $122 million as compared to 1992.

Average wellhead natural gas volumes increased approximately 26% compared to 1992 primarily reflecting the effects of exploration and development activities relating to tight gas sand formations. Wellhead natural gas delivered volumes were curtailed less during portions of 1993 than for the comparable periods in 1992 due to the significant increases realized in wellhead natural gas prices in 1993. Average wellhead natural gas prices were up approximately 22% in 1993 over those received in 1992, adding approximately $87 million to net operating revenues. Increases in wellhead natural gas volumes in 1993 added $83 million to net operating revenues compared to 1992. Average wellhead crude oil and condensate prices in 1993 were down 9% compared to 1992, reducing net operating revenues by $5 million. Increases in wellhead crude oil and condensate volumes in 1993 added approximately $2 million to net operating revenues compared to 1992.

Other marketing activities associated with sales and purchases of natural gas, natural gas price swap transactions, other commodity price hedging of natural gas and crude oil and condensate prices utilizing NYMEX-related commodity market transactions, and margins relating to the volumetric production payment added $8 million to net operating revenues during 1993. This decrease of $54 million from 1992 primarily results from shrinking margins associated with sales under long-term fixed price contracts and amortization of volumetric production payment deferred revenue due to increases in market responsive natural gas prices associated with volumes supplying these dispositions and losses on natural gas commodity price hedging activities utilizing NYMEX-related commodity market transactions. The average associated costs of natural gas marketing, price swap and volumetric production payment transactions, including, where appropriate, average wellhead value, transportation costs and exchange differentials, increased $.33 per Mcf. Related other natural gas marketing volumes increased 15%.

The impact of the other marketing activities, a substantial portion of which serve as hedges of commodity price risks for a portion of wellhead deliveries for the respective periods, were more than offset by reductions in revenues associated with market responsive prices for wellhead deliveries during those periods.

Operating Expenses

Nine months 1995 compared to nine months 1994. During the first nine months of 1995, operating expenses of $338 million were $6 million lower than the $344 million incurred in the same period in 1994. Lease and well expenses increased approximately $8 million to $53 million primarily due to expanded international operations including the initiation of operations in India in late December 1994 partially offset by reductions in United States lease and well expenses. Exploration expenses increased $2 million to $32 million due to increased exploration activities. Impairment of unproved oil and gas properties for the first nine months of 1995 increased $3 million from the comparable period a year ago primarily due to impairments associated with certain offshore Gulf of Mexico leases. Depreciation, depletion and amortization ("DD&A") expense decreased $24 million to $158 million reflecting a decrease in the average DD&A rate from $.81 per Mcfe in the first nine months of 1994 to $.69 per Mcfe in the first nine months of 1995. The DD&A rate decrease is primarily attributable to increased production from international operations with lower average DD&A rates than incurred for North America operations. General and administrative expenses increased approximately $3 million to $41 million due to expanded international activities and overall higher costs associated with certain employee related expenses. Taxes other than income were $4 million higher in the first nine months of 1995 compared to the same period in 1994 primarily due to a reduction included in 1994 associated with state franchise taxes and higher production related taxes associated with new production in India in the first nine months of 1995 partially offset by decreases in state severance taxes due to lower taxable North America wellhead volumes and average prices in 1995.

The Company reduced its total per unit operating costs for lease and well expense, DD&A, general and administrative expense, interest expense, and taxes other than income by $.06 per Mcfe, averaging $1.25 per Mcfe during the first nine months of 1995 compared to $1.31 per Mcfe during the same period in 1994. This decrease is primarily attributable to the reduction in the average DD&A rate as noted above partially offset by increases in per unit lease and well, general and administrative expenses, and taxes other than income.

1994 compared to 1993. During 1994, total operating expenses of $466 million were approximately $1 million higher than the $465 million incurred in 1993. Lease and well expenses of $60 million were approximately $1 million higher than 1993 primarily due to increased expenses related to new operations offshore Trinidad partially offset by cost reductions in North America. Exploration expenses of $42 million increased $5 million from the previous year primarily due to an increased level of exploration activities. Impairment of unproved oil and gas properties increased $4 million from 1993 primarily due to impairments associated with certain offshore Gulf of Mexico leases. DD&A expense decreased from $250 million in 1993 to $242 million in 1994 reflecting a $.09 per Mcfe decrease in the average DD&A rate to $.80 per Mcfe. The rate decrease is primarily due to increased production from offshore Trinidad at an average DD&A rate significantly less than the North America operations DD&A rate and a $.03 per Mcfe reduction in the North America operations DD&A rate. General and administrative expenses increased $6 million to $51 million primarily due to overall higher costs associated with expanded international and domestic operations. Taxes other than income decreased approximately $7 million from 1993 primarily due to lower taxable United States wellhead volumes and prices and reductions included in 1994 related to revisions of certain prior year production taxes. Included in 1994 and 1993 are benefits associated with reductions in state franchise taxes of $4 million and $3 million, respectively. The Company continues to benefit from certain state severance tax exemptions allowed on high cost natural gas volumes.

Total per unit operating costs for lease and well expense, DD&A, general and administrative expense, interest expense, and taxes other than income decreased $.14 per Mcfe, averaging $1.29 per Mcfe during 1994 compared to $1.43 per Mcfe for 1993. The decrease was primarily due to per unit reductions in DD&A and taxes other than income as discussed above.

1993 compared to 1992. During 1993, total operating expenses of $465 million were $112 million higher than the $353 million incurred in 1992. Lease and well expenses increased approximately $10 million primarily due to expanded domestic and international operations. Exploration expenses increased approximately $4 million primarily due to increased exploration activities in North America. An unsuccessful Gulf of Mexico well added nearly $4 million to dry hole expenses and a related $3 million to lease impairments in 1993. Dry hole expenses also reflect the impact of increased drilling activity outside North America. DD&A expense increased $70 million to $250 million reflecting an increase in production volumes and an average DD&A rate increase from $.79 per Mcfe in 1992 to $.89 per Mcfe for 1993. The DD&A rate increase is primarily due, as expected, to factors associated with the tight gas sands drilling program which costs are being more than offset by benefits realized in the form of tight gas sand federal income tax credits and certain state severance tax exemptions. General and administrative expenses increased almost $9 million to $45 million primarily reflecting cost reductions included in 1992 related to changes associated with certain employee compensation plans and overall higher costs in 1993 due to an expansion of domestic and international operations. Taxes other than income increased $7 million primarily due to increased production volumes and revenues in 1993, partially offset by continuing benefits associated with certain state severance tax exemptions allowed on high cost natural gas volumes and a $3 million reduction of state franchise taxes resulting from refunds of prior year payments received in 1993.

Total per unit operating costs for lease and well expense, DD&A, general and administrative expense, interest expense, and taxes other than income increased $.03 per Mcfe, averaging $1.43 per Mcfe during 1993 compared to $1.40 per Mcfe for 1992. The total increase was associated with DD&A expense which was up $.10 per Mcfe as noted above being partially offset by a reduction of $.07 Mcfe in all other costs.

Other Income

Other income for 1993 includes $4 million in interest income associated with the investment of funds temporarily surplus to the Company and $4 million associated with settlements related to the termination of certain long-term natural gas contracts.

Interest Expense

Net interest expense for the first nine months of 1995 was up $3 million as compared to the same period in 1994 reflecting primarily a higher level of debt outstanding during the 1995 period.

Net interest expense in 1994 decreased approximately $1 million to $8 million as compared to 1993 primarily due to favorable interest rates on new financing acquired by a subsidiary of the Company for operations offshore Trinidad and the retirement of higher interest rate debt. The estimated fair value of outstanding interest rate swap agreements at December 31, 1994 was a negative $0.5 million based on termination values obtained from third parties.

Net interest expense decreased $12 million, or 55%, to $10 million in 1993 as compared to 1992 reflecting the repayment of a substantial portion of the Company's long-term debt in 1992 with proceeds from the sale of common stock in August 1992 and the sale of a volumetric production payment in September 1992. The estimated fair value of outstanding interest rate swap agreements at December 31, 1993 was a negative $3.3 million based upon termination values obtained from third parties.

Income Taxes

Income tax provision increased $13 million for first nine months of 1995 as compared to the same period in 1994 primarily resulting from higher income before income taxes and lower benefits associated with tight gas sand federal income tax credits utilized in the first nine months of 1995 as compared to the same period in 1994 partially offset by a $12 million benefit associated with the successful resolution on audit of federal income taxes for certain prior years.

Income tax provision in 1994 includes a benefit of approximately $36 million associated with tight gas sand federal income tax credit utilization, a benefit of approximately $8 million related to reduced estimated state income taxes and a portion of certain franchise taxes which is treated as income tax under SFAS No. 109, and a $5 million benefit from the reduction of the Company's deferred federal income tax liability resulting from a reevaluation of deferred tax requirements.

Income tax benefit in 1993 includes a benefit of approximately $65 million associated with tight gas sand federal income tax credit utilization, an approximate $7 million predominantly one-time non-cash charge recorded in the third quarter of 1993 primarily to adjust the Company's accumulated deferred federal income tax liability for the increase in the corporate federal income tax rate from 34% to 35% and a $12 million benefit from the reduction of the Company's deferred federal income tax liability resulting from a reevaluation of deferred tax requirements.

Capital Resources and Liquidity

Cash Flow

The primary sources of cash for the Company during the nine-month period ended September 30, 1995 and for each of the years in the three-year period ended December 31, 1994 included funds generated from operations, the sale of Common Stock, the sale of a volumetric production payment, proceeds from the sale of selected oil and gas reserves and related assets and the issuance of debt. Primary cash outflows during these periods included funds used in operations, exploration and development expenditures, dividends and the repayment of debt.

Discretionary cash flow, a frequently used measure of performance for exploration and production companies, is generally derived by adjusting net income to eliminate the effects of depreciation, depletion and amortization, impairment of unproved oil and gas properties, deferred taxes, gains on sales of oil and gas reserves and related assets, certain other miscellaneous non-cash amounts, except for amortization of deferred revenue, and exploration and dry hole expenses. However, based on the continuing practice of the Company of selling selected oil and gas reserves and related assets in furtherance of its strategy of fully utilizing its assets in optimizing profitability, cash flow and return on investments, it believes that net proceeds from these transactions should also be considered as available discretionary cash flow and accordingly is presenting those values for all periods shown. The Company generated discretionary cash flow of $387 million during the first nine months of 1995, a 3% decrease from the $401 million generated for the same period in 1994, primarily reflecting lower net operating revenues, higher cash expenses and a decrease in benefits associated with tight gas sand federal income tax credits. The Company generated discretionary cash flow of approximately $514 million in 1994, $521 million in 1993 and $346 million in 1992. The 1993 amount includes $50 million associated with a federal income tax refund resulting from the settlement on audit of federal income taxes paid in certain prior years.

Net operating cash flows for the first nine months of 1995 and for each of the years in the three-year period ended December 31, 1994 have been revised to reflect proceeds from the sale of a volumetric production payment during 1992 and the elimination of the related amortization of deferred revenues as net operating cash flows rather than as investing cash flows as previously reported. Net operating cash flows of $229 million for the first nine months of 1995 decreased approximately $72 million as compared to the same period in 1994 primarily reflecting the same factors addressed above with regard to discretionary cash flow and higher working capital requirements. Net operating cash flows were approximately $383 million in 1994, $406 million in 1993, and

$608 million in 1992. Decreased 1994 net operating cash flows were primarily due to the receipt in 1993 of a refund on settlement on audit of federal income taxes paid in certain prior years. Decreased 1993 net operating cash flows were primarily due to the receipt in 1992 of $327 million of proceeds from the sale of a volumetric production payment, increased net operating revenues and a decrease in provision for current taxes resulting from both increased tight gas sand federal income tax credit utilization and the receipt of a refund on settlement on audit of federal income taxes paid in certain prior years. In accordance with the requirements of SFAS No. 95 – "Statement of Cash Flows", net proceeds from the sale of selected oil and gas reserves and related assets are not included in the determination of net operating cash flows.

Sale of Selected Oil and Gas Reserves and Related Assets

During the first nine months of 1995, the Company received proceeds of $101 million from the sale of selected oil and gas reserves and related assets compared to $82 million received in the first nine months of 1994. Taxable gains from the first nine months of 1995 sales generated income taxes of $24 million leaving, net proceeds of $77 million. During 1994, the Company received proceeds of $91 million from the sale of selected oil and gas reserves and related assets compared to $42 million received in 1993. While the quantity of equivalent reserves sold in 1994 was slightly less than 1993, higher average proceeds received per equivalent unit of reserves sold in 1994 as compared to 1993 resulted in significantly higher 1994 proceeds. Taxable gains resulting from the 1994 sales generated income taxes of $20 million, leaving net proceeds of $71 million. Taxable gains resulting from such sales in 1993 generated federal income taxes of $8 million, leaving net proceeds of $34 million.

Sale of Volumetric Production Payment

In September 1992, the Company sold a volumetric production payment for $326.8 million to a limited partnership. Under the terms of the production payment agreements, the Company conveyed a real property interest in approximately 124 Bcfe (136 TBtu) of certain natural gas and other hydrocarbons to the purchaser. Effective October 1, 1993, the agreements were amended providing for the extension of the original term of the volumetric production payment through March 31, 1999 and including a revised schedule of daily quantities of hydrocarbons to be delivered which is approximately one-half of the original schedule. The revised schedule will total approximately 89.1 Bcfe (97.8 TBtu) versus approximately 87.9 Bcfe (96.4 TBtu) remaining to be delivered under the original agreement. Daily quantities of hydrocarbons no longer required to be delivered under the revised schedule during the period from October 1, 1993 through June 30, 1996 are available for sale by the Company. The Company retains responsibility for its working interest share of the cost of operations. In accordance with generally accepted accounting principles, the Company accounted for the proceeds received in the transaction as deferred revenue which is being amortized into revenue and income as natural gas and other hydrocarbons are produced and delivered to the purchaser during the term, as revised, of the volumetric production payment thereby matching those revenues with the depreciation of asset values which remained on the balance sheet following the sale and the operating expenses incurred for which the Company retained responsibility. The Company expects the above transaction, as amended, to have minimal direct impact on future earnings. However, cash made available by the sale of the volumetric production payment has provided considerable financial flexibility for the pursuit of investment alternatives.

Exploration and Development Expenditures

The table below sets out components of actual exploration and development expenditures for the years ended December 31, 1992, 1993 and 1994, along with those estimated for the year 1995 and actual components of exploration and development expenditures for the nine-month periods ended September 30, 1994 and 1995.

Expenditure Category	1992	1993	1994	Nine Months Ended September 30, 1994	Nine Months Ended September 30, 1995
			(In Millions)		
Capital					
Drilling and Facilities	$260	$331	$342	$257	$225
Leasehold Acquisitions	23	29	52	32	17
Producing Property Acquisitions	65	9	34	14	114
Capitalized Interest and Other	14	14	14	10	9
Total	362	383	442	313	365
Exploration Expenses	44	55	59	41	40
Total	$406	$438	$501	$354	$405

Exploration and development expenditures for the first nine months of 1995 increased $51 million compared to the same period in 1994, and primarily reflect the acquisitions of selected properties to complement existing United States producing areas.

Exploration and development expenditures increased $63 million, or 14%, in 1994 compared to 1993. The increase primarily reflects the acquisitions of selected properties to compliment existing North America producing areas and the addition of new International activities in India. See "Business – Exploration and Production" for additional information detailing the specific geographic locations of the Company's drilling programs and "– Outlook" below for a discussion related to future exploration and development expenditure plans.

Exploration and development expenditures in 1993 increased to $438 million, an 8% increase, as compared to the $406 million expended in 1992. The increase was attributable to increased domestic drilling activity with reduced emphasis on development drilling expenditures associated with tight gas sand formations. The Company also implemented its first development program outside of North America during 1993, installing a jacket, platform and production facilities and initiating natural gas production from the Kiskadee field offshore the southeast coast of Trinidad.

Hedging Transactions

With the objective of enhancing the certainty of future revenues, the Company has, as of October 23, 1995, entered into hedging transactions for approximately 400 BBtu per day (approximately 381 MMcf per day) and 529 BBtu per day (approximately 504 MMcf per day) of its North America natural gas volumes for the last three months of 1995 and the year 1996, respectively. A significant portion of the 1995 and substantially all of the 1996 hedge transactions involve NYMEX-based commodity price swap agreements totaling 260 BBtu per day at an average price of $1.98 per MMBtu and 447 BBtu per day at an average price of $2.00 per MMBtu for the last three months of 1995 and the year 1996, respectively. The remaining hedge transactions of 140 BBtu per day and 82 BBtu per day for the last three months of 1995 and the year 1996, respectively, include notional and physical transactions that involve fixed price sales contracts and volumetric production payment and exchange agreements. Included in the 1996 hedge transactions are commodity price swap agreements totaling 200 BBtu per day of notional volumes at a weighted average NYMEX-based price of $1.97 per MMbtu which include one-time options exercisable by the counterparty on or before December 17, 1996 totaling 200 BBtu per day of notional volumes in 1997 and 1998 at the same weighted average NYMEX-based price of $1.97 per MMBtu. The Company has also, as of October 16, 1995, hedged approximately 10,100 Bbl per day and 9,600 Bbl per day of its North

America crude oil and condensate volumes using commodity price swap agreements at NYMEX-based West Texas Intermediate Crude Oil ("WTI") prices averaging $18.77 per Bbl and $18.90 per Bbl for the last three months of 1995 and the year 1996, respectively. Included in the 1995 and 1996 hedge transactions are commodity price swap agreements totaling up to 3,000 Bbl per day at WTI prices ranging between $18.70 and $18.80 per Bbl each of which includes a one-time option exercisable by the counterparty at various times up to and including December 31, 1996 and for various periods some of which extend through December 31, 2000 at the same respective NYMEX-based prices as are applicable in the individual agreements for the 1995 and 1996 periods. The Company continues to evaluate the potential for entering into and may enter into, additional hedging transactions related to certain of the remaining months in 1995, and in future years. In addition, the Company also may close out any portion of the existing or yet to be entered into hedges as determined appropriate by management of the Company.

Trading Transactions

Subsequent to September 30, 1995, the Company sold call options with a notional volume of 50 BBtu per day at an average price of $2.10 per MMBtu for the period January through December, 1996.

Financing

The Company's long-term debt-to-total-capital ratio was 19%, 15% and 14% as of September 30, 1995 and December 31, 1994 and 1993, respectively. The Company has entered into an agreement with Enron Corp. pursuant to which the Company may borrow funds from Enron Corp. at a representative market rate of interest on a revolving basis. During 1994, there were no funds borrowed by the Company under this agreement. During the first nine months of 1995, the average of the daily balances of funds borrowed by the Company under the agreement was $2.3million, and the balance at September 30, 1995 was $16.3 million. Under a promissory note effective January 1, 1993 at a fixed interest rate of 7%, the Company may advance funds temporarily surplus to the Company to Enron Corp. for investment purposes. Daily outstanding balances of funds advanced to Enron Corp. under the note averaged $200,000 during the first nine months of 1995 and $69 million during 1994 with no balance outstanding at December 31, 1994 or September 30, 1995. There was a balance of $7 million outstanding at December 31, 1994 under a commercial paper program initiated in 1990. Proceeds from the commercial paper program were used to fund current transactions. During 1994, total long-term debt increased $37 million to $190 million as a result of $23 million of new borrowings related to certain international drilling activities, a $7 million increase in commercial paper, and the recording of an $8 million capital lease obligation. The estimated fair value of the Company's long-term debt, including current maturities of $2 million and $30 million, at December 31, 1994 and 1993 was $186 million and $192 million, respectively, based upon quoted market prices and, where such prices were not available, upon interest rates currently available to the Company at year end.

Outlook

Uncertainty continues to exist as to the direction of future North America natural gas price trends and there is a wide divergence in the opinions held by some in the industry. However, recent history would tend to support, and it seems there is emerging among a larger number of industry representatives somewhat of a consensus, that natural gas prices will remain below parity with crude oil, condensate and natural gas liquids for some time. This situation is being impacted by improvements in the technology used in drilling and completing oil and gas wells that are tending to mitigate the impacts of fewer oil and gas wells being drilled, the deregulation of the natural gas market under Federal Energy Regulatory Commission Order 636 and subsequent related orders, and improvements being realized in the availability and utilization of natural gas storage capacity. However, the continually increasing recognition of natural gas as a more environmentally friendly source of energy along with the availability of significant domestically sourced supplies should result in further increases in demand and a supporting/strengthening of the overall natural gas market over time. Being primarily a natural gas producer, the Company is more significantly impacted by changes in natural gas prices than by changes in crude oil and condensate prices. Based on the portion of the Company's anticipated natural gas volumes for which prices have not, in effect, been hedged using NYMEX-related commodity market transactions, long-term marketing contracts and the sale of a volumetric production payment, the Company's net income and cash flow sensitivity to changing natural gas prices is approximately $4.0 million for each $.10 per Mcf change in average wellhead natural gas prices. Using various commodity price hedging mechanisms, the Company has, in effect, locked in prices for an average of about 50% of its anticipated wellhead natural gas volumes and about 30% of its anticipated wellhead crude oil and condensate volumes for the year 1995 and about 65% of its anticipated wellhead natural gas volumes and about 40% of its anticipated wellhead crude oil and condensate volumes for the year 1996. The percentage of volumes hedged may change during the remainder of 1995 and will change in future years.

Other factors representing positive impacts that are more certain continue to hold good potential for the Company in future periods. While the drilling qualification period for the tight gas sand federal income tax credit expired on December 31, 1992, the Company has continued in 1995, and should continue in the future, to realize significant benefits associated with production from wells drilled during the qualifying period as it will be eligible for the federal income tax credit through the year 2002. However, all other factors remaining equal, the annual benefit, which was $36 million in 1994 and is estimated to be approximately $21 million for 1995, is expected to continue to decline in future periods as production from the qualified wells declines. The drilling qualification period for a certain state severance tax exemption available on qualifying high-cost natural gas revenues continues through August 1996 in its current form and in a modified and somewhat reduced form from that point through August 2002. Consequently, new qualifying production will be added prospectively to that presently qualified. Other natural gas marketing activities are also expected to continue to contribute meaningfully to financial results. The Company completed a fairly significant restructure of its other natural gas marketing portfolio during 1992 with the sale of a volumetric production payment of approximately 124 Bcfe (136 TBtu) for $326.8 million that was subsequently revised in 1993 and elimination of most delivery obligations under four long-term fixed price marketing contracts. The proceeds from the sale of the volumetric production payment added substantially to the financial flexibility of the Company supporting future development while the combined effect of all elements of the restructuring on net income has not been, and will not in the future be, significant. These factors are expected to contribute significantly to earnings, cash flow, and the ability of the Company to pursue the continuation of an active exploration, development and selective acquisition program.

The Company plans to continue to focus a substantial portion of its development and certain exploration expenditures in its major producing areas in North America. However, based on the continuing uncertainty associated with North America natural gas prices and the continuing weakness in that market, and as a result of the recent success realized offshore Trinidad and opportunities available to the Company in conjunction with the recent signing of agreements in India, the Company anticipates expending an increasing portion of its available funds in the further development of these opportunities. In addition, the Company expects to include limited but meaningful exploratory exposure in other areas outside of North America in its expenditure plans and will continue to evaluate the potential for involvement in other exploitation type opportunities. The continuation of expenditures in other areas outside of North America in the near term is expected to be primarily for the evaluation of conventional oil and gas exploration and exploitation opportunities in the U.K. North Sea and China, respectively, and coalbed methane recovery prospects in Australia and China. Other prospects in various locations will also attract the expenditure of some funds. (See "Business – Exploration and Production" for additional information detailing the specific geographic locations of the related drilling programs). The Company continues to pursue a strategy of funding exploration, development and acquisition activities primarily from available internally generated cash flow.

The level of exploration and development expenditures will vary in future periods depending on energy market conditions and other related economic factors. Based upon existing economic and market conditions, the Company believes net operating cash flow and available financing alternatives will be sufficient to fund its net investing cash requirements for the near term. However, the Company has significant flexibility with respect to its financing alternatives and adjustment of its exploration and development expenditure plans as circumstances warrant. While the Company has certain continuing commitments associated with expenditure plans related to operations in India, they are not anticipated to be material when considered in relation to the total financial capacity of the Company.

Other

The cost of environmental compliance has not been material to the Company.

In March 1995, the Financial Accounting Standards Board issued SFAS No. 121 – "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (the "Standard"). The Standard requires, among other things, that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company is required to adopt the Standard no later than the first quarter of 1996. While the Company has not finalized its evaluation of the effect of adoption of the Standard, its evaluation to date indicates that application of the Standard to its current portfolio of assets could result in impairment charges ranging from $5 million to $60 million before federal income taxes ($3 million to $39 million after federal income taxes). However, such impairment charges would be non-cash.

MANAGEMENT

The current directors and executive officers of the Company and their names and ages are as follows:

Name	Age	Position
Forrest E. Hoglund	62	Chairman of the Board, President and Chief Executive Officer; Director
Fred C. Ackman	64	Director
Richard D. Kinder	51	Director
Kenneth L. Lay	53	Director
Edward Randall, III	68	Director
Joe Michael McKinney	55	President-International Operations
Mark G. Papa	49	President-North American Operations
Walter C. Wilson	53	Senior Vice President and Chief Financial Officer
Ben B. Boyd	54	Vice President and Controller
Dennis M. Ulak	41	Vice President and General Counsel

Forrest E. Hoglund joined the Company as Chairman of the Board, Chief Executive Officer and Director in September 1987. Since May 1990, he has also served as President of the Company. Mr. Hoglund was a director of USX Corporation from February 1986 until September 1987. He joined Texas Oil & Gas Corp. ("TXO") in 1977 as president, was named Chief Operating Officer in 1979, Chief Executive Officer in 1982, and served TXO in those capacities until September 1987. Mr. Hoglund is also an advisory director of Texas Commerce Bank National Association.

Fred C. Ackman is the former Chairman, President and Chief Executive Officer of The Superior Oil Company. For over five years Mr. Ackman has been a consultant to the oil and gas industry and has interests in ranching and investments.

Richard D. Kinder has been President and Chief Operating Officer of Enron Corp. since October 1990. From December 1988 until October 1990, he served Enron Corp. as Vice Chairman of the Board. For over five years prior to his election as Vice Chairman, Mr. Kinder served in various management and legal positions with Enron Corp. and its affiliates. Mr. Kinder is also a director of Enron Corp., Enron Global Power & Pipelines L.L.C., EOTT Energy Corp. (the general partner of EOTT Energy Partners, L.P.), Enron Liquids Pipeline Company (the general partner of Enron Liquids Pipeline, L.P.), Sonat Offshore Drilling Inc. and Baker Hughes Incorporated.

Kenneth L. Lay has been Chairman of the Board and Chief Executive Officer of Enron Corp. for over five years. From February 1989 until October 1990, he also served as President of Enron Corp. Mr. Lay is also a director of Eli Lilly and Company, Compaq Computer Corporation, Trust Company of the West, EOTT Energy Corp. (the general partner of EOTT Energy Partners, L.P.), and Enron Corp.

Edward Randall, III is principally involved in investments. Mr. Randall is also a director of KN Energy, Inc. and PaineWebber Group Inc.

Joe Michael McKinney has been President-International Operations since February 1994 with responsibilities for all exploration, drilling, production and engineering activities for the Company's international ventures outside North America. Mr. McKinney joined Enron Oil & Gas International, Inc., a wholly-owned subsidiary of the Company, in December 1991 as Senior Vice President of Operations and was elected President and Chief Operating Officer of Enron Oil & Gas International, Inc. in April 1993, a capacity in which he continues to serve. Prior to joining the Company, Mr. McKinney held operations management positions with Union Texas Petroleum Company, The Superior Oil Company and Exxon Company, USA.

Mark G. Papa has been President-North American Operations since February 1994. From May 1986 through January 1994, Mr. Papa served as Senior Vice President-Operations. Mr. Papa joined Belco Petroleum Corporation, a predecessor of the Company, in 1981 as Division Production Coordinator and served as Senior Vice President-Drilling and Production, BelNorth Petroleum Corporation from May 1984 until May 1986.

Walter C. Wilson has been Senior Vice President and Chief Financial Officer since May 1991. Mr. Wilson joined the Company in November 1987 as Vice President and Controller and was named Senior Vice President-Finance in October 1988. Prior to joining the Company Mr. Wilson held financial management positions with Exxon Company, USA for 16 years and The Superior Oil Company for four years.

Ben B. Boyd has been Vice President and Controller since March 1991. Mr. Boyd joined the Company in March 1989 as Director of Accounting and was named Controller in May 1990. Prior to joining the Company, Mr. Boyd held financial management positions with DeNovo Oil & Gas, Inc., Scurlock Oil Company and Coopers & Lybrand.

Dennis M. Ulak has been Vice President and General Counsel since March 1992. Mr. Ulak joined the Company in March 1987 as Senior Counsel and was named Assistant General Counsel in August 1990. Prior to joining the Company, Mr. Ulak held various legal positions with Enron Corp. and Northern Natural Gas Company.

THE SELLING STOCKHOLDER

	Beneficial Ownership Before Stock Offerings			Beneficial Ownership After Stock Offerings(1)(2)	
Selling Stockholder	Shares	Percentage	Shares to be Sold(1)	Shares	Percentage
Enron Corp.	128,000,000	80%	27,000,000	101,000,000	63%

(1) Assumes that the Underwriters' over-allotment options in the Stock Offerings are not exercised. If such options are exercised in full, Enron Corp. will sell 31,050,000 shares of Common Stock in the Stock Offerings and will beneficially own 96,950,000 shares of Common Stock (approximately 61% of the outstanding shares) after the Stock Offerings.

(2) Concurrently with the Stock Offerings, Enron Corp. is offering Exchangeable Notes, which at maturity may be exchanged for no more than 10,000,000 shares of Common Stock (no more than 11,000,000 shares if the over-allotment option to the Underwriters in the Exchangeable Notes Offering is exercised in full) owned by Enron Corp., subject to adjustment under certain circumstances and to Enron Corp.'s option to pay an amount in cash in lieu of such mandatory exchange. Following consummation of the Exchangeable Notes Offering, the shares that may be delivered upon exchange therefor will continue to be beneficially owned by Enron Corp. until such time, if any, as they are delivered at maturity of the Exchangeable Notes. If the Underwriters' over-allotment options in the Stock Offerings and the Exchangeable Notes Offering are exercised in full and the maximum number of shares of Common Stock are delivered at maturity of the Exchangeable Notes, Enron Corp. will beneficially own 85,950,000 shares of Common Stock or approximately 54% of the outstanding shares.

The registration related to the Stock Offerings and the Common Stock deliverable upon exchange of the Exchangeable Notes is being provided pursuant to the terms of a Stock Restriction and Registration Agreement with Enron Corp., under which the Company has agreed that upon the request of Enron Corp. (or certain assignees), the Company will register under the Securities Act and applicable state securities laws the sale of Common Stock owned by Enron Corp. The Company's obligation is subject to certain limitations relating to a minimum amount of Common Stock required for registration, the timing of registration and other similar matters. The Company is obligated to pay all expenses incidental to such registration, excluding underwriters' discounts and commissions and certain legal fees and expenses.

RELATIONSHIP BETWEEN THE COMPANY AND ENRON CORP.

Ownership of Common Stock

Through its ability to elect all of the directors of the Company, Enron Corp. has the ability to control all matters relating to the management of the Company, including any determination with respect to acquisition or disposition of Company assets, future issuance of Common Stock or other securities of the Company and any dividends payable on the Common Stock. Enron Corp. also has the ability to control the Company's exploration, development, acquisition and operating expenditure plans. There is no agreement between Enron Corp. and the Company that would prevent Enron Corp. from acquiring additional shares of Common Stock of the Company.

The sale by Enron Corp. of the shares of Common Stock of the Company will cause Enron Corp.'s ownership interest in the Company to fall below 80% with the result that (i) the Company will cease to be included in the consolidated federal income tax return filed by Enron Corp. and (ii) the Tax Allocation Agreement between the Company and Enron Corp. described below will cease to be effective from the time at which deconsolidation occurs for future periods, but will remain in effect with regard to periods prior to deconsolidation. The Company has entered into a supplemental agreement with Enron Corp. clarifying future potential adjustments associated with the final settlement on audit of taxes for periods prior to the deconsolidation for issues not addressed in the original agreement. The Company does not believe that the cessation of consolidated tax reporting with Enron Corp. and effectiveness of the Tax Allocation Agreement concurrent with deconsolidation will have a material adverse effect on its financial condition or results of operations.

Contractual Arrangements

The Company entered into a Services Agreement (the "Services Agreement") with Enron Corp. effective January 1994, pursuant to which Enron Corp. provides various services, such as maintenance of certain employee benefit plans, provision of telecommunications and computer services, lease of office space and the provision of purchasing and operating services and certain other corporate staff and support services. Such services historically have been supplied to the Company by Enron Corp., and the Services Agreement provides for the further delivery of such services substantially identical in nature and quality to those services previously provided. The Company has agreed to a fixed rate for the rental of office space and to reimburse Enron Corp. for all other direct costs incurred in rendering services to the Company under the contract and to pay Enron Corp. for allocated indirect costs incurred in rendering such services up to a maximum of $6.7 million for 1994, such cap to be increased in subsequent years for inflation and certain changes in the Company's allocation bases with any increase not to exceed 7.5% per year. Approximately $6.6 million was paid under the Services Agreement by the Company to Enron Corp. in 1994. The Services Agreement is for an initial term of five years through December 1998 and will continue thereafter until terminated by either party.

In March 1995, in a series of transactions with Enron Corp. and an affiliate of Enron Corp., the Company exchanged all of its fuel supply and purchase contracts and related price swap agreements associated with a Texas City cogeneration plant (the "Cogen Contracts") for certain natural gas price swap agreements (the "Swap Agreements") of equivalent value. As a result of the transactions, the Company has been relieved of all performance obligations associated with the Cogen Contracts. The Company will realize net operating revenues and receive corresponding cash payments of approximately $91 million during the period extending through December 31, 1999 under the terms of the Swap Agreements. The estimated fair value of the Swap Agreements was approximately $81 million at the date the Swap Agreements were received. The net of this series of transactions will result in increases in net operating revenues and cash receipts for the Company during 1995 and 1996 of approximately $13 million and $7 million, respectively, with offsetting decreases in 1998 and 1999 versus that anticipated under the Cogen Contracts.

The Company has been included in the consolidated federal income tax return filed by Enron Corp. as the common parent for itself and its subsidiaries and affiliated companies, excluding any foreign subsidiaries. Consistent therewith and pursuant to a Tax Allocation Agreement between the Company, the Company's subsidiaries and Enron Corp., either Enron Corp. has paid to the Company and each subsidiary an amount equal to the tax benefit realized in the Enron Corp. consolidated federal income tax return resulting from the utilization of the Company's or the subsidiary's net operating losses and/or tax credits, or the Company and each subsidiary has paid to Enron Corp. an amount equal to the federal income tax computed on its separate taxable income less the tax benefits associated with any net operating losses and/or tax credits generated by the Company or the subsidiary which were utilized in the Enron Corp. consolidated return. Enron Corp. has paid the Company and each subsidiary for the tax benefits associated with their net operating losses and tax credits utilized in the Enron Corp. consolidated return, provided that a tax benefit was realized except as discussed below, even if such benefits could not have been used by the Company or the subsidiary on a separately filed tax return. The Company entered into an agreement with Enron Corp. providing for the Company to be paid for all realizable benefits associated with tight gas sand federal income tax credits concurrent with tax reporting and settlement for the periods in which they were generated. The Tax Allocation Agreement applies to the Company and each of its subsidiaries for all years in which the Company or any of its subsidiaries are or were included in the Enron Corp. consolidated return. To the extent a state or other taxing jurisdiction requires or permits a consolidated, combined, or unitary tax return to be filed and such return includes the Company or any of its subsidiaries, the principles expressed with respect to consolidated federal income tax allocation shall apply. The Tax Allocation Agreement will cease to be effective from the time at which deconsolidation occurs for future periods, but will remain in effect with regard to periods prior to deconsolidation. For issues not addressed in the original agreement, the Company has entered into a supplemental agreement with Enron Corp. clarifying future potential adjustments associated with the final settlement on audit of taxes for periods prior to the deconsolidation. The Company does not believe that the cessation of consolidated tax reporting with Enron Corp. and effectiveness of the Tax Allocation Agreement concurrently with deconsolidation will have a material adverse effect on its financial condition or results of operations.

For a discussion of transactions between the Company and Enron Corp. and its affiliates, see the Company's Annual Report on Form 10-K for the year ended December 31, 1994 incorporated herein by reference. See "Incorporation of Certain Documents by Reference."

Conflicts of Interest

The nature of the respective businesses of the Company and Enron Corp. and its affiliates is such as to potentially give rise to conflicts of interest between the two companies. Conflicts could arise, for example, with respect to transactions involving purchases, sales and transportation of natural gas and other business dealings between the Company and Enron Corp. and its affiliates, potential acquisitions of businesses or oil and gas properties, the issuance of additional shares of voting securities, the election of directors or the payment of dividends by the Company.

Circumstances may also arise that would cause Enron Corp. to engage in the exploration for and/or development and production of natural gas and crude oil in competition with the Company. For example, opportunities might arise which would require financial resources greater than those available to the Company, which are located in areas or countries in which the Company does not intend to operate or which involve properties that the Company would be unwilling to acquire. Also, Enron Corp. might acquire a competing oil and gas business as part of a larger acquisition. In addition, as part of Enron Corp.'s strategy of securing supplies of natural gas or capital, Enron Corp. may from time to time acquire producing properties or interests in entities owning producing properties, and thereafter engage in exploration, development and production activities with respect to such properties or indirectly engage in such activities through such companies. Enron Corp. may also acquire interests in oil and gas properties or companies in connection with its financing activities. For example, in its financing activities Enron Corp. or any entity in which it has an interest may make loans secured by oil and gas properties or securities of oil and gas companies, may acquire production payments or may receive interests in oil and gas properties as equity components of lending transactions. As a result of its lending activities, Enron Corp. may also acquire oil and gas properties or companies upon foreclosure of secured loans or as part of a borrower's rearrangement of its obligations. Such acquisition, exploration, development and production activities may directly or indirectly compete with the Company's business. There can be no assurances that Enron Corp. will not engage directly or indirectly through entities other than the Company, in the natural gas and crude oil exploration, development and production business in competition with the Company.

Joint Energy Development Investments Limited Partnership ("JEDI"), a limited partnership in which Enron Capital & Trade Resources Corp. ("ECT"), a wholly owned subsidiary of Enron Corp., owns a 50% general partner interest, has entered into an agreement to acquire a controlling interest in Coda. Coda is engaged in the exploration for, and the development, production and marketing of, natural gas and crude oil primarily in North Texas and Oklahoma. Crude oil accounts for approximately 86% of Coda's proved reserves. At December 31, 1994, Coda reported estimated proved natural gas reserves of 39,808 MMcf and estimated proved crude oil, condensate and natural gas liquids reserves of 39,207 MBbls. Enron anticipates that the transaction will be consummated in early 1996, subject to Coda stockholder approval and other conditions. Conflicts may arise between Coda and JEDI, and if the acquisition of Coda occurs Enron will be required to resolve such conflicts in a manner that is consistent with its fiduciary and contractual duties to other investors in Coda and JEDI and its fiduciary duties to the Company. ECT has entered into an agreement with JEDI and other investors in Coda designed to minimize certain conflicts of interest that may arise and providing, among other things, that the Company has no obligation to offer any business opportunities to Coda.

The Company and Enron Corp. and its affiliates have in the past entered into material intercompany transactions and agreements incident to their respective businesses, and the Company and Enron Corp. and its affiliates may be expected to enter into material transactions and agreements from time to time in the future. Such transactions and agreements have related to, among other things, the purchase and sale of natural gas and crude oil; the financing of exploration and development efforts by the Company, and the provision of certain corporate services. The Company believes that its existing transactions and agreements with Enron Corp. and its affiliates have been at least as favorable to the Company as could be obtained from third parties, and the Company intends that the terms of any future transactions and agreements between the Company and Enron Corp. and its affiliates will be at least as favorable to the Company as could be obtained from third parties.

DESCRIPTION OF COMMON STOCK

Authorized and Outstanding Capital Stock

The authorized capital stock of the Company consists of 160,000,000 shares of Common Stock, $.01 par value, of which 159,799,955 shares were outstanding on October 31, 1995. The following summary description of the capital stock of the Company is qualified in its entirety by reference to the Restated Certificate of Incorporation of the Company, as amended, a copy of which is filed as an exhibit to the Registration Statement of which this Prospectus is a part.

The Common Stock possesses ordinary voting rights for the election of directors and in respect to other corporate matters, each share being entitled to one vote. There are no cumulative voting rights, meaning that the holders of a majority of the shares voting for the election of directors can elect all the directors if they choose to do so. The Common Stock carries no preemptive rights and is not convertible, redeemable or assessable, or entitled to the benefits of any sinking fund. The holders of Common Stock are entitled to dividends in such amounts and at such times as may be declared by the Board of Directors out of funds legally available therefor.

Upon liquidation or dissolution, holders of Common Stock are entitled to share ratably in all net assets available for distribution to stockholders after payment of any corporate debts. All outstanding shares of Common Stock are duly authorized, validly issued, fully paid and nonassessable.

The transfer agent and registrar of the Common Stock is First Chicago Trust Company of New York, Jersey City, New Jersey.

Limitation on Directors' Liability

Delaware corporation law authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breach of directors' fiduciary duty of care. The duty of care requires that, when acting on behalf of the corporation, directors must exercise an informed business judgment based on all material information reasonably available to them. Absent the limitations authorized by such laws, directors are accountable to corporations and their stockholders for monetary damages for conduct constituting gross negligence in the exercise of their duty of care. The Delaware laws enable corporations to limit available relief to equitable remedies such as injunction or rescission. The Restated Certificate of Incorporation, as amended, of the Company limits the liability of directors of the Company to the Company or its stockholders (in their capacity as directors but not in their capacity as officers) to the fullest extent permitted by the Delaware law. Specifically, directors of the Company will not be personally liable for monetary damages for breach of a director's fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Company or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit.

This provision in the Restated Certificate of Incorporation may have the effect of reducing the likelihood of derivative litigation against directors, and may discourage or deter stockholders or management from bringing a lawsuit against directors for breach of their duty of care, even though such an action, if successful, might otherwise have benefited the Company and its stockholders.

CERTAIN UNITED STATES FEDERAL TAX CONSEQUENCES FOR NON-UNITED STATES HOLDERS OF COMMON STOCK

The following is a summary of certain United States federal income tax consequences of the acquisition, ownership and disposition of Common Stock by a holder that, for United States federal income and estate tax purposes, is a Non-United States Holder. For purposes of this discussion, a "Non-United States Holder" means a corporation, individual or partnership that is, as to the United States, a foreign corporation, a non-resident alien individual or a foreign partnership, or a trust or estate other than one the income of which is subject to United States federal income tax regardless of its source. This summary does not address all aspects of United States federal income and estate taxation and does not deal with foreign, state and local tax consequences that may be relevant to Non-United States Holders in light of their specific circumstances. Furthermore, this summary is based on the provisions of the United States Internal Revenue Code of 1986, as amended, and the regulations, rulings and judicial decisions thereunder, all of which are subject to change. PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE UNITED STATES TAX CONSEQUENCES TO THEM OF ACQUIRING, HOLDING AND DISPOSING OF COMMON STOCK AS WELL AS ANY TAX CONSEQUENCES THAT MAY ARISE UNDER THE LAWS OF ANY FOREIGN, STATE, LOCAL OR OTHER TAXING JURISDICTION.

Dividends

Dividends paid to a Non-United States Holder generally will be subject to withholding of United States federal income tax at a rate of 30% (or a lower rate prescribed by an applicable tax treaty). If the dividends are effectively connected with the conduct of a trade or business within the United States by the Non-United States Holder, the dividends will be subject to the ordinary United States federal income tax on net income that applies to United States persons and will not be subject to withholding if the Non-United States Holder files a United States Internal Revenue Service Form 4224 with the Company or its dividend paying agent. In the case of corporate holders, such dividends might also be subject to the United States branch profits tax at a rate of 30% (or a lower rate prescribed by an applicable tax treaty). A Non-United States Holder may be required to satisfy certain certification requirements in order to obtain any reduction of or exemption from withholding under the foregoing rules and may obtain a refund of any excess amounts currently withheld by filing an appropriate refund claim with the United States Internal Revenue Service.

Distributions in excess of the Company's current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated first as a return of capital to the extent of the Non-United States Holder's tax basis in the Common Stock (and will be applied against and reduce such holder's tax basis in the Common Stock) and thereafter as gain from the sale of Common Stock. The portion treated as a return of capital will not be subject to United States federal income tax and the portion, if any, treated as gain will be subject to the rules described under " – Gain on Disposition" below. Because the Company will not be able to determine whether a distribution should properly be treated as a dividend or as a return of capital at the time of payment, it is required to treat all distributions as dividends for United States withholding tax purposes. Non-United States Holders will be eligible to claim a refund to the extent that a distribution represents a return of capital and may in certain circumstances be eligible to claim a refund to the extent that a distribution is treated as gain. Non-United States Holders should consult their own tax advisors with respect to distributions in excess of current and accumulated earnings and profits.

Gain on Disposition

General Rule

Subject to special rules for individuals described below, a Non-United States Holder generally will not be subject to United States federal income tax on gain recognized on a sale or other disposition of Common Stock unless (a) the gain is effectively connected with the conduct of a trade or business within the United States by the Non-United States Holder (in which case the United States branch profits tax described above may also apply to corporate holders) or (b) the gain is treated as effectively connected with the conduct of a trade or business within the United States because the Company is or has been a "United States real property holding corporation" for United States federal income tax purposes (in which case, withholding of such tax may also apply). The Company believes that it is currently, and is likely to remain, a United States real property holding corporation. The preceding sentence notwithstanding, under currently effective United States federal income tax laws, gain recognized by a Non-United States Holder will not be treated as effectively connected with the conduct of a trade or business within the United States (or subject to withholding) unless such Non-United States Holder held, directly or indirectly, at any time during the five-year period ending on the date of disposition, more than five percent of the Common Stock. Non-United States Holders should consult applicable tax treaties, which may provide for different rules (including possibly the exemption of certain capital gains from tax).

Individuals

In addition to the rules described above, an individual Non-United States Holder who holds Common Stock as a capital asset generally will be subject to tax on any gain recognized on the disposition of such stock if such individual is present in the United States for 183 days or more in the taxable year of disposition and either (a) has a "tax home" in the United States (as specifically defined under the United States federal income tax laws) or (b) maintains an office or other fixed place of business in the United States to which the gain from the sale of the stock is attributable. Certain individual Non-United States Holders may also be subject to tax pursuant to provisions of United States federal income tax law applicable to United States expatriates.

Federal Estate Tax

Common Stock owned or treated as owned by an individual Non-United States Holder at the date of death will be subject to United States federal estate tax, unless an applicable estate tax treaty provides otherwise.

Information Reporting and Backup Withholding

The Company or its designated paying agent (the "payor") must report annually to the United States Internal Revenue Service and to each Non-United States Holder the amount of dividends paid to and the tax, if any, withheld with respect to such holder. That information may also be made available to the tax authorities of the country in which the Non-United States Holder resides.

United States information reporting requirements (other than the reporting of dividend payments described in the preceding paragraph) and United States backup withholding (imposed at a 31% rate) generally will not apply to dividends paid to a Non-United States Holder at an address outside the United States, unless the payor has knowledge that the payee is a United States person. Otherwise, information reporting and backup withholding may apply to dividends paid on the Common Stock to a Non-United States Holder who fails to furnish certain information, including a tax identification number, in the manner required by United States law and applicable regulations.

Payment of the proceeds of a disposition of Common Stock by a United States office of a broker is subject to backup withholding and information reporting, unless the holder certifies to the broker under penalties of perjury as to its name, address and status as a Non-United States Holder or the holder otherwise establishes an exemption. Neither backup withholding nor information reporting generally will apply to a payment of the proceeds of a disposition of Common Stock by a foreign office of a foreign broker that is not a United States Related Person (as defined below). Information reporting requirements (but not backup withholding) will apply to a payment of the proceeds of a disposition of Common Stock by a foreign office of a broker that is a United States person or a United States Related Person, unless the broker has documentary evidence in its records that the holder is a Non-United States Related Person and certain other conditions are met, or the holder otherwise establishes an exemption. For this purpose, a "United States Related Person" is (a) a foreign broker, 50% or more of whose gross income for certain periods is effectively connected with the conduct of a trade or business in the United States or (b) a foreign broker that is a "controlled foreign corporation" for United States federal income tax purposes.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be refunded or credited against the Non-United States Holder's United States federal income tax liability, provided that required information is furnished to the United States Internal Revenue Service.

PLAN OF DISTRIBUTION

This Prospectus relates to the 11,000,000 shares of Common Stock that may be delivered by Enron Corp. pursuant to the Exchangeable Notes and is Appendix A to the Enron Corp. Exchangeable Notes Prospectus. At maturity of the Exchangeable Notes, the principal amount of each such note will be mandatorily exchanged by Enron Corp. for shares of Common Stock or, at the option of Enron Corp., cash in lieu of such mandatory exchange. For a description of the Exchangeable Notes, see "Description of the Exchangeable Notes" in the Enron Corp. Exchangeable Notes Prospectus.

Enron Corp., the Company and the Company's Chief Executive Officer have agreed that during the period beginning from the date of this Prospectus and continuing to and including the date 270 days after the date of this Prospectus, subject to certain exceptions set forth in the underwriting agreements, they will not offer, sell, contract to sell or otherwise dispose of Common Stock, any securities of the Company which are substantially similar to shares of Common Stock or any securities which are convertible into or exchangeable for Common Stock or such substantially similar securities without the prior written consent of Goldman, Sachs & Co., except for the shares of Common Stock offered in connection with the concurrent Stock Offerings.

In connection with the distribution of the Exchangeable Notes, Enron Corp. and the Company have agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Underwriters may be required to make in respect thereof.

VALIDITY OF COMMON STOCK

The validity of the shares of Common Stock deliverable upon exchange of the Exchangeable Notes will be passed upon for the Company by Dennis M. Ulak, Esq., Vice President and General Counsel of the Company, and for the Underwriters by Bracewell & Patterson, L.L.P. Certain matters will be passed upon for Enron Corp. by Vinson & Elkins L.L.P. Mr. Ulak owns substantially less than 1% of the outstanding shares of Common Stock of the Company or common stock of Enron Corp. Bracewell & Patterson, L.L.P. provides services to Enron Corp. and certain of its subsidiaries (including the Company) and affiliates on matters unrelated to the offering of the Exchangeable Notes, the delivery of the Common Stock upon exchange thereof and the Stock Offerings.

EXPERTS

The consolidated financial statements and schedule included in the Company's Annual Report on Form 10-K for the year ended December 31, 1994, incorporated by reference in this Prospectus, have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their report with respect thereto, and are incorporated by reference herein in reliance upon the authority of said firm as experts in accounting and auditing in giving said report.

The letter report of DeGolyer and MacNaughton, independent petroleum consultants, included as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1994, and the estimates from the reports of that firm appearing in such Annual Report, are incorporated by reference herein on the authority of said firm as experts in petroleum engineering and in giving such reports.

From: Broderick, Paul
To: 'olsone@state.gov'
Date: 11/30/00 5:23pm
Subject: Enron Corp recommendation

Erica,

[(b)(4) , (b)(5)]

Thanks,
Paul

Wiedman, Mark

From: Gross, Jared
Sent: Wednesday, January 09, 2002 2:06 PM
To: Wiedman, Mark
Subject: RE: early version of ACLI outline

[(b)(5)]

-----Original Message-----
From: Wiedman, Mark
Sent: Wednesday, January 09, 2002 1:26 PM
To: Fisher, Peter
Cc: Gross, Jared; Roseboro, Brian
Subject: early version of ACLI outline

Here is an interim outline. We're still rolling forward (including Jared's marvelous discovery of the 1994 Fisher report on the BIS website), but would welcome guidance at any time.

<< File: outline to acli speech 1.9 1pm.doc >>

From: Norman Carleton
To: GENSLERG, SachsL, MCGIVERNT
Date: 5/27/99 4:32pm
Subject: **Working Group Comments on Enron/Cadwalader Proposals** -Reply

[(b)(5)]

CC: Dom13.DOPO7.MCCLELLANM, DOPO5.TocheyF, CARTERJ, MC...

01754

01200000000410

From: Norman Carleton
To: GENSLERG, SachsL, MCGIVERNT
Date: 6/1/99 5:36pm
Subject: **Working Group Comments on Enron/Cadwalader Proposals** -Reply

[(b)(5)]

CC: Dom13.DOPO7.MCCLELLANM, DOPO5.TooheyF, CARTERJ, MC...

01755

01200000000411

From: Norman Carleton
To: GENSLERG, SachsL, MCGIVERNT
Date: 6/2/99 9:52am
Subject: **Working Group Comments on Enron/Cadwalader Proposals** -Reply

Attached are Eric Foster's comments on the Enron proposals. I sent a message about this yesterday.

CC: Dom13.DOPO7.MCCLELLANM, DOPO5.TooheyF, CARTERJ, MC...

01756

Norm, having reviewed Enron's proposed changes to the pending bankruptcy bill, I have the following comments.
[(b)(5)]

Norm, feel free to call me to discuss further any of these comments.

01757

01200000000413

From: Norman Carleton
To: SHELTONA, Dom13.DOPO7.HUFFMANL, MCGIVERNT
Date: 6/15/99 4:52pm
Subject: More on Bankruptcy -- Enron

I forgot to mention that Enron has been lobbying for expansion of the netting provisions with the help of the Cadwallader law firm. [(b)(5)]

CC: NICKOLOFFP

01758

01200000000414

From: Tom McGivern
To: SHELTONA, CARTERJ
Date: 6/15/99 5:32pm
Subject: bankruptcy legislation -Forwarded -Reply

Norman's description of the status of the bankruptcy legislation is correct. It's not certain when the bankruptcy bill will come up on the Senate floor, and although it could be as early as next week, it also may slip.

Enron and its outside counsel, Cadwalader, have proposed some changes to the Working Group's proposed financial netting legislation. [(b)(5)]

>>> Norman Carleton 06/15/99 04:48pm >>>
Alison,

[(b)(5)]

Tom and Lucy: Do you know anything more about this? Alison's question is attached.

CC: NICKOLOFFP, Dom13.DOPO7.HUFFMANL, CARLETONN, DOPO5...

From: Jana Carter
To: DOM3.DOPO6(SHELTONA), MCGIVERNT
Date: 6/16/99 10:35am
Subject: bankruptcy legislation -Forwarded -Reply -Reply

I visited with Lee about the Enron proposal and a meeting with Cadwalader. He said that he was fine with a subset of the working group hearing what these folks have to say. Lee was not planning on attending and thought that Tom, you and Norman (and whoever else wants to) could meet with them on behalf of Treasury. It is up to the other working group members as to whom they would have attend.

thanks--Jana
>>> Tom McGivern 06/15/99 05:32pm >>>
[(b)(5)]

Enron and its outside counsel, Cadwalader, have proposed some changes to the Working Group's proposed financial netting legislation. [(b)(5)]

>>> Norman Carleton 06/15/99 04:48pm >>>
Alison,

[(b)(5)]

Tom and Lucy: Do you know anything more about this? Alison's question is attached.

CC: Dom13.DOPO7(HUFFMANL), DOM3.DOPO5(TooheyF), DOM3.D...

01760

01200000000416

From: Tom McGivern
To: CARLETONN, SHELTONA, CARTERJ, NICKOLOFFP, DOPO5.To...
Date: 6/16/99 3:54pm
Subject: Conference Call with Cadwalader/Enron -Reply -Reply -Reply

The conference call with Enron/Cadwalader will be Friday morning at 10:30. They will initiate the call, so if we could be in one room here at Treasury that would make it slightly easier for them. The GC and Leg. Affairs conference rooms are booked, so maybe we should aim for someone's office. Norman?

I'll contact the other agencies to give them the time of the call and get the phone numbers to Cadwalader.

They plan to send us some additional explanatory material (probably what they're using to market this on the Hill, etc.). I will send that around as soon as it arrives. They would like to have a discussion and to find out if the agencies are opposed or supportive of their proposals. I committed only to listening, but said there likely would be some questions.

>>> Norman Carleton 06/16/99 03:12pm >>>
There's a steering group meeting tomorrow morning, so maybe Friday is better.

From: Norman Carleton
To: GENSLERG, SachsL
Date: 6/18/99 4:52pm
Subject: Conference Call with Enron and Cadwalader -- Netting Legislation

This morning, Tom McGivern, John Yetter, and I participated in a conference call with Enron and the Cadwalader law firm concerning their financial contract netting proposals. Also participating in the call were staff from the Federal Reserve Board, FRBNY, FDIC, and CFTC.

[(b)(5)]

If you want a more detailed explanation, please let us know.

CC: MCGIVERNT, YETTERJ, NICKOLOFFP, DOPO5.TooheyF, SHE...

01762

01200000000418

From: Norman Carleton
To: SachsL, MCGIVERNT, GREENEMI, STEWARTLAW, NICKOLOFF...
Date: 9/15/99 11:18am
Subject: Enron's Bankruptcy Proposals

Representatives of Enron have given their proposed amendments to the bankruptcy netting provisions to staff of the Senate Agriculture Committee. They hope that it will be included in a managers' amendment.

[(b)(5)]

Comments, suggestions?

01763

From: John Yetter
To: DOM3.DOPO6(CARLETONN), MCGIVERNT
Date: 3/17/00 2:50pm
Subject: Financial Netting provisions of H.R. 833 - bankruptcy bill -Reply -Reply -Reply

[(b)(6)] have attached your original e-mail and copied Norman's staff to see if they have any comments.

>>> Tom McGivern 03/17/00 02:46pm >>>
Norman, do you have comments/edits?

>>> John Yetter 03/10/00 10:18am >>>
[(b)(5)]

>>> Tom McGivern 03/09/00 06:36pm >>>
[(b)(5)]

On the Enron proposals Norman received:

[(b)(5)]

Thanks.

CC: DOM3.DOPO5(TooheyF), nickoloffp, schultheissh

01764

01200000000420

From: Tom McGivern
To: CARLETONN, YETTERJ, DOPO5.TooheyF
Date: 3/9/00 6:36pm
Subject: Financial Netting provisions of H.R. 833 - bankruptcy bill

Attached for your review and edits is a draft letter from the Secretary on behalf of the Working Group regarding the financial netting provisions of the bankruptcy legislation. [(b)(6)] if you would send a version with your edits to other Working Group staff for their review that would be great. [(b)(5)]

On the Enron proposals Norman received:

[(b)(5)]

Thanks.

CC: DORSEYK, CARROR

01765

01200000000421

3/9/2000 draft letter to bankruptcy conferees

[(b)(5)]

01766

01200000000422

Sincerely,

Lawrence H. Summers

cc: The Honorable Charles E. Grassley
The Honorable Robert Torricelli

3/9/2000 draft letter to bankruptcy conferees

[(b)(5)]

01768

01200000000424

Sincerely,

Lawrence H. Summers

cc: The Honorable George W. Gekas
The Honorable Jerrold Nadler

From: Peter Nickoloff
To: MCGIVERNT
Date: 6/10/99 2:35pm
Subject: Enron Proposal

Tom--

I work for Norman Carleton, who is out this week. Although it's not an issue I usually cover, Norman asked me to keep tabs on events/actions relating to Enron's proposed changes to the Bankruptcy Code. Has anything happend this week, or is anything pending, that might be of interest?

Thanks,
Peter Nickoloff
622-1692

01774

01200000000430

From: Peter Nickoloff
To: Carlefonn
Date: 6/11/99 4:49pm
Subject: The week's (non-)events

[OUTSIDE SCOPE , (b)(5)]

-- Enron bankruptcy proposal: Nada.

[(b)(6)]

[OUTSIDE SCOPE]

[OUTSIDE SCOPE]

[OUTSIDE SCOPE]

From: Tom McGivern
To: DOM3.DOPO6(CARLETONN, NICKOLOFFP), YETTERJ
Date: 3/17/00 3:25pm
Subject: Financial Netting provisions of H.R. 833 - bankruptcy bill -Reply -Reply -Reply -Reply -Reply -Rep

I'll forward to them.

>>> John Yetter 03/17/00 03:20pm >>>
No, I don't know.

>>> Peter Nickoloff 03/17/00 03:17pm >>>
I have no comments or edits on the letters except to ask if they've yet been circulated to the other WG agencies. Norman has been out of the office since 3/10 (and isn't scheduled to return until 3/27), so I can't say whether he had a chance to forward the letters on before he left. John, would you know?

>>> John Yetter 03/17/00 02:50pm >>>
[(b)(6)] I have attached your original e-mail and copied Norman's staff to see if they have any comments.

>>> Tom McGivern 03/17/00 02:46pm >>>
Norman, do you have comments/edits?

>>> John Yetter 03/10/00 10:18am >>>
I agree with all of Tom's comments on the Enron proposals and don't have any comments on the letter.

>>> Tom McGivern 03/09/00 06:36pm >>>
[(b)(5)]

[(b)(6)] if you would send a version with your edits to other Working Group staff for their review that would be great. [(b)(5)]

On the Enron proposals Norman received:

[(b)(5)]

Thanks.

CC: DOM3.DOPO5(TooheyF), DOM3.DOPO6(schultheissh),

01226

01200000000582

[(b)(5)]

01437

Hunt, Betty Ann

From: Gathers, Shirley
Sent: Friday, January 11, 2002 8:22 AM
To: Aufhauser, David; Kupfer, Jeffrey; Curry, Paul; Bair, Sheila; Fisher, Peter; Smith, Chris; Mejia, Annabella; Matera, Cheryl; Glasgow, Launa; Johnson, Linda; Davis, Michele
Cc: Strickler, Marie; Pringle, Veronica; Vannoy, Elizabeth; Hunt, Betty Ann; Ridgway, Diana; Hart, Anna; Woodard, Genevieve
Subject: Briefing

Please plan on attending a briefing w/David Aufhauser and Tim Adams re: Enron as follows:

Date: Friday, Jan. 11
Time: 10:30am - 10:45am
Location: Room 3408

Thanks.

Hunt, Betty Ann

From: Hunt, Betty Ann
Sent: Thursday, January 10, 2002 8:35 AM
To: LaKritz, Robb; McCardell, Dan
Subject: RE:

See you at 1:45 pm

-----Original Message-----
From: LaKritz, Robb
Sent: Wednesday, January 09, 2002 8:44 PM
To: Hunt, Betty Ann; McCardell, Dan
Subject: RE:

1:45 p.m. works for me. We will come down and see her.

Thanks.

Robb LaKritz

-----Original Message-----
From: Hunt, Betty Ann
Sent: Wednesday, January 09, 2002 6:59 PM
To: LaKritz, Robb; McCardell, Dan
Subject: RE:

Right now Sheila is available at 1:45 (45 min) or 4:30 pm (1 hour). Please let me know what works for you.

-----Original Message-----
From: Bair, Sheila
Sent: Wednesday, January 09, 2002 6:56 PM
To: LaKritz, Robb; Hunt, Betty Ann
Subject: RE:

yep-- I will try to make time. Tomorrow is tough. Betty -- please try to work in

-----Original Message-----
From: LaKritz, Robb
Sent: Tuesday, January 08, 2002 2:45 PM
To: Bair, Sheila
Cc: McCardell, Dan; Adams, Tim; Dam, Ken; Gross, Jared; Kupfer, Jeffrey
Subject:

Sheila,

Do you have time tomorrow to meet with Dan McCardell and me to discuss an internal policy roundtable we are hoping put together on issues related to the Enron situation and ancillary developments?

Thanks.

Robb LaKritz

Tracking:

Recipient	Read
LaKritz, Robb	Read: 1/10/02 8:46 AM
McCardell, Dan	Read: 1/10/02 8:50 AM

01200000000962

Hunt, Betty Ann

From: Hunt, Betty Ann
Sent: Wednesday, January 09, 2002 6:59 PM
To: LaKritz, Robb; McCardell, Dan
Subject: RE:

Right now Sheila is available at 1:45 (45 min) or 4:30 pm (1 hour). Please let me know what works for you.

-----Original Message-----
From: Bair, Sheila
Sent: Wednesday, January 09, 2002 6:56 PM
To: LaKritz, Robb; Hunt, Betty Ann
Subject: RE:

yep-- I will try to make time. Tomorrow is tough. Betty -- please try to work in

-----Original Message-----
From: LaKritz, Robb
Sent: Tuesday, January 08, 2002 2:45 PM
To: Bair, Sheila
Cc: McCardell, Dan; Adams, Tim; Dam, Ken; Gross, Jared; Kupfer, Jeffrey
Subject:

Sheila,

Do you have time tomorrow to meet with Dan McCardell and me to discuss an internal policy roundtable we are hoping put together on issues related to the Enron situation and ancillary developments?

Thanks.

Robb LaKritz

Tracking:

Recipient	Read
LaKritz, Robb	Read: 1/9/02 8:43 PM
McCardell, Dan	Read: 1/10/02 7:45 AM

01200000000963

Hunt, Betty Ann

From: Hunt, Betty Ann
Sent: Wednesday, January 09, 2002 6:09 PM
To: Bair, Sheila
Subject: RE:

Bolton - Enron.doc

-----Original Message-----
From: Bair, Sheila
Sent: Wednesday, January 09, 2002 4:06 PM
To: Hunt, Betty Ann
Subject:

<< File: Enron3.doc >>

Tracking:	Recipient	Read
	Bair, Sheila	Read: 1/9/02 6:09 PM

MEMORANDUM FOR JOSHUA BOLTON
DEPUTY CHIEF OF STAFF
WHITE HOURSE

FROM: Sheila C. Bair
Assistant Secretary for Financial Institutions

SUBJECT: Policy Issues Presented by the Enron Bankruptcy

Per your request, below are some of my preliminary personal thoughts on the important policy issues presented by the Enron bankruptcy [(b)(5)]

[(b)(5)]

[(b)(5)]

[(b)(5)]

[(b)(5)]

cc: Secretary O'Neill
Peter Fisher
Dave Aufhauser
Mark Weinberger
John Duncan

Hunt, Betty Ann

From:	Hunt, Betty Ann
Sent:	Tuesday, January 08, 2002 11:57 AM
To:	Bair, Sheila
Subject:	Please call Mary Schapiro on [(b)(6)] She returned your call regarding Enron

Tracking:	**Recipient**	**Read**
	Bair, Sheila	
	Hunt, Betty Ann	Read: 1/8/02 12:20 PM

Tishuk, Brian

From: Hart, Susan
Sent: Monday, January 14, 2002 5:33 PM
To: Tishuk, Brian
Subject: Draft 10/25

1-18-02 WHT.doc

I've added in something on Bennett -- but I also mentioned the House bill because I don't know where we are on the issue. You need to edit what I've done. I also added in something on EU privacy. And I will tomorrow add in info from Ed on the retirement policy (Enron fallout) task force.

Tishuk, Brian

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.

From: Ellis, Dina
Sent: Wednesday, October 31, 2001 9:42 AM
To: McGivern, Tom; Carleton, Norman; Bitsberger, Timothy; Bair, Sheila; DeMarco, Edward; Ellett, Martha; Gabilondo, Jose; Gross, Jared; Huffman, Lucy; Hughes, Gerry; McInerney, Roberta; Nickoloff, Peter; Roseboro, Brian; Salladin, Anne; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary; Tishuk, Brian; Duncan, John; Sanders, Traci; Dorsey, Karen
Subject: RE: Netting Letter to be Signed by PWG and FDIC, OCC, and OTS

[(b)(5)]

-----Original Message-----
From: McGivern, Tom
Sent: Wednesday, October 31, 2001 9:20 AM
To: Ellis, Dina; Carleton, Norman; Bitsberger, Timothy; Bair, Sheila; DeMarco, Edward; Ellett, Martha; Gabilondo, Jose; Gross, Jared; Huffman, Lucy; Hughes, Gerry; McInerney, Roberta; Nickoloff, Peter; Roseboro, Brian; Salladin, Anne; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary; Tishuk, Brian; Duncan, John; Sanders, Traci; Dorsey, Karen
Subject: RE: Netting Letter to be Signed by PWG and FDIC, OCC, and OTS

[(b)(5)]

-----Original Message-----
From: Ellis, Dina
Sent: Tuesday, October 30, 2001 3:02 PM
To: Carleton, Norman; Bitsberger, Timothy; Bair, Sheila; Constantine, Eleni; DeMarco, Edward; Ellett, Martha; 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: RE: Netting Letter to be Signed by PWG and FDIC, OCC, and OTS

I have spoken to a variety of people on possible movement of the bankruptcy bill. There is a slight chance that there will be a conference meeting next week but I don't see fasat movement on the bill.

-----Original Message-----
From: Carleton, Norman
Sent: Tuesday, October 30, 2001 2:46 PM
To: Bitsberger, Timothy; Bair, Sheila; Constantine, Eleni; DeMarco, Edward; 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: Netting Letter to be Signed by PWG and FDIC, OCC, and OTS

<< File: Netting letter.doc >>
Attached is the proposed netting letter from the Federal Reserve. (It has merge mail features that you will have to delete in order to read it. Alternatively, you can use the quick view program to access the document.) It is awaiting approval from SEC Chairman Pitt. Below is an article I sent around earlier today indicating that some are trying to revive the Bankruptcy bill.

[(b)(5)]

Norman Carleton

Bankruptcy Conference May Resume As Netting Bill Considered

The House Judiciary Committee will be turning its attention to other matters in the weeks remaining before adjournment - possibly including a conference on bankruptcy, *CongressDaily* reported. Further work on the legislation had been postponed after the Sept. 11 attacks occurred. The House and Senate conferees had been poised to meet Sept. 12. A spokesman for the committee yesterday said that no new conference date has been set, but staff members in recent weeks have continued to work on technical aspects of the bankruptcy measure. Judiciary Committee Chairman James Sensenbrenner (R-Wis.), who is chairing the conference committee, is determined to make a go of it before members leave town for the year, according to sources. While noting that the committee's agenda had not yet been formulated, his spokesman did not rule out the prospect. "It's definitely a possibility," he said.

Moreover, members of the House Financial Services Committee are trying to move a provision of the bankruptcy legislation pertaining to financial netting-perhaps as part of the economic stimulus package-in the event the underlying bill remains stalled.

That provision is designed to strengthen and update current statutory protections for netting financial market contracts if a party defaults. The netting language of the bill was one of the few consensus items included in the bankruptcy legislation. The economic downturn and the widening number of commercial bankruptcies could help create even stronger impetus for the provision to move separately, sources said.

House Financial Services Committee ranking member John LaFalce (D-N.Y.) urged shortly after the Sept. 11 terrorist attacks that the netting language be moved "expeditiously." In response, Treasury Secretary Paul O'Neill and Federal Reserve Chairman Alan Greenspan agreed "whether as part of comprehensive bankruptcy reform legislation or as a stand-alone bill, Congress should not fail to enact netting legislation this year." The Financial Services Committee had considered placing netting legislation on the schedule for markup this Wednesday, when it takes up a host of other bills. Committee leaders decided against such action, however. A spokeswoman for House Financial Services Committee Chairman Michael Oxley (R-Ohio) said he remained hopeful that the underlying bankruptcy bill could move intact.

Tishuk, Brian

From: McGivern, Tom
Sent: Wednesday, October 31, 2001 9:20 AM
To: Ellis, Dina; Carleton, Norman; Bitsberger, Timothy; Bair, Sheila; DeMarco, Edward; Ellett, Martha; Gabilondo, Jose; Gross, Jared; Huffman, Lucy; Hughes, Gerry; McInerney, Roberta; Nickoloff, Peter; Roseboro, Brian; Salladin, Anne; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary; Tishuk, Brian; Duncan, John; Sanders, Traci; Dorsey, Karen
Subject: RE: Netting Letter to be Signed by PWG and FDIC, OCC, and OTS

[(b)(5)]

-----Original Message-----
From: Ellis, Dina
Sent: Tuesday, October 30, 2001 3:02 PM
To: Carleton, Norman; Bitsberger, Timothy; Bair, Sheila; Constantine, Eleni; DeMarco, Edward; Ellett, Martha; 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: RE: Netting Letter to be Signed by PWG and FDIC, OCC, and OTS

I have spoken to a variety of people on possible movement of the bankruptcy bill. There is a slight chance that there will be a conference meeting next week but I don't see fasat movement on the bill.

-----Original Message-----
From: Carleton, Norman
Sent: Tuesday, October 30, 2001 2:46 PM
To: Bitsberger, Timothy; Bair, Sheila; Constantine, Eleni; DeMarco, Edward; 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: Netting Letter to be Signed by PWG and FDIC, OCC, and OTS

<< File: Netting letter.doc >>
Attached is the proposed netting letter from the Federal Reserve. (It has merge mail features that you will have to delete in order to read it. Alternatively, you can use the quick view program to access the document.) It is awaiting approval from SEC Chairman Pitt. Below is an article I sent around earlier today indicating that some are trying to revive the Bankruptcy bill.

[(b)(5)]

Norman Carleton

Bankruptcy Conference May Resume As Netting Bill Considered

The House Judiciary Committee will be turning its attention to other matters in the weeks remaining before adjournment - possibly including a conference on bankruptcy, *CongressDaily* reported. Further work on the legislation had been postponed after the Sept. 11 attacks occurred. The House and Senate conferees had been poised to meet Sept. 12. A spokesman for the committee yesterday said that no new conference date has been set, but staff members in recent weeks have continued to work on technical aspects of the bankruptcy measure. Judiciary Committee Chairman James Sensenbrenner (R-Wis.), who is chairing the conference committee, is determined to make a go of it before members leave town for the

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year, according to sources. While noting that the committee's agenda had not yet been formulated, his spokesman did not rule out the prospect. "It's definitely a possibility," he said.

Moreover, members of the House Financial Services Committee are trying to move a provision of the bankruptcy legislation pertaining to financial netting-perhaps as part of the economic stimulus package-in the event the underlying bill remains stalled.

That provision is designed to strengthen and update current statutory protections for netting financial market contracts if a party defaults. The netting language of the bill was one of the few consensus items included in the bankruptcy legislation. The economic downturn and the widening number of commercial bankruptcies could help create even stronger impetus for the provision to move separately, sources said.

House Financial Services Committee ranking member John LaFalce (D-N.Y.) urged shortly after the Sept. 11 terrorist attacks that the netting language be moved "expeditiously." In response, Treasury Secretary Paul O'Neill and Federal Reserve Chairman Alan Greenspan agreed "whether as part of comprehensive bankruptcy reform legislation or as a stand-alone bill, Congress should not fail to enact netting legislation this year." The Financial Services Committee had considered placing netting legislation on the schedule for markup this Wednesday, when it takes up a host of other bills. Committee leaders decided against such action, however. A spokeswoman for House Financial Services Committee Chairman Michael Oxley (R-Ohio) said he remained hopeful that the underlying bankruptcy bill could move intact.

Tishuk, Brian

From: Hammond, Donald
Sent: Thursday, February 15, 2001 10:25 AM
To: Carleton, Norman; DeMarco, Edward; Ellis, Dina; Huffman, Lucy; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawranne
Cc: Tishuk, Brian; Robbins, Eric; Paulus, Michael; Sutton, Gary; Huffman, Lucy; McGivern, Tom; Nickoloff, Peter; Schultheiss, Heidilynne; Gross, Jared
Subject: RE: Bankruptcy Reform Mark-up Hearing

Norman,

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Don

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Subject: FW: Bankruptcy Reform Mark-up Hearing

FYI

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Cc: Tishuk, Brian
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From: Green, Matthew
Sent: Thursday, February 15, 2001 12:48 PM
To: DeMarco, Edward
Subject: RE: Bankruptcy Reform Mark-up Hearing

[(b)(5)]

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Sent: Thursday, February 15, 2001 12:38 PM
To: Green, Matthew
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Tracking:	**Recipient**	**Read**
	DeMarco, Edward	Read: 02/15/2001 12:52 PM

DeMarco, Edward

From:	DeMarco, Edward
Sent:	Wednesday, January 16, 2002 1:20 PM
To:	Davis, Michele
Cc:	Bair, Sheila; Holahan, Betsy; Sweetnam, Bill Jr; McCall, Neal
Subject:	Retirement Security insert for PON's Savings Bond speech
Importance:	High

Michelle,

Attached is a draft insert on retirement security for the Secretary's savings bond speech. Sheila Bair asked us to draft the insert ***but Sheila has not had the opportunity to review the text*** because of the extremely short turn-around time.

I understand from Sheila that you will be working this text into the larger speech. Sheila and Bill Sweetnam may have comments they want to send to you this afternoon, recognizing that the Secretary is giving the speech tomorrow.

Please let me know if I can provide any additional information or explanation.

Ed DeMarco (2-2792)

PON Savings Bond speech - reti...

Tracking:

Recipient	Read
Davis, Michele	Read: 01/16/2002 2:41 PM
Bair, Sheila	Read: 01/16/2002 2:19 PM
Holahan, Betsy	Read: 01/16/2002 2:08 PM
Sweetnam, Bill Jr	Read: 01/16/2002 4:15 PM
McCall, Neal	Read: 01/16/2002 1:20 PM

[(b)(5)]

[(b)(5)]

DeMarco, Edward

From: Bair, Sheila
Sent: Wednesday, January 16, 2002 2:41 PM
To: Davis, Michele; Weinberger, Mark; Sweetnam, Bill Jr; DeMarco, Edward; Holahan, Betsy
Subject: FW: Retirement Security insert for PON's Savings Bond speech

Importance: High

I made a few edits to reflect more balance in our policy approach and to reflect where I understand the Secretary is coming from. I hope we got this to you in time to be usable.

Sheila

(Edits are contained in the forwarded document below.)

-----Original Message-----
From: DeMarco, Edward
Sent: Wednesday, January 16, 2002 1:20 PM
To: Davis, Michele
Cc: Bair, Sheila; Holahan, Betsy; Sweetnam, Bill Jr; McCall, Neal
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Importance: High

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PON Savings Bond speech - ret...

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[(b)(5)]

[(b)(5)]

Ed DeMarco 1-11-07 Notes

11-Noon in Bill's office
+ OTD Tom Reeder full time on this
Tara Bradshaw
Start w/ broad basis of retirement sec

5:05 pm Jane Molloy

[(b)(5)]

Retirement Security insert 1/15/02

[(b)(5)]

DeMarco, Edward

From: Young, JT
Sent: Wednesday, January 16, 2002 9:45 AM
To: Sweetnam, Bill Jr; Weinberger, Mark; Reeder, W Thomas; Olson, Pam; Walker, Deborah; Bradshaw, Tara; Bair, Sheila; McCall, Neal; DeMarco, Edward
Subject: RE: Senate Hearing on Enron-Related Pension Issues

i have also heard kennedy is doing something. i have also heard that finance is notat this time

-----Original Message-----
From: Sweetnam, Bill Jr
Sent: Tuesday, January 15, 2002 8:20 PM
To: Weinberger, Mark; Reeder, W Thomas; Olson, Pam; Walker, Deborah; Young, JT; Bradshaw, Tara; Bair, Sheila; McCall, Neal; DeMarco, Edward
Subject: Senate Hearing on Enron-Related Pension Issues

I have heard, second hand, that Sen. Kennedy will schedule a hearing on February 7 to discuss the pension issues surrounding Enron. He will have a government panel and will ask for testimony from DOL and Office of Tax Policy. He will also have a victims panel and a panel of academic experts.

William F. Sweetnam, Jr.
Benefits Tax Counsel
Office of Tax Policy
Treasury Department
1500 Pennsylvania Avenue NW
Washington DC 20220

Phone: 202-622-0170
Fax: 202-622-0646

Se.t Items

Nov 00 - Mar 01

DeMarco, Edward

From: DeMarco, Edward
Sent: Thursday, February 15, 2001 12:38 PM
To: Green, Matthew
Subject: FW: Bankruptcy Reform Mark-up Hearing

[(b)(5)]

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Sent: Thursday, February 15, 2001 10:07 AM
To: Hammond, Donald; DeMarco, Edward; Ellis, Dina; Huffman, Lucy; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawranne
Cc: Tishuk, Brian; Robbins, Eric; Paulus, Michael; Sutton, Gary; Huffman, Lucy; McGivern, Tom; Nickoloff, Peter; Schultheiss, Heidilynne; Gross, Jared
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Norman

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From: DeMarco, Edward
Sent: Wednesday, October 31, 2001 10:00 AM
To: Hughes, Gerry; Green, Matthew
Subject: FW: Netting Letter to be Signed by PWG and FDIC, OCC, and OTS

Wanted to be sure you guys saw this traffic.

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From: Ellis, Dina
Sent: Wednesday, October 31, 2001 9:42 AM
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<< File: Netting letter.doc >>
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[(b)(5)]

Norman Carleton

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Tracking:	**Recipient**	**Read**
	Hughes, Gerry	Read: 10/31/2001 10:03 AM
	Green, Matthew	Read: 10/31/2001 10:00 AM

DeMarco, Edward

From: Carleton, Norman
Sent: Monday, September 10, 2001 11:34 AM
To: Bair, Sheila; DeMarco, Edward; Eichner, Matthew; Ellett, Martha; Fisher, Peter; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Hughes, Gerry; Nickoloff, Peter; Novey, Michael; Roseboro, Brian; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary
Subject: Retail Swaps - Telephone Call from Elizabeth Fox

[(b)(5)]

DeMarco, Edward

From: Carleton, Norman
Sent: Saturday, September 08, 2001 1:10 PM
To: Bair, Sheila; DeMarco, Edward; Eichner, Matthew; Ellett, Martha; Fisher, Peter; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Hughes, Gerry; Nickoloff, Peter; Novey, Michael; Roseboro, Brian; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary
Subject: Discussion with Ken Raisler about Enron Product

On Friday, September 7, I discussed the retail energy swap issue with Ken Raisler. He is a partner at Sullivan & Cromwell who represents Enron. In the mid 1980s, he was the general counsel of the CFTC.

I asked Ken if Enron opposed state regulation of retail energy derivatives if the CFTC were to grant an exemption for this product. The first answer to this question was yes, but that answer was modified as we further discussed the issue.

I asked Ken if he thought that there was a preemption argument that could be made because of CFTC exclusive jurisdiction. He said he thought there was. He said Enron would not make such a legal argument because it is regulated in some states as a utility company, but that others might make such an argument.

I told Ken that the Treasury had not come to a conclusion about the retail energy swap issue but that we were unlikely to support a result that would mean no federal regulation and would not allow state governments to regulate this product if they chose to do so. He asked me what regulatory issues might be of concern. I answered that such issues as advertising, pricing, and assurances that the company offering the product had the financial ability to meet its obligations might be subjects that governments would be concerned about. Ken said he thought that this was a reasonable position.

I asked Ken whether he thought that the CFTC could exempt retail energy swaps from the exclusive jurisdiction provision of the CEA, thus precluding any arguments about state jurisdiction. He said he thought that might be possible.

At the end of the conversation, Ken indicated he would talk to his client about the issues I had raised.

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Subject: Retail Swaps Study Group Meeting -- September 6

[(b)(5)]

[(b)(5)]

DeMarco, Edward

From: Carleton, Norman
Sent: Wednesday, August 29, 2001 2:41 PM
To: Fisher, Peter; Roseboro, Brian; Bair, Sheila; Nickoloff, Peter; Schultheiss, Heidilynne; DeMarco, Edward; Hughes, Gerry; Gross, Jared; Smith, Amy; Sutton, Gary; Ellett, Martha; Gabilondo, Jose; McInerney, Roberta; Lori Sanatamorena (E-mail); Novey, Michael; Eichner, Matthew; Hammer, Viva
Subject: More on the Enron Issue

[(b)(5)]

Thoughts?

DeMarco, Edward

From: Carleton, Norman
Sent: Wednesday, August 29, 2001 11:15 AM
To: Fisher, Peter; Roseboro, Brian; Bair, Sheila; Nickoloff, Peter; Schultheiss, Heidilynne; DeMarco, Edward; Hughes, Gerry; Gross, Jared; Smith, Amy; Sutton, Gary; Ellett, Martha; Gabilondo, Jose; McInerney, Roberta; Lori Sanatamorena (E-mail)
Subject: Status of Retail Swap Study and the Enron Issue

[(b)(5)]

Any thoughts or recommendations? I will send around a separate note discussing the Enron issue in more detail.

DeMarco, Edward

From: McCall, Neal
Sent: Thursday, January 17, 2002 10:20 AM
To: DeMarco, Edward

Ed,

Just a few items.

1) Do I need to be briefed on what transpired in yesterday's pension security meeting?

[OUTSIDE SCOPE , (b)(5)]

[(b)(5)]

Neal

Hughes, Gerry

From: DeMarco, Edward
Sent: Wednesday, October 31, 2001 10:00 AM
To: Hughes, Gerry; Green, Matthew
Subject: FW: Netting Letter to be Signed by PWG and FDIC, OCC, and OTS

Wanted to be sure you guys saw this traffic.

-----Original Message-----
From: Ellis, Dina
Sent: Wednesday, October 31, 2001 9:42 AM
To: McGivern, Tom; Carleton, Norman; Bitsberger, Timothy; Bair, Sheila; DeMarco, Edward; Ellett, Martha; Gabilondo, Jose; Gross, Jared; Huffman, Lucy; Hughes, Gerry; McInerney, Roberta; Nickoloff, Peter; Roseboro, Brian; Salladin, Anne; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary; Tishuk, Brian; Duncan, John; Sanders, Traci; Dorsey, Karen
Subject: RE: Netting Letter to be Signed by PWG and FDIC, OCC, and OTS

[(b)(5)]

-----Original Message-----
From: McGivern, Tom
Sent: Wednesday, October 31, 2001 9:20 AM
To: Ellis, Dina; Carleton, Norman; Bitsberger, Timothy; Bair, Sheila; DeMarco, Edward; Ellett, Martha; Gabilondo, Jose; Gross, Jared; Huffman, Lucy; Hughes, Gerry; McInerney, Roberta; Nickoloff, Peter; Roseboro, Brian; Salladin, Anne; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary; Tishuk, Brian; Duncan, John; Sanders, Traci; Dorsey, Karen
Subject: RE: Netting Letter to be Signed by PWG and FDIC, OCC, and OTS

[(b)(5)]

-----Original Message-----
From: Ellis, Dina
Sent: Tuesday, October 30, 2001 3:02 PM
To: Carleton, Norman; Bitsberger, Timothy; Bair, Sheila; Constantine, Eleni; DeMarco, Edward; Ellett, Martha; 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: RE: Netting Letter to be Signed by PWG and FDIC, OCC, and OTS

[(b)(5)]

-----Original Message-----
From: Carleton, Norman
Sent: Tuesday, October 30, 2001 2:46 PM
To: Bitsberger, Timothy; Bair, Sheila; Constantine, Eleni; DeMarco, Edward; 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: Netting Letter to be Signed by PWG and FDIC, OCC, and OTS

<< File: Netting letter.doc >>
Attached is the proposed netting letter from the Federal Reserve. (It has merge mail features that you will have to delete in order to read it. Alternatively, you can use the quick view program to access the document.) It is awaiting approval from SEC Chairman Pitt. Below is an article I sent around earlier today indicating that some are trying to revive the Bankruptcy bill.

[(b)(5)]

Norman Carleton

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Subject: RE: Netting Letter to be Signed by PWG and FDIC, OCC, and OTS

I have spoken to a variety of people on possible movement of the bankruptcy bill. There is a slight chance that there will be a conference meeting next week but I don't see fasat movement on the bill.

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To: Bitsberger, Timothy; Bair, Sheila; Constantine, Eleni; DeMarco, Edward; 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
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[(b)(5)]

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At the end of the conversation, Ken indicated he would talk to his client about the issues I had raised.

[(b)(5)]

Bitsberger, Timothy

From:	Bitsberger, Timothy
Sent:	Wednesday, December 19, 2001 9:29 AM
To:	Bair, Sheila
Cc:	Roseboro, Brian
Subject:	speeches, Peter, and more speeches

Brian and I were in Peter's office yesterday and he listed four or five speeches he would like to make. He wants to hit Jan 1 running. Most pertain to debt management but in no particular order they are

[OUTSIDE SCOPE]

4. Enron [(b)(5)]
[OUTSIDE SCOPE]

We would love your help on #'s 4 and 5. Maybe your staff could even take the lead on one of those if their time permits. There is nothing to do right now--I just wanted to let you know what was up.

Tim

TREASURY CLEARANCE SHEET

NO.______
Date October 19, 1999

MEMORANDUM FOR: X SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
X ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER

Enron Accounting Story

FROM: Neal S. Wolin, Acting General Counsel
THROUGH:
TO: Secretary Summers
SUBJECT: Response to Letter from Kenneth L. Lay, Chairman and Chief Executive Officer of Enron Corp.

REVIEW OFFICES

X Under Secretary for Finance
☐ Domestic Finance
☐ Economic Policy
☐ Fiscal
☐ FMS
☐ Public Debt

☐ Under Secretary for Int'l Affairs
☐ International Affairs

☐ Enforcement
☐ ATF
☐ Customs
☐ FLETC
☐ Secret Service
☐ General Counsel
☐ Inspector General
☐ IRS
☐ Legislative Affairs
☐ Management
☐ OCC

☐ Policy Management
☐ Scheduling
☐ Public Affairs/Liaison
☐ Tax Policy
☐ Treasurer
☐ E & P
☐ Mint
☐ Savings Bonds

☐ Other

NAME (Please Type)	INITIAL	DATE	OFFICE/ROOM NO.	TEL. NO.
INITIATOR(S)				
Neal Wolin	NW	10/20/99	General Counsel Room 3000	x2-0283
REVIEWERS				
Lee Sachs		10/21	Assistant Secretary (Financial Markets)	2-2245
Gary Gensler	[illegible]		Under Secretary (Domestic Finance)	2-1703

NOTE:

☐ Review Officer Date: ☐ Executive Secretary Date

01200000001424

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 28, 1999

ACTION

MEMORANDUM FOR SECRETARY SUMMERS

FROM: Neal S. Wolin
Acting General Counsel

SUBJECT: Response to Letter from Kenneth L. Lay, Chairman and Chief Executive Officer of Enron Corp.

ACTION-FORCING EVENT

[(b)(5)]

RECOMMENDATION

[(b)(5)]

BACKGROUND

[(b)(5)]

[(b)(5)]

ATTACHMENTS

From: Davis, Michele
Sent: Wednesday, November 28, 2001 3:21 PM
To: Fisher, Peter
Cc: Holahan, Betsy
Subject: Enron question

The WSJ (Jake) wants a Treasury response to the question: do we see any systematic risk developing from Enron's meltdown?

[(b)(5)]

Fisher, Peter

From: Bair, Sheila
Sent: Wednesday, November 28, 2001 5:49 PM
To: Fisher, Peter; Adams, Tim
Subject: Enron

Importance: High

[(b)(5)]

01200000001459

Fisher, Peter

From: Fisher, Peter
Sent: Wednesday, November 28, 2001 6:05 PM
To: Gross, Jared
Subject: FW: Enron

Importance: High

fyi

-----Original Message-----
From: Bair, Sheila
Sent: Wednesday, November 28, 2001 5:49 PM
To: Fisher, Peter; Adams, Tim
Subject: Enron
Importance: High

[(b)(5)]

Fisher, Peter

From: Fisher, Peter
Sent: Wednesday, November 28, 2001 6:05 PM
To: Bair, Sheila
Subject: RE: Enron

thanks.
please copy jared when you send other stuff along.

-----Original Message-----
From: Bair, Sheila
Sent: Wednesday, November 28, 2001 5:49 PM
To: Fisher, Peter; Adams, Tim
Subject: Enron
Importance: High

[(b)(5)]

Gross, Jared

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fyi

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Sent: Wednesday, November 28, 2001 5:49 PM
To: Fisher, Peter; Adams, Tim
Subject: Enron
Importance: High

[(b)(5)]

Gross, Jared

From: Gross, Jared
Sent: Thursday, April 05, 2001 1:29 PM
To: Squitieri, Ray
Subject: RE: memo to Secretary on follow-up questions

The typo comments are fine (I assume that you have already made them). I haven't found anything to provide the type of analysis Rachel suggests... do you know of anything? As I recall from the President's Working Group study on OTC derivatives industry, there is very little data on the OTC markets broadly.

[(b)(5)]

-----Original Message-----
From: Squitieri, Ray
Sent: Thursday, April 05, 2001 1:16 PM
To: Gross, Jared
Subject: FW: memo to Secretary on follow-up questions

Here are several comments by Rachel. Would you read them, decide whether any changes are necessary to your section, and if so send me a new version? Thanks.

-----Original Message-----
From: Cononi, Rachel
Sent: Tuesday, April 03, 2001 9:55 AM
To: Squitieri, Ray
Subject: memo to Secretary on follow-up questions

Ray,
I found a couple of typos on the second page of energy derivatives memo. I hadn't seen this one before. [(b)(5)]

<< File: NEP ONeill 3 follow up Qs 0330.doc >>

Gross, Jared

From: Paulus, Michael
Sent: Friday, March 16, 2001 1:55 PM
To: Stewart, Lawranne
Cc: Gross, Jared
Subject: FW: Enron Meeting Request

FYI. I spoke with Eleni and told her the only info we had was that they wanted to talk about California energy crisis. She may be calling you to follow up further.

-----Original Message-----
From: Constantine, Eleni
Sent: Friday, March 16, 2001 1:48 PM
To: Paulus, Michael; McInerney, Roberta
Subject: RE: Enron Meeting Request

Michael, [(b)(5)]
I'm at 2-1934 if you want to just give me a call. thx

-----Original Message-----
From: Paulus, Michael
Sent: Thursday, March 15, 2001 6:02 PM
To: McInerney, Roberta; Constantine, Eleni
Subject: FW: Enron Meeting Request

Please see below. Any thoughts?

-----Original Message-----
From: Ellis, Dina
Sent: Thursday, March 15, 2001 5:59 PM
To: Fisher, Peter; Paulus, Michael; Carleton, Norman
Cc: Gross, Jared
Subject: RE: Enron Meeting Request

seems ok to me... [(b)(5)]

-----Original Message-----
From: Fisher, Peter
Sent: Thursday, March 15, 2001 5:31 PM
To: Paulus, Michael; Ellis, Dina; Carleton, Norman
Cc: Gross, Jared
Subject: RE: Enron Meeting Request

I also see no reason to object.

-----Original Message-----
From: Paulus, Michael
Sent: Thursday, March 15, 2001 5:27 PM
To: Ellis, Dina; Fisher, Peter; Carleton, Norman
Cc: Gross, Jared
Subject: Enron Meeting Request

Jeff Skilling, President and CEO of Enron has requested a meeting with the Secretary for April 5 to discuss the West Coast energy crisis. I see no reason to object. Thoughts?

Gross, Jared

From: Hammond, Donald
Sent: Thursday, February 15, 2001 10:25 AM
To: Carleton, Norman; DeMarco, Edward; Ellis, Dina; Huffman, Lucy; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawranne
Cc: Tishuk, Brian; Robbins, Eric; Paulus, Michael; Sutton, Gary; Huffman, Lucy; McGivern, Tom; Nickoloff, Peter; Schultheiss, Heidilynne; Gross, Jared
Subject: RE: Bankruptcy Reform Mark-up Hearing

Norman,

Thanks. I believe that the netting provisions will be a major agenda item at next week's Working Group meeting. I think it is very useful to have that discussion before meeting with the Hill staff.

Don

-----Original Message-----
From: Carleton, Norman
Sent: Thursday, February 15, 2001 10:07 AM
To: Hammond, Donald; DeMarco, Edward; Ellis, Dina; Huffman, Lucy; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawranne
Cc: Tishuk, Brian; Robbins, Eric; Paulus, Michael; Sutton, Gary; Huffman, Lucy; McGivern, Tom; Nickoloff, Peter; Schultheiss, Heidilynne; Gross, Jared
Subject: RE: Bankruptcy Reform Mark-up Hearing

Don,

[(b)(5)]

[(b)(5)]

Norman

-----Original Message-----
From: Hammond, Donald
Sent: Thursday, February 15, 2001 8:26 AM
To: DeMarco, Edward; Ellis, Dina; Huffman, Lucy; Carleton, Norman; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawranne
Cc: Tishuk, Brian; Robbins, Eric
Subject: RE: Bankruptcy Reform Mark-up Hearing

Ed,

[(b)(5)]

Don

-----Original Message-----
From: DeMarco, Edward
Sent: Thursday, February 15, 2001 8:22 AM
To: Hammond, Donald; Ellis, Dina; Huffman, Lucy; Carleton, Norman; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawranne
Cc: Tishuk, Brian; Robbins, Eric
Subject: FW: Bankruptcy Reform Mark-up Hearing

FYI

-----Original Message-----
From: Robbins, Eric
Sent: Wednesday, February 14, 2001 5:45 PM
To: DeMarco, Edward
Cc: Tishuk, Brian
Subject: Bankruptcy Reform Mark-up Hearing

H.R. 333, the "Bankruptcy Abuse Prevention and Consumer Protection Act 2001" was reported out of the House Judiciary Committee on Wednesday, February 14, 2001. During the mark-up hearing, eighteen amendments were offered with all but one amendment failing to pass. Voting occurred largely along party lines. The only amendment that passed was a technical amendment offered by Chairman Sensenbrenner. Only one Republican crossed party lines to vote for one of the seventeen other amendments that failed.

Representative Bachus (R-AL) assured the committee that he was committed to working with Representative Oxley from the Financial Services Committee on commercial bankruptcy provisions and netting requirements.

Ridgway, Diana

From:	Ridgway, Diana
Sent:	Friday, October 26, 2001 4:35 PM
To:	Fisher, Peter
Subject:	Tim Adams said Enron will call you.

You do not have to call him.

Tracking:

Recipient	Delivery	Read
Fisher, Peter	Delivered: 10/26/2001 4:35 PM	
Hart, Anna		Read: 10/26/2001 4:44 PM

Ridgway, Diana

From: Vannoy, Elizabeth on behalf of Aufhauser, David
Sent: Thursday, November 01, 2001 1:39 PM
To: Fisher, Peter
Cc: Hart, Anna; Pringle, Veronica; Ridgway, Diana
Subject: Enron

I have a young lawyer doing some background work on Enron should it become active. I am meeting with him tomorrow at 4:00 and wonder whether you want to attend.

David D. Aufhauser
General Counsel
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW, Room 3000
Washington, D.C. 20220
Phone: 202/622-0283 FAX: 202/622-2882

From: Gathers, Shirley
Sent: Friday, January 11, 2002 8:22 AM
To: Aufhauser, David; Kupfer, Jeffrey; Curry, Paul; Bair, Sheila; Fisher, Peter; Smith, Chris; Mejia, Annabella; Matera, Cheryl; Glasgow, Launa; Johnson, Linda; Davis, Michele
Cc: Strickler, Marie; Pringle, Veronica; Vannoy, Elizabeth; Hunt, Betty Ann; Ridgway, Diana; Hart, Anna; Woodard, Genevieve
Subject: Briefing

Please plan on attending a briefing w/David Aufhauser and Tim Adams re: Enron as follows:

Date: Friday, Jan. 11
Time: 10:30am - 10:45am
Location: Room 3408

Thanks.

Hart, Anna

From: Vannoy, Elizabeth on behalf of Aufhauser, David
Sent: Thursday, November 01, 2001 1:39 PM
To: Fisher, Peter
Cc: Hart, Anna; Pringle, Veronica; Ridgway, Diana
Subject: Enron

I have a young lawyer doing some background work on Enron should it become active. I am meeting with him tomorrow at 4:00 and wonder whether you want to attend.

David D. Aufhauser
General Counsel
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW, Room [illegible]
Washington, D.C. 20220
Phone: [illegible] FAX: [illegible]

01200000001609

Hart, Anna

From: Hart, Anna
Sent: Friday, December 14, 2001 3:29 PM
To: Fisher, Peter
Subject: Reminder to Call Roseboro and Bitsberger on Monday re Enron Speech

Tracking:

Recipient	Delivery
Fisher, Peter	Delivered: 12/14/2001 3:29 PM

01200000001610

From: Hart, Anna
Sent: Wednesday, January 09, 2002 4:00 PM
To: Bair, Sheila; Weinberger, Mark
Cc: Hunt, Betty Ann; Baker, Ros
Subject: Secy's Post Enron Iniative (Update)

Sorry, wrong time. Meeting is now scheduled for 8:00 a.m. not 5:00.

The above meeting has been scheduled for Friday, January 11 at 5:00 in Room 3312.

Tracking:

Recipient	Delivery
Bair, Sheila	Delivered: 01/09/2002 4:00 PM
Weinberger, Mark	Delivered: 01/09/2002 4:00 PM
Hunt, Betty Ann	Delivered: 01/09/2002 4:00 PM
Baker, Ros	Delivered: 01/09/2002 4:00 PM

Hart, Anna

From: Davis, Michele
Sent: Thursday, January 10, 2002 1:51 PM
To: Fisher, Peter
Cc: Hart, Anna
Subject: Enron

Follow Up Flag: Follow up
Flag Status: Flagged

please call me when you get a minute, so I can update you on what I'm saying and see if there's anything else I need to say.
Also, do you keep phone logs? If so, can you guys go ahead and search them for Enron calls in Oct or Nov? No one has asked yet, but better to be prepared for incoming questions.

From:	Hart, Anna
Sent:	Wednesday, January 16, 2002 12:38 PM
To:	Johnson, Alana
Subject:	Please call me re Enron FOIA

This is Diana Ridgway on Anna's computer. 622-1703.

Tracking:	**Recipient**	**Delivery**
	Johnson, Alana	Delivered: 01/16/2002 12:38 PM

Ellis, Dina

From: Hammond, Donald
Sent: Thursday, February 15, 2001 10:25 AM
To: Carleton, Norman; DeMarco, Edward; Ellis, Dina; Huffman, Lucy; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawranne
Cc: Tishuk, Brian; Robbins, Eric; Paulus, Michael; Sutton, Gary; Huffman, Lucy; McGivern, Tom; Nickoloff, Peter; Schultheiss, Heidilynne; Gross, Jared
Subject: RE: Bankruptcy Reform Mark-up Hearing

Norman,

[(b)(5)]

Don

-----Original Message-----
From: Carleton, Norman
Sent: Thursday, February 15, 2001 10:07 AM
To: Hammond, Donald; DeMarco, Edward; Ellis, Dina; Huffman, Lucy; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawranne
Cc: Tishuk, Brian; Robbins, Eric; Paulus, Michael; Sutton, Gary; Huffman, Lucy; McGivern, Tom; Nickoloff, Peter; Schultheiss, Heidilynne; Gross, Jared
Subject: RE: Bankruptcy Reform Mark-up Hearing

Don,

[(b)(5)]

[(b)(5)]

Norman

-----Original Message-----
From: Hammond, Donald
Sent: Thursday, February 15, 2001 8:26 AM
To: DeMarco, Edward; Ellis, Dina; Huffman, Lucy; Carleton, Norman; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawranne
Cc: Tishuk, Brian; Robbins, Eric
Subject: RE: Bankruptcy Reform Mark-up Hearing

Ed,

[(b)(5)]

Don

-----Original Message-----
From: DeMarco, Edward
Sent: Thursday, February 15, 2001 8:22 AM
To: Hammond, Donald; Ellis, Dina; Huffman, Lucy; Carleton, Norman; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawranne
Cc: Tishuk, Brian; Robbins, Eric
Subject: FW: Bankruptcy Reform Mark-up Hearing

FYI

-----Original Message-----
From: Robbins, Eric
Sent: Wednesday, February 14, 2001 5:45 PM
To: DeMarco, Edward
Cc: Tishuk, Brian
Subject: Bankruptcy Reform Mark-up Hearing

H.R. 333, the "Bankruptcy Abuse Prevention and Consumer Protection Act 2001" was reported out of the House Judiciary Committee on Wednesday, February 14, 2001. During the mark-up hearing, eighteen amendments were offered with all but one amendment failing to pass. Voting occurred largely along party lines. The only amendment that passed was a technical amendment offered by Chairman Sensenbrenner. Only one Republican crossed party lines to vote for one of the seventeen other amendments that failed.

Representative Bachus (R-AL) assured the committee that he was committed to working with Representative Oxley from the Financial Services Committee on commercial bankruptcy provisions and netting requirements.

Ellis, Dina

From:	Carleton, Norman
Sent:	Thursday, February 15, 2001 10:07 AM
To:	Hammond, Donald; DeMarco, Edward; Ellis, Dina; Huffman, Lucy; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawranne
Cc:	Tishuk, Brian; Robbins, Eric; Paulus, Michael; Sutton, Gary; Huffman, Lucy; McGivern, Tom; Nickoloff, Peter; Schultheiss, Heidilynne; Gross, Jared
Subject:	RE: Bankruptcy Reform Mark-up Hearing

Don,

[(b)(5)]

Norman

-----Original Message-----

From:	Hammond, Donald
Sent:	Thursday, February 15, 2001 8:26 AM
To:	DeMarco, Edward; Ellis, Dina; Huffman, Lucy; Carleton, Norman; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawranne
Cc:	Tishuk, Brian; Robbins, Eric
Subject:	RE: Bankruptcy Reform Mark-up Hearing

Ed,

[(b)(5)]

Norman,

[(b)(5)]

Don

-----Original Message-----
From: DeMarco, Edward
Sent: Thursday, February 15, 2001 8:22 AM
To: Hammond, Donald; Ellis, Dina; Huffman, Lucy; Carleton, Norman; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawranne
Cc: Tishuk, Brian; Robbins, Eric
Subject: FW: Bankruptcy Reform Mark-up Hearing

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Sent: Wednesday, February 14, 2001 5:45 PM
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Representative Bachus (R-AL) assured the committee that he was committed to working with Representative Oxley from the Financial Services Committee on commercial bankruptcy provisions and netting requirements.

Ellis, Dina

Subject:	Jeff Skilling, President & CEO, Enron Corp. -- Energy Crisis, Steel
Start:	Thu 04/05/2001 5:00 PM
End:	Thu 04/05/2001 5:30 PM
Show Time As:	Tentative
Recurrence:	(none)
Meeting Status:	Not yet responded
Required Attendees:	O'Neill, Paul H.; Aufhauser, David; Schmalzbach, Kenneth; Gathers, Shirley; Ellis, Dina; Valentic, Marsha; Harvey, Reavie; Flanagan, Rosemary; Stewart, Lawranne

THIS E-MAIL IS FOR NOTIFICATION PURPOSES ONLY, AND MAY NOT BE AN INVITATION TO ATTEND MEETING.

Ellis, Dina

From: McGivern, Tom
Sent: Wednesday, October 31, 2001 9:20 AM
To: Ellis, Dina; Carleton, Norman; Bitsberger, Timothy; Bair, Sheila; DeMarco, Edward; Ellett, Martha; Gabilondo, Jose; Gross, Jared; Huffman, Lucy; Hughes, Gerry; McInerney, Roberta; Nickoloff, Peter; Roseboro, Brian; Salladin, Anne; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary; Tishuk, Brian; Duncan, John; Sanders, Traci; Dorsey, Karen
Subject: RE: Netting Letter to be Signed by PWG and FDIC, OCC, and OTS

[(b)(5)]

-----Original Message-----
From: Ellis, Dina
Sent: Tuesday, October 30, 2001 3:02 PM
To: Carleton, Norman; Bitsberger, Timothy; Bair, Sheila; Constantine, Eleni; DeMarco, Edward; Ellett, Martha; 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: RE: Netting Letter to be Signed by PWG and FDIC, OCC, and OTS

I have spoken to a variety of people on possible movement of the bankruptcy bill. There is a slight chance that there will be a conference meeting next week but I don't see fasat movement on the bill.

-----Original Message-----
From: Carleton, Norman
Sent: Tuesday, October 30, 2001 2:46 PM
To: Bitsberger, Timothy; Bair, Sheila; Constantine, Eleni; DeMarco, Edward; 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: Netting Letter to be Signed by PWG and FDIC, OCC, and OTS

<< File: Netting letter.doc >>
Attached is the proposed netting letter from the Federal Reserve. (It has merge mail features that you will have to delete in order to read it. Alternatively, you can use the quick view program to access the document.) It is awaiting approval from SEC Chairman Pitt. Below is an article I sent around earlier today indicating that some are trying to revive the Bankruptcy bill.

[(b)(5)]

Norman Carleton

Bankruptcy Conference May Resume As Netting Bill Considered

The House Judiciary Committee will be turning its attention to other matters in the weeks remaining before adjournment - possibly including a conference on bankruptcy, *CongressDaily* reported. Further work on the legislation had been postponed after the Sept. 11 attacks occurred. The House and Senate conferees had been poised to meet Sept. 12. A spokesman for the committee yesterday said that no new conference date has been set, but staff members in recent weeks have continued to work on technical aspects of the bankruptcy measure. Judiciary Committee Chairman James Sensenbrenner (R-Wis.), who is chairing the conference committee, is determined to make a go of it before members leave town for the year, according to sources. While noting that the committee's agenda had not yet been formulated, his spokesman did not rule out the prospect. "It's definitely a possibility," he said.

Moreover, members of the House Financial Services Committee are trying to move a provision of the bankruptcy legislation pertaining to financial netting-perhaps as part of the economic stimulus package-in the event the underlying bill remains stalled.

That provision is designed to strengthen and update current statutory protections for netting financial market contracts if a party defaults. The netting language of the bill was one of the few consensus items included in the bankruptcy legislation. The economic downturn and the widening number of commercial bankruptcies could help create even stronger impetus for the provision to move separately, sources said.

House Financial Services Committee ranking member John LaFalce (D-N.Y.) urged shortly after the Sept. 11 terrorist attacks that the netting language be moved "expeditiously." In response, Treasury Secretary Paul O'Neill and Federal Reserve Chairman Alan Greenspan agreed "whether as part of comprehensive bankruptcy reform legislation or as a stand-alone bill, Congress should not fail to enact netting legislation this year." The Financial Services Committee had considered placing netting legislation on the schedule for markup this Wednesday, when it takes up a host of other bills. Committee leaders decided against such action, however. A spokeswoman for House Financial Services Committee Chairman Michael Oxley (R-Ohio) said he remained hopeful that the underlying bankruptcy bill could move intact.

Cave, Pat

From: Butler, John

Sent: Thursday, January 17, 2002 12:09 PM

To: pat.cave@do.treas.gov

Subject: GSEs

Pat, I'm glad to hear you are getting settled. I imagine Enron is occupying people's minds there. [(b)(5)]

Thanks. John