

Interview with Andy Fastow 9/20/2001

1. Agreement between Enron and LJM that LJM will not lose money.

No. LJM has lost money; New Power

Understands why questions because one might wonder why Enron would buy back.

- CLO/Merlin buyback
- Deal tanked after a month.
- Enron bought back not only from LJM.
- debt problem
- LJM got no return, just got money back, so GP lost money.

Not pre-arranged

Also dark fiber deal

- Dark fiber sold to LJM.
- Embedded in deal was a punitive marketing agreement. EBS obligated to market. If chose not to market, a priority rate of return to LJM.
- Reasons sold to LJM was timing. Third quarter needed income. Confident that EBS could put in another vehicle in fourth quarter.
- Might look like Enron bought back.

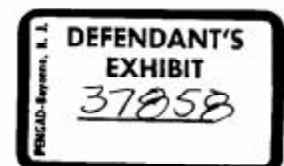
Cuiba Power facility project might be questioned.

- Sale to LJM1 permitted deconsolidation of investment.
- Earnings recognized in MTM.
- Deal involved punitive markup.
- Skilling agreed to buy back, June/July 2001.
  - Avoid punitive markup.
  - Gave Enron flexibility in dealing with its interests.

AF notes this is contrary to whole LJM idea. It would avoid true sale treatment.

2. Fees paid by Enron to LJM on Raptor

- In some deals, Enron would pick up fees, i.e., legal and accounting fees.
- Usually cheaper for Enron to pick up fees.
- Ongoing fee paid by Enron to manage Raptor vehicles. Four companies negotiated fee to manage vehicle. When Enron asked for restructure of Raptor entities, fee to LJM saying what it thinks costs were. Total amount paid were about \$1 million, \$250,000 for managing each. The verbal agreement was one million maximum fee.
- Andy uncertain about Arthur Andersen's treatment of fees. Aware that three percent equity was the key point, but doesn't know how accomplished.
- LJM organizational fees were not paid for by Enron. Concept was that Enron would make no investment in LJM. No reimbursement of organizational costs. Andy Fastow picked up costs of organization, marketing, i/e., paid Merrill Lynch to help raise funds.



3. LJM organization

Large number of

- LJM investors are Enron Banks.
- Extremely careful that no tie between Enron business and LJM investment.
- Banks might have thought it wouldn't do any harm to be an investor.
- Largest LJM investor got no Enron banking business.
- Most investors had no prior relationship with Enron.
  - Bank and insurance companies
    - Commercial
    - investment bankers
  - Pension funds.
    - Public, Arkansas Teachers.
    - Private, Weyerheuser.
  - High-net worth individuals
    - Jack Nealy, per Odyssey Funds
    - Other friends of Nealy
  - Foundations
    - MacArthur Foundation

4. Raptor Deal Sheets refer to put back to Enron within six months.

- Never read internal LJM write-up.
- Feature build into deal.
  - Raptor was new counterparty with which Enron could enter derivatives to hedge mark-to-market assets.
  - Calculation of rate of return was difficult/impossible.
  - Enron requested structure so that LJM would get return back within six months.
  - If Enron stock stayed at same level, profit distributions could be made.
  - If not at level, no profits.
  - Enron came early and settled out.
  - Puts at market after six months were part of deal, i.e., the deal could unwind.