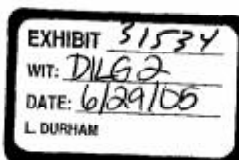


**Outline of Points to Discuss  
With Ken Lay and Jim Derrick**

1. Scope of undertaking
  - a. Review of factual information raised by anonymous letter
  - b. Per early discussion with Jim Derrick, decision made not to engage independent accountant at this stage
  - c. Determine whether the facts warrant a further independent legal or accounting investigation
  - d. Caveats:
    - (1) No second-guessing of accounting treatment by AA
    - (2) No detailed transaction analysis
    - (3) No discovery-style investigation



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2. Activities undertaken

a. Review of selected documents

(1) Board and committee minutes and presentations

(2) Public filings

(3) Deal approval sheets and investment summaries

(4) Miscellaneous materials

b. Interviews with key Enron and AA personnel

(1) Andy Fastow

(2) Rick Causey

(3) Rick Buy

(4) Greg Whalley

(5) Jeff McMahon

(6) Jordan Mintz

- (7) Mark Koenig/Paula Rieker
- (8) Sherron Watkins
- (9) David Duncan/Debra Cash (AA)

3. Identification of primary concerns

- a. Inherent conflict of interest by Andy Fastow's ownership in LJM
- b. Accounting treatment of Condor and Raptor structures
- c. Adequacy of disclosures to reflect the true nature of the Condor and Raptor vehicles
- d. Overlay of poor investment performance and impact on Enron's financial statements

4. Conflict of interest – findings
  - a. LJM was fully disclosed and approved in advance
  - b. Special approval procedures were adopted and utilized on transactions involving LJM
  - c. LJM transactions were reviewed by audit committee and finance committee on annual basis
  - d. No apparent economic harm to Enron as a result of the following perceived conflicts of interest:
    - (1) Pressure on Enron employees who negotiated with LJM, but who ultimately report to Fastow
    - (2) Potential tie-in between Enron business and investment in LJM

5. Accounting issues – findings

- a. All material facts of Condor and Raptor transactions appear to have been disclosed to and reviewed by AA
  
- b. In several areas, AA relied on business judgment of Enron
  - (1) Business purpose of specific transactions
  
  - (2) Valuation of assets placed in Condor and Raptor structures
  
- c. Enron and AA representatives both acknowledge that the accounting treatment is aggressive, but no reason to believe inappropriate from a technical standpoint

- d. AA's audit opinion and report to audit committee implicitly approves of the transactions involving Condor and Raptor structures

6. Adequacy of disclosures – findings

- a. AA is comfortable with the footnotes to the financials describing the Condor and Raptor structures and other LJM transactions
- b. One could always argue that disclosures contained in proxy solicitations, management's discussions and analysis of financials and financial footnotes could be more detailed

7. Bad cosmetics

- a. Concern frequently expressed that the transactions with Condor and Raptor would not look good if subjected to a Wall Street Journal exposé or a class action lawsuit
  
- b. The concerns are fueled by:
  - (1) use of Enron stock to support transactions with Condor and Raptor
  
  - (2) recognizing earnings through derivative transactions with Raptor when it could be argued that there was no true "third party" involved
  
  - (3) because both merchant investment value and Enron stock have fallen, the Raptor entities may not be able to repay their debt to Enron, thus raising the question "Who ultimately bears this loss?"

(4) the inherent conflict of interest issue

(a) valuation

(b) timing

c. Notwithstanding these bad cosmetics, Enron representatives uniformly stated that the Condor and Raptor vehicles were clever, useful vehicles that benefitted Enron

8. Conclusion:

a. The facts disclosed through this review do not warrant further investigation by independent counsel and auditors.

b. Bad cosmetics and poor market conditions give rise to the serious risks of adverse publicity and litigation.



c. AA will want assurances that this review did not disclose facts previously unknown to them (which raises the issue of waiver of the attorney client privileges). AA will want the following assurances, at a minimum,

- (1) that Enron had no agreement with LJM that LJM would not lose money;
- (2) that Enron paid no fees to LJM in excess of those disclosed to AA.

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