

**From:** Rieker, Paula  
**Sent:** Monday, October 22, 2001 4:27 PM  
**To:** Mayeux, Gay  
**Subject:** FW:

**Importance:** High  
**Sensitivity:** Confidential

Still a work in process per Mark Palmer, but perhaps it will help you out as you draft the call script. Let's keep an eye out for any inconsistencies. THX

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

**From:** Denne, Karen  
**Sent:** Monday, October 22, 2001 6:23 PM  
**To:** Rieker, Paula  
**Subject:**  
**Importance:** High  
**Sensitivity:** Confidential



LJMmediaQ&A.doc



LJMQ&A4.doc

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DEF 1611  
CR-H-04-25

**Media Q&A**  
**Oct. 22, 2001**

**What did you receive from the SEC?**

Enron received a letter and subsequent phone call requesting that we voluntarily provide information regarding certain related party transactions.

**When did you receive the request from the SEC?**

We received a fax on Wednesday afternoon, Oct. 17, 2001, and a phone call on Thursday afternoon, Oct. 18, 2001.

**What did you do about the request from the SEC when you received it?**

An informal inquiry is not a material event; however, because of the high visibility of Enron and the recent public spotlight on the transaction, we convened a meeting of our Board as soon as possible. We recommended that we announce the SEC request; the Board agreed, and we made the release prior to the market opening on Monday, Oct. 22, 2001.

**What are you going to do about the request?**

We are cooperating fully with the SEC and see the request as an opportunity to put this issue behind us.

## Q&A

### LJM/Related Party Transactions

#### **What is LJM?**

LJM is a private equity fund formed by Andy Fastow, Enron's CFO.

#### **Why did Enron create a financing vehicle like LJM?**

Enron did not create LJM.

#### **What was the benefit to Enron by using a related party?**

A private equity fund would enable Enron to reliably and efficiently access capital to meet some of its needs. Enron management agreed to effect this arrangement to facilitate transactions the company believed were in the best interests of Enron and its shareholders. Enron believed Andy's knowledge of Enron's business and strategy could enable LJM to be a reliable source of funding capable of expeditiously agreeing to transactions Enron desired to pursue.

#### **How is the LJM deal related to the \$1.2 billion shareholder equity reduction?**

The shareholder equity reduction was related to the decline in value of several Enron investments, including New Power Co. and certain broadband and technology investments. (Causey, et. al to expand)

#### **What controls/reviews were in place to address any conflict of interest?**

(Derrick and Causey)

#### **What other related party transactions did Enron do? How many involved Andy Fastow?**

(Causey and Fastow)

#### **How were these transactions and Andy's relationship disclosed?**

Yes. These transactions were disclosed in Enron's SEC filings including its quarterly and annual reports and its proxy statements.

#### **Why didn't you disclose the \$1.2 billion reduction in shareholder equity in the third quarter earnings release?**

We were not required to disclose that reduction prior to our 10-Q, which will be filed in mid-November. However, we provided and discussed it.

#### **What are: Raptor? Osprey? Whitewing?**

(Causey) What forum? Why discuss?

#### **Did any board members or other employees personally benefit from LJM?**

(Fastow)

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## **Andy Fastow**

### **Why did Andy Fastow act as both general partner of LJM and other related parties and as Enron's CFO?**

A private equity fund would enable Enron to reliably and efficiently access capital to meet some of its needs. Enron management agreed to effect this arrangement to facilitate transactions the company believed were in the best interests of Enron and its shareholders. Enron believed Andy's knowledge of Enron's business and strategy could enable LJM to be a reliable source of funding capable of expeditiously agreeing to transactions Enron desired to pursue. As required by Enron policies, the creation of LJM was presented to, and reviewed and approved by Enron's Board of Directors. Transactions with LJM were approved in accordance with the procedures and policies established by the Board of Directors.

### **What governance provisions were put in place to guard against a conflict of interest? Were they complied with?**

(Derrick)

### **Why is Andy still at the company?**

Andy's participation in LJM was approved by the Board. The transactions Enron engaged in with LJM were believed by management (other than Mr. Fastow) to be in the best interests of Enron and its stockholders. Andy has been with the company since 1990. During his service to the company he has been instrumental in transforming Enron and creating billions of dollars in value for Enron shareholders. We will not disregard these contributions due to controversies over a relationship we knew about, and approved, or transactions we believed to be in the best interests of Enron and its shareholders, because of unfounded speculation or innuendo in the media.

### **Is Andy still general partner of LJM?**

No. Andy disposed of all of his interests in LJM in June 2001.

### **How much money did Andy make from his participation in LJM?**

Andy was paid by LJM, not by Enron.

### **What does LJM stand for?**

We don't know.

### **In the Wall Street Journal, one of Enron's directors said the LJM structure was intended as a way to keep or compensate Andy. Was this part of the reason for Andy's participation?**

No, the creation of LJM was not intended by Enron to be compensation to Andy for his services to Enron. However, in order to attract investors it was important for Andy to have a stake in the success or failure of LJM.

### **What other Enron employees were partners or had a financial stake in LJM?**

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## **SEC Inquiry**

### **What is the nature of the SEC request?**

At this point, we have received a request for information from the SEC. The SEC is asking us to voluntarily provide information concerning our related party transactions. We are in the process of compiling that information and will deliver it to the SEC as soon as possible. Based on this review, the SEC may or may not decide to move on to a formal investigation. Either way, we welcome the opportunity to put any concern about the nature of these transactions to rest.

### **When did you receive the inquiry from the SEC?**

We received a fax late Oct. 17, which was followed by a phone call late on October 18.

### **Why did you wait five days to disclose?**

An informal inquiry is not a material event; however, because of the high visibility of Enron and the recent media discussion of the company, we convened a meeting of our Board as soon as possible. We recommended that we announce the SEC request; the Board agreed and we made the release before market opening on Monday.

### **What is the purview of this inquiry?**

The SEC has requested information about related party transactions.

### **Is there a deadline for providing the information?**

We cannot provide specifics regarding the inquiry, but we are moving quickly to provide the information.

### **Are you conducting your own investigation?**

We have reviewed the transactions with our inside auditors and lawyers and in all cases acted appropriately.

### **Is there any litigation pending?**

We can confirm that lawsuits have been filed, but we don't comment further on pending litigation.

## **Enron Issues**

### **What was Jeff Skilling's role in the LJM deal? Was this the reason Jeff left?**

**What role did other senior management have – particularly the ones who have left in the last year – Lou Pai, Ken Rice, Kevin Hannon, Cliff Baxter, Joe Sutton?**

**Has everyone who currently works for Enron removed themselves from these partnerships?**

Yes.

**Are we at risk for a takeover?**

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We don't know.

**Do you anticipate further writeoffs?**

The charges to earnings we took in the third quarter were included all the currently known charges. We continue to have a number of issues that we are managing carefully, including India, Broadband and California. All of these areas are well known and actively managed.

**Is the \$1.01 billion third quarter write-off and \$1.2 billion reduction in shareholder equity going to result in more layoffs?**

There are no reductions in work force related to these items. We will continue as part of our day-to-day business to review staffing levels and add, reduce, or move staff as appropriate to capture opportunities in our business.

**Ethics**

**How is Enron's arrangement with LJM consistent with Enron's code of ethics and Enron's vision and values?**

The Enron code of ethics was respected through seeking approval of the Board of Directors in establishing LJM and following the procedures established by the Board in transacting with LJM. Transactions with a related party are not prohibited; they must be disclosed, reviewed and approved. They were. The transactions were entered into to benefit Enron and its shareholders, they were reviewed, approved and disclosed as required. We did not fully appreciate how difficult it would be to explain to employees how these transactions created value. Going forward we will be paying attention not just to what value we are creating, but what perceptions we are creating.