

Before Debacle, Enron Insiders Cashed In \$1.1 Billion in Shares

Leslie Wayne.

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While investigators are focusing on how much money investors and employees lost in the Enron Corporation's collapse, some shareholders and lawmakers are now setting their sights on another target: the millions that Enron insiders received by selling their shares while the price was still high.

As Enron stock climbed and Wall Street was still promoting it, a group of 29 Enron executives and directors began to sell their shares. These insiders received \$1.1 billion by selling 17.3 million shares from 1999 through mid-2001, according to court filings based on public records. They continued selling just before Enron's stock started to tumble early last year and the company began its slide into bankruptcy protection.

One of the biggest sellers was Kenneth L. Lay, who became prominent as the company's chairman and a leading contributor to President Bush. He was among more than a dozen Enron executives who received \$30 million or more, including one who sold shares valued at \$353.7 million.

Lawyers and spokesmen for the executives, board members and the company said that the sales were proper, and that the insiders had no special information or advantages over other investors.

"This issue is being investigated," said Robert S. Bennett, a lawyer for Enron. "But at this point in time, I am unaware of any evidence that supports the allegation there was improper selling by members of the board or senior management."

Many of these Enron executives retain large holdings in the company, selling shares regularly, as executives at other companies do. "In many instances, the sale of the stock was preplanned according to a strict timetable," Mr. Bennett said.

Mr. Lay himself sold Enron stock 350 times, trading almost daily, receiving \$101.3 million. In all, Mr. Lay sold 1.8 million Enron shares between early 1999 and July 2001, five months before Enron filed for bankruptcy. As of last February, he still owned more than 7.7 million shares.

Mr. Lay sold his stock for \$31 to \$86 a share; this week, Enron was selling for under 70 cents a share. Often, Mr. Lay sold in amounts as small as 500 shares, while at other times he sold as many as 100,000 shares.

It has not been determined how much Mr. Lay or the others paid for their shares, or how much they gained. Much of Mr. Lay's holdings, and those of other executives, were in the form of stock options, which allowed them to buy shares at a discount.

Other top sellers were Lou L. Pai, the former chairman of an Enron subsidiary, who received \$353.7 million for his 5 million shares; Rebecca P. Mark-Jusbasche, a director and former Enron executive who received \$79.5 million for 1.4 million shares; and Ken L. Harrison, a director who sold 1 million shares for \$75.2 million.

Jeffrey K. Skilling, the company's former chief executive, received \$66.9 million for 1.1 million shares. Beginning in December 2000, Mr. Skilling began to sell his holdings at a pace of

10,000 shares about every seven days. He still owns about 600,000 shares and options, according to public filings.

Andrew S. Fastow, the company's ousted chief financial officer, who set up many of the financial partnerships that have been criticized for concealing Enron's large debts, received \$30 million for his holdings.

A detailed accounting of these trades is contained in a lawsuit brought by Amalgamated Bank, of New York, which invested the pension money of union members in Enron shares. Representing the bank in this case, which is now in the Federal District Court in Houston, is the same law firm that brought shareholder suits against Charles H. Keating Jr. in the savings and loan scandal and against Michael R. Milken, the junk bond financier, for securities fraud.

While the suit has received little attention so far, it highlights one of the main points in the political debate now taking place in Washington -- whether small shareholders were left out of a flow of information about Enron's deteriorating financial condition.

The differences in the trading strategies of the two groups -- those outside the company who were buying Enron's shares and those inside the company who were selling them -- reflect the different information that each group had, according to the suit.

"The defendants employed devices, schemes and artifices to defraud," the lawsuit states. It accuses the 29 defendants of "unlawful insider trading" and says the group "materially misled the investing public" by issuing false statements.

Senator Joseph I. Lieberman, Democrat of Connecticut and chairman of the Senate government affairs committee, has already announced hearings that will, in part, look at how Enron shareholders might have been deceived by the company's financial statements. Senator Barbara Boxer, Democrat of California, has also expressed concern for Enron's small shareholders, especially employees who put its shares in their 401(k) retirement plans only to lose their savings.

Representative Henry A. Waxman of California, the ranking Democrat on the House Commerce Committee, released a letter yesterday asking Mr. Lay to answer questions about optimistic statements Mr. Waxman said that Mr. Lay had made in e-mail messages to employees last August. In the e-mail, gathered by staff investigators, Mr. Lay said that Enron remained strong.

At Enron, more than half of the employees' 401(k) assets, or about \$1.2 billion, was invested in company stock, which is now nearly worthless. Billions more were lost by other investors, from individuals to large institutions that bought Enron shares for the pension plans of unions and corporations.

The lawsuit claims the insiders withheld information, allowing Enron's shares to remain at an artificially high level while they were selling their shares. "This is the most massive insider bailout that we've ever seen and we've been prosecuting these cases for 30 years," said William S. Lerach, one of the bank's lead attorneys. "The overall size of this case is unprecedented."

Spokesmen for some of the defendants say that this group had done nothing wrong. An Enron spokesman, Mark Palmer, dismissed the suit as "completely without merit" and a "weak argument."

Gordon G. Andrew, a spokesman for Mr. Fastow, the former chief financial officer, declined to comment, but said that Mr. Fastow still had about 50 percent of his original holdings. Mr. Andrew said that Mr. Fastow's last stock sale took place in November 2000 and that Mr. Fastow had purchased shares in early 2001.

A spokeswoman for Mr. Skilling, the former chief executive, said that "there is absolutely no basis to the allegation that Mr. Skilling did anything improper with regard to the sale of Enron stock." The defendants have not yet filed answers to the complaint. Arthur Andersen & Company, also named, declined to comment.

At the top end of the selling was Mr. Pai, who headed an Enron subsidiary called NewPower Holdings, an online retailer of electricity and natural gas. Before leaving Enron last spring, Mr. Pai sold five million shares of Enron between January 1999 and July 2001 for \$353.7 million.

In January 2000, just 60 days after the formation of NewPower, Mr. Pai received more than two million Enron shares. He began to sell them almost immediately, mostly while they were trading above \$70.

Enron directors, also named in the case, sold stock too. All Enron directors receive stock options as part of their \$380,619 annual fees. Of that, 15 percent was paid in cash, the remainder in stock.

One director, Wendy L. Gramm, the wife of Senator Phil Gramm, Republican of Texas, sold all her 10,256 shares for \$276,912. She sold the stock on one day -- Nov. 3, 1998 -- for \$27 a share. Ms. Gramm said earlier that she and her husband decided to sell their Enron shares to avoid the appearance of a conflict. She was then paid in cash.

The Securities and Exchange Commission and the Justice Department are both investigating Enron. A Senate committee issued 51 subpoenas Friday as part of an investigation into the insiders' stock sales.

The investigations should aid the case against the insiders, said Michael Hennigan, a Los Angeles lawyer in the Orange County, Calif., bankruptcy lawsuit. "I assume that the government is going after the exact same things that Lerach is after," he said, referring to the lawyer for the bank suing Enron.

Last week, a federal judge declined to immediately freeze the assets of the defendants, asking for further information before reconsidering the request.

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Cheney or Staff Met Enron Execs 6 Times; Energy: A White House letter says the company did not discuss its financial problems at the meetings.; [Home Edition]

RICHARD SIMON. Los Angeles Times. Los Angeles, Calif.: Jan 9, 2002. pg. C.1

Vice President Dick Cheney or members of his energy task force met six times last year with executives of Enron Corp. but did not discuss the energy company's financial problems that led to the biggest bankruptcy in U.S. history, according to a White House letter released Tuesday.

The letter was the first detailed response by the vice president's office to congressional inquiries about meetings Cheney and his staff held with outside interests while drafting energy policy.

David S. Addington, counsel to the vice president, said Cheney and Enron Chairman and Chief Executive Kenneth L. Lay met for a half-hour April 17 to discuss energy policy, including California's energy crisis.

Enron representatives met with the vice president's staff on five other occasions, Addington said.

In a letter sent to Cheney on Tuesday, Rep. Henry A. Waxman (D- Los Angeles), who has sought details of the meetings, said the disclosures show that "the access provided to Enron far exceeded the access provided by the White House to other parties interested in energy policy."

Addington, however, said the energy task force staff was meeting during that same period with a broad range of individuals involved in energy policy.

Cheney's staff first met with Enron executives Feb. 22. Their last meeting was Oct. 10, six days before the company's slide began.

On Oct. 16, Enron reported a third-quarter loss of \$638 million and disclosed a \$1.2-billion reduction in shareholder equity. On Nov. 8, it announced it had overstated its earnings by \$586 million during the last four years. The company filed for protection from its creditors Dec. 2.

"Enron did not communicate information about its financial position in any of the meetings," Addington said in a Jan. 3 letter to Waxman.

Waxman, who initially wrote the White House last month seeking information about the meetings, said the disclosures raise additional questions about the extent to which Enron may have influenced the administration's energy policy. The task force's report, released in May, called for expanded drilling for oil and gas on public land, more rapid approval processes for power plants and greater use of nuclear power, among other recommendations.

And in his Tuesday letter to Cheney, Waxman asked the vice president to provide more information, including copies of any documents discussed and records of any e-mails and telephone calls between Enron executives and White House officials.

The White House indicated to news services late Tuesday that no additional information would be provided.

The exchange of letters between Cheney's office and Waxman, the top Democrat on the House Government Reform Committee, was the latest development in a months-long controversy expected to heat up in coming weeks as several congressional committees investigate Enron's collapse. One probe is likely to touch on President Bush's ties to Lay, a major donor and fund-raiser for Bush in the 2000 campaign.

Bush recently said he had no recent contact with Enron executives and he would let the probes lead where they may.

Cheney had resisted congressional efforts to learn about the private meetings held by the task force. But Waxman, citing Enron's collapse, urged Cheney in December to reconsider his position.

Critics of the White House energy plan contend that industry leaders were influential in shaping policy. Administration officials defend the secrecy, saying it was necessary to foster a free exchange of ideas.

Although Cheney's office provided some details of the meetings with Enron officials, the dispute over how much information should be made public about the meetings appears far from over.

Addington told Waxman that the information was being provided "as a matter of comity between the legislative and executive branches, with due regard for the constitutional separation of powers, and reserving all legal authorities and privileges that may apply. It is our hope that submission of the information will help you avoid the waste of time and taxpayer funds on unnecessary inquiries."

He also noted that the day after his meeting with Lay, Cheney spoke out against the use of price controls to bring down California's soaring electricity costs. Cheney, however, already had been on record against price controls.

Also Tuesday, Enron confirmed it received bids for a controlling stake in its energy-trading unit, according to Bloomberg News. But it would not confirm published reports identifying the bidders, including Citigroup Inc. and UBS.

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