Enron Jolt: Investments, Assets Generate Big Loss --- Part of Charge Tied To 2 Partnerships Interests Wall Street

By John **Emshwiller** and Rebecca Smith

Staff Reporters of The Wall Street Journal

10/17/2001

The Wall Street Journal

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Enron Corp. yesterday took a $1.01 billion charge mostly connected with write-downs of soured investments, producing a $618 million third-quarter loss. The loss highlights the risks the onetime highflier has taken in transforming itself from a pipeline company into a behemoth that trades everything from electricity to weather futures.

In addition to the size of the charge, a particular slice raises anew vexing conflict-of-interest questions. The slice is connected with a pair of limited partnerships that until recently were run by **Enron**'s chief financial officer. The company said the charge connected with the partnerships is $35 million and involves the "early termination . . . of certain structured finance arrangements."

Two years ago, the chief financial officer, Andrew S. Fastow, entered into the unusual arrangement with his employer. With the approval of the board of **Enron**, Mr. Fastow set up and ran the partnerships that stood to make him millions or more, according to partnership documents. While the company says that this arrangement was proper, some corporate-governance watchdogs have questioned whether a chief financial officer, who is responsible for overseeing the financial interests of the company, should have been involved in such a partnership that was, among other things, looking to purchase assets from **Enron**.

The two partnerships, LJM Cayman LP and the much larger LJM2 Co-Investment LP, have engaged in billions of dollars of complex hedging transactions with **Enron** involving company assets and millions of shares of **Enron** stock. It isn't clear from **Enron** filings with the Securities and Exchange Commission what **Enron** received in return for providing these assets and shares. In a number of transactions, notes receivable were provided by partnership-related entities.

Mr. Fastow's role as chief financial officer made him privy to internal asset analyses at **Enron**. An offering memorandum for the LJM2 partnership said that this dual role "should result in a steady flow of opportunities . . . to make investments at attractive prices." Mr. Fastow would find his interests "aligned" with investors because the "economics of the partnership would have significant impact on the general partner's wealth," according to this document.

In a written statement in response to questions, **Enron**, based in Houston, said "there never was any obligation for **Enron** to do any transaction with LJM. **Enron** and its Board established special review and approval processes with its senior management and external audit and legal counsel to ensure that each transaction with the LJM partnership was fair, in the best interest of **Enron** and its shareholders, and appropriately disclosed."

Mr. Fastow, through an **Enron** spokesman, declined to be interviewed.

In announcing the third-quarter loss, **Enron** said the partnership-related write-offs were part of a larger $544 million charge related to the diminished value of investments in a retail-power business, broadband telecommunications and technology. In addition, there was also a $287 million write-off resulting from its investment in Azurix Corp., a water company **Enron** spun off and then repurchased. In all, **Enron** posted a third-quarter loss of 84 cents a share, compared with a gain of 34 cents a share in the year-earlier period. Revenue rose 59% to $47.6 billion.

At 4 p.m. yesterday, **Enron**'s stock was up 67 cents a share to $33.84 in composite trading on the New York Stock Exchange, but remains far below its 52-week high of $84.88. On Monday, the day before the earnings announcement, **Enron** stock dropped by about 7%.

In an interview, **Enron**'s chairman and chief executive, Kenneth Lay, said the write-offs were designed as part of an effort to "find anything and everything that was a distraction and was causing a cloud over the company."

The quarterly loss is the latest in a series of setbacks faced by **Enron** recently after years of almost unbroken success. There have been mounting problems from expensive moves into the water and telecommunications businesses.

And there has been a steady stream of executive departures, most notably the surprise resignation in August of **Enron**'s president and chief executive, Jeffrey Skilling, who said he left for personal reasons and because of the fallen stock price.

The partnership arrangement involving Mr. Fastow, the highly regarded chief financial officer, first surfaced in an **Enron** SEC filing in 1999, but only recently has it attracted Wall Street's concern. In late July, Mr. Fastow severed his relations with the partnerships, according to a company SEC filing. Company officials said that move was partly related to questions raised by analysts and large **Enron** shareholders.

Little about the inner workings of the LJM partnerships has been disclosed to date. Private partnership documents reviewed by The Wall Street Journal indicate that **Enron** agreed to a partnership arrangement

Enron CFO's Partnership Had Millions in Profit

By Rebecca Smith and John R. **Emshwiller**

Staff Reporters of The Wall Street Journal

10/19/2001

The Wall Street Journal

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A limited partnership organized by **Enron** Corp.'s chief financial officer, Andrew S. Fastow, realized millions of dollars in profits in transactions it did with **Enron**, according to an internal partnership document.

The partnership, in some instances, benefited from renegotiating the terms of existing deals with the Houston energy company in ways that improved the partnership's financial positions or reduced its risk of losses.

Mr. Fastow, and possibly a handful of partnership associates, realized more than $7 million last year in management fees and about $4 million in capital increases on an investment of nearly $3 million in the partnership, which was set up in December 1999 principally to do business with **Enron**.

The profits from the deals were disclosed in a financial report to investors in the partnership, LJM2 Co-Investment LP, that was signed by Mr. Fastow as the general partner and dated April 30. In one case, the report indicates the partnership was able to improve profits by terminating a transaction early.

The LJM2 arrangement has become controversial for **Enron**, as shareholders and analysts have raised questions about whether it posed a conflict by putting the company's chief financial officer, who has a fiduciary duty to **Enron** shareholders, in a position of reaping financial rewards for representing LJM2 investors in business deals with **Enron**. Investors in LJM2 include Wachovia Corp., General Electric Co.'s General Electric Capital Corp. and Credit Suisse Group's Credit Suisse First Boston.

Attention has focused on Mr. Fastow's partnership activities at a tumultuous time for **Enron**, which over the past decade grew enormously by becoming the nation's biggest energy-trading company.

This year, though, it has been hit by a string of troubles, from soured business initiatives to executive departures. On Tuesday, **Enron** announced a $618 million third-quarter loss, because of a $1.01 billion write-off on investments in broadband telecommunications, retail energy services and Azurix Corp., a water company. A small chunk of that write-off, about $35 million, was attributed to ending certain LJM2-related transactions. That termination also produced a $1.2 billion reduction in **Enron** shareholder equity as the company decided to repurchase 55 million shares that had been part of LJM2 deals.

At 4 p.m. in New York Stock Exchange composite trading, **Enron** was down 9.9%, or $3.20, to $29 a share. Within the past year, the stock had topped $80 a share.

Enron officials didn't have any comment about the LJM2 partnership document. **Enron** has consistently said its dealings with LJM2 have been proper. They said the LJM2 deals, like ones done with other parties, were aimed at helping hedge against fluctuating market values of its assets and adding sources of capital.

Mr. Fastow has declined several requests for an interview about LJM2. In late July, he formally severed his ties with LJM2, as a result of what **Enron** officials said was growing unease by Wall Street analysts and major shareholders. Mr. Fastow has been finance chief of **Enron** since 1997 and has been with the firm 11 years, which included extensive work setting up and managing company investments.

Michael Kopper, a former **Enron** executive who an **Enron** spokesman said is now helping to operate LJM2, declined to comment. He also wouldn't describe his relation to LJM2.

In his April 30 report, Mr. Fastow said the partnership, which raised $394 million, had invested in several **Enron**-related deals involving power plants and other assets as well as company stock. The document said LJM2 sought a 29% internal rate of return. That was down from a 48% targeted rate of return at the end of 2000, which the document said was due in part to a decline in the value of LJM2's investment in New Power Co., an **Enron**-related energy retailer. In some transactions, LJM2 did much better than the 29% target, though this sometimes involved renegotiating individual deals.

In September 2000, the partnership invested $30 million in "Raptor III," which involved writing put options committing LJM2 to buy **Enron** stock at a set price for six months. Four months into this deal, LJM2 approached **Enron** to settle the investment early, "causing LJM2 to receive its $30 million capital invested plus $10.5 million in profit," the report said. The renegotiation was before a decline in **Enron**'s stock price, which could have forced LJM2 to buy **Enron** shares at a loss of as much as $8 each, the document indicated.

Enron Transaction Raises New Questions --- A Company Executive Ran Entity That Received $35 Million in March

By John R. **Emshwiller** Staff Reporter of The Wall Street Journal 11/05/2001

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In a transaction that raises new questions about **Enron** Corp.'s financial dealings with its management, the company in March made a $35 million purchase from an entity run by a company officer.

That payment appears to have been the last step in a complex series of transactions that allowed **Enron** to keep hundreds of millions of dollars of debt off its balance sheet for the past three years, during which the Houston-based energy-trading giant has grown rapidly. In recent weeks, **Enron**'s labyrinth of financial transactions, particularly with members of company management, has come under intense scrutiny from investors and regulators, who are seeking information about the impact of the transactions on the company and whether **Enron** adequately disclosed the deals to the public. **Enron** last week disclosed that the Securities and Exchange Commission had begun a formal investigation.

Enron officials have said repeatedly that all their actions were legal and properly disclosed. They have promised to cooperate with the SEC probe.

Enron officials wouldn't discuss the $35 million transaction. What has been learned about it was gleaned from interviews with others familiar with the matter, snippets from **Enron** SEC filings and private partnership documents. Based on these sources, the **Enron** officer involved in the transaction was Michael Kopper, a former managing director of the company's **Enron** North America unit. The entity receiving the $35 million was Chewco Investments LP. It wasn't clear from the available information what form the payment took or what, if any, gain Chewco or Mr. Kopper realized.

Mr. Kopper, who a company spokesman says left **Enron** in July, didn't return phone calls seeking comment. In the past, he has declined to be interviewed.

At **Enron**, Mr. Kopper was an associate of Andrew Fastow, the company's chief financial officer until last month. In 1999, they set up and subsequently ran a private partnership known as LJM2 Co-Investment LP, which was involved in billions of dollars of transactions with **Enron**, according to private-partnership documents and company SEC filings. Those partnership documents indicate Mr. Fastow and possibly a handful of **Enron** associates, including Mr. Kopper, made millions of dollars in fees and investment gains from LJM2.

Last month, in response to mounting controversy over the partnership dealings, **Enron** replaced Mr. Fastow as chief financial officer. Mr. Fastow hasn't responded to numerous interview requests.

Chewco is mentioned in a brief biography of Mr. Kopper that is part of a 1999 offering memorandum for the LJM2 partnership. The document said Mr. Kopper, besides being a "principal" of LJM2, "manages the general partner of Chewco, an investment fund with approximately $400 million in capital commitments that was established in 1997 to purchase from **Enron** an interest in a defined pool of **Enron** assets." The document doesn't specify what assets were purchased.

Chewco's name also appears as the debtor in a 1997 filing with the office of the Texas secretary of state. The secured party, and presumably the lender, on that debt was a limited partnership called Joint Energy Development Investments LP.

Known as JEDI, this limited partnership was created in 1993 by **Enron** and the huge California Public Employees' Retirement System to make energy-related investments. According to **Enron** SEC filings, the company and Calpers each put in $250 million and an **Enron** affiliate served as JEDI general partner and operator.

Besides bringing in outside equity, entities such as JEDI allowed **Enron** to borrow large sums for asset purchases without that debt showing up on

Enron's balance sheet. In recent years, top **Enron** officials have said publicly that keeping down debt load was vital to protecting the company's credit rating and sustaining its tremendous growth. At the end of 1995, **Enron** had $13.2 billion in assets; as of June 30, it had $63.4 billion.

Messrs. Kopper and Fastow had "extensive involvement in the organization, investment activity and operations" of JEDI, according to the 1999 LJM2 private-offering memorandum. JEDI invested $2.1 billion in 63 separate transactions, the document said. After accounting for JEDI's $500 million in equity, this indicates the partnership borrowed as much as $1.6 billion.

In 1997, Calpers sold its interest in JEDI back to **Enron** for about $375 million. At about the same time, Calpers put $500 million into a new **Enron** partnership, known as JEDI II.

At this point, **Enron** could have held on to all of JEDI, but that probably would have entailed consolidating the partnership and its debts into the company's financial statements.

That, apparently, is where Chewco came in. (Chewco got its name, says one person familiar with the matter, from the character Chewbacca in the "Star Wars" movies, where Jedi warriors also roamed.) Chewco bought from **Enron** the JEDI interest formerly held by Calpers, according to documents and interviews. It couldn't be determined what the terms of that transaction were. However, the fact that Chewco shows up as a debtor to JEDI in the Texas state filing suggests that money for the purchase was borrowed from JEDI itself.

The available information on the chain of transactions raises questions about how separate JEDI and Chewco really were from **Enron** and whether JEDI's assets and liabilities should have been folded into the company's financial statements.

In a March 2000 SEC filing, **Enron** makes a brief reference to its new JEDI partner, which **Enron** doesn't identify but presumably is Chewco. The filing said "an officer of **Enron** has invested in the limited partner of JEDI and from time to time acts as agent on behalf of the limited partner's management." While the officer isn't named, the description is similar to that given for Mr. Kopper in relation to Chewco in the LJM2 offering memorandum.

In March of this year, **Enron** moved to purchase the balance of JEDI that it didn't already own. In an SEC filing earlier this year, **Enron** said it acquired for $35 million "the limited partner's interests" in JEDI. Again, the partner wasn't named, but presumably was Chewco.

Enron consolidated JEDI's assets and liabilities into the company. The SEC filing said JEDI's holdings included 12 million shares of **Enron** stock. **Enron** said it also paid off about $620 million of JEDI "third-party debt." The third party or parties weren't named.

A Jedi's Journey

-- 1993: **Enron** and California Public Employees' Retirement System, or Calpers, form JEDI limited partnership and each commit $250 million to make energy investments.

-- 1997: **Enron** purchases Calpers' share in JEDI for about $375 million and then resells it to an entity, believed to be Chewco Investments. Chewco formed with $400 million in capital commitments and run by **Enron** officer to purchase **Enron** assets.

-- 2001: **Enron** repurchases all of JEDI and consolidates it into the company.

Trading Places: Fancy Finances Were Key to Enron's Success, And Now to Its Distress --- Impenetrable Deals Have Put Firm in Position Where It May Lose Independence --- Talks With Rival Dynegy

By Rebecca Smith and John R. **Emshwiller** Staff Reporters of The Wall Street Journal

11/08/2001 The Wall Street Journal A1 (Copyright (c) 2001, Dow Jones & Company, Inc.) When **Enron** Corp. convened its annual conference with credit analysts and bond investors in Houston last February, the energy-trading giant was soaring and looking to climb higher.

The company's stock was trading at about $80 a share, giving it a stock market value of $70 billion. Though up fourfold from three years earlier, the stock price wasn't nearly high enough, **Enron**'s new chief executive, Jeffrey Skilling, told the audience. With its dominant position in energy-trading markets and its highly touted new moves into telecommunications, **Enron** stock should be at $126 a share, Mr. Skilling argued.

All in all, a vintage performance for a company not known for being bashful. "A lot of hype. A lot of spin," recalls Todd Shipman, a Standard & Poor's analyst who attended the conference. "That was **Enron**."

Yesterday, **Enron** stock closed at $9.05 in New York Stock Exchange trading. Mr. Skilling is no longer around to promote the stock. In August, he unexpectedly resigned as chief executive after only six months in the top job. Chief financial officer Andrew Fastow was replaced last month as controversy escalated over his role in running private partnerships involved in billions of dollars of transactions with **Enron**. Kenneth Lay, **Enron**'s chief executive, has had to give up retirement plans to return to the helm.

Lately, the company has been offering special credit protection to increasingly nervous trading partners, including Reliant Energy Inc. and Entergy Corp. The goal: to provide assurance that **Enron** is a creditworthy partner and to prevent an exodus of customers. **Enron**'s trading operation generates 90% of the company's profits.

It looked yesterday as if the endgame might be beginning. Mr. Lay and **Enron**'s board were discussing a possible acquisition of **Enron** by its much-smaller hometown energy-trading rival, Dynegy Inc., in a stock swap valued at $7 billion to $8 billion. (See related article on page A3.)

Any merger of the two companies would probably face lengthy regulatory scrutiny, so Dynegy is also considering injecting $1.5 billion into **Enron** immediately to help stabilize the company's finances, according to people familiar with the situation. The deal would also include a significant role for oil powerhouse ChevronTexaco, which owns a 26% stake in Dynegy and would be likely to provide much of the cash for any **Enron** transaction.

Dynegy's emergence as a serious bidder for **Enron** could indicate to other interested parties that **Enron**'s problems can be solved. In fact, the collapse in **Enron**'s stock price would make it fairly easy for another large energy player to top any Dynegy offer. Royal Dutch/Shell Group is one such prominent company.

A takeover by Dynegy or any other company would almost certainly presage the departure of the 59-year-old Mr. Lay. He oversaw the transformation of **Enron** from a nondescript natural-gas pipeline company with annual revenue of under $5 billion in the late 1980s to a global energy colossus with revenue that is expected to approach $200 billion this year.

It has turned out that the formula behind that transformation contained the seeds for the company's current troubles. Executives created an ever-more-labyrinthine financial structure to support **Enron**'s explosive growth rate. Billions of dollars of debt -- which could have weakened **Enron**'s credit rating and slowed growth -- was kept off the balance sheet through tangled webs of transactions with dozens of related entities. As the financial demands became greater and the transactions more complex, **Enron** officials began creating and heading some of the entities, raising serious conflict-of-interest questions.

Neither **Enron** nor Dynegy would comment. Royal Dutch/Shell also declined to comment. Messrs. Lay, Skilling and Fastow either declined to comment or didn't return phone calls seeking interviews.

Enron officials have maintained that the markets are overreacting to a spate of bad, but nonfatal, news. On Oct. 16, the company announced a $618 million third-quarter loss and disclosed a $1.2 billion reduction of shareholder equity due in part to dealings with the Fastow-related partnerships. The company has said that its ongoing businesses are strong and it has the financial wherewithal to weather the crisis. All of its actions have been legal and properly disclosed, **Enron** has stressed.

Still, its predicament is daunting. The Securities and Exchange Commission has started a formal investigation into possible violations of federal securities law involving the Fastow-related partnerships. Several shareholder lawsuits seeking class-action status have been filed against top company officials, alleging fraud and seeking to recover some of the $20 billion in market value that **Enron** shares have lost in the past month. To address growing jitters in the energy and financial markets, **Enron** has drawn down billions of dollars of credit lines, negotiated new ones and sought a new equity infusion.

As turmoil has engulfed the company, Mr. Lay and other top **Enron** executives have kept largely out of public view -- in sharp contrast to the company's normally outspoken public persona. The one recent public-relations initiative, a conference call for analysts and big investors, turned into what even **Enron** officials concede privately was a debacle. It left company executives looking evasive and defensive rather than open and confident.

How did **Enron**, which routinely made published lists of the most-admired and innovative companies in America, fly so high and fall so fast? The answer lies in a combination of brilliance and overconfidence on a scale rarely seen in the business world.

In the process, the company helped redefine much of the energy marketplace on matters as fundamental as how power is bought and sold and how a company produces a profit from doing so. For example, the company helped create an electricity-trading market in which participants rarely take physical delivery of the commodity but instead merely tally profits or losses from transactions.

In the accounting realm, it pioneered techniques that allowed energy companies to record profits or losses on long-term contracts that hadn't yet produced any revenue. "We caught a little flak in the early 1990s from people who, I guess, thought we were pulling a fast one," **Enron**'s chief accounting officer, Richard Causey, said in an interview in August. He added that this accounting method was the most accurate way to measure energy-trading results.

Enron's audacity and success sent other energy companies scrambling to emulate it, a process that ABN Amro analyst Paul Patterson calls "**Enron** envy."

The company tested the limits of securities and accounting rules. For example, **Enron**'s SEC filings have included statements about the Fastow-related transactions that might meet the letter of disclosure laws but are so complex that even some Wall Street analysts and accounting professors have found them indecipherable.

Enron's seemingly impenetrable financial structure, hardly noticed by Wall Street in the company's heyday, is now a matter of serious concern in a suddenly skeptical investment community. "It's not easy to regain something as basic as trust," says Goldman Sachs analyst David Fleischer, a longtime **Enron** fan. In the recent conference call with **Enron** executives, Mr. Fleischer pleaded with the company to be more forthcoming about its operations -- something it has been promising to do for months.

While **Enron** employs some 20,000 people, its rise and fall can, in large measure, be traced to three men: Messrs. Lay, Skilling and Fastow. Mr. Lay joined the company in 1984 when it was still called Houston Natural Gas, a regional pipeline operator. Back then, the natural-gas industry was a largely regional business and about as exciting as watching a pipeline operate.

But Mr. Lay had big plans for his company, always preaching that natural gas was the fuel of the future. His prediction has been largely borne out when it comes to such functions as fueling electric-power plants.

He wanted to take the company beyond natural gas. **Enron** bought an electric utility in Portland, Ore., and built power plants around the world. It developed its potent energy-trading operation, which buys and sells contracts to provide electricity in the same way that contracts for wheat and pork bellies are traded. These deals were done with utilities, industrial power users and other trading firms.

To help enlarge this empire, he recruited aggressive young executives. None was brighter or more assertive than Mr. Skilling, a Harvard Business School graduate and former McKinsey & Co. consultant who joined **Enron** in 1990.

Under Messrs. Lay and Skilling, the company pushed zealously for the deregulation of energy markets -- particularly that bastion of monopoly businesses, the electric-utility industry. **Enron** officials argued that open, competitive markets could help consumers and, not coincidentally, provide huge profit opportunities in energy trading.

Mr. Skilling called the energy-trading business "a once-in-a-lifetime opportunity to establish a position to last for the next 100 years." By the late 1990s, **Enron** had evolved into primarily a trading company, rather than an owner of power plants and pipelines.

In pursuit of their deregulation goals, **Enron** officials became major players in American politics. Mr. Lay has given nearly $2 million to President Bush during his political career and is a personal friend of the president, Vice President Cheney and several members of the cabinet.

One of Mr. Skilling's early hires after joining **Enron** was Mr. Fastow, at the time a 29-year-old MBA from Northwestern's Kellogg School who had been working on leveraged buyouts and other complicated deals at Continental Bank in Chicago. Former **Enron** officials and others say that Mr. Skilling quickly became Mr. Fastow's mentor in the same way that Mr. Lay had become Mr. Skilling's.

As Mr. Skilling oversaw the building of **Enron**'s vast trading operation, Mr. Fastow saw to the financing of it. "Andy was the guy you saw when you wanted money" for a project, says one former **Enron** senior manager.

Mr. Skilling was named **Enron**'s chief operating officer in 1997. Mr. Fastow got the top finance job a year later, at the age of 36. Under Mr. Fastow, **Enron**'s finance department tripled in size, to more than 100 people.

Enron needed the added financial brainpower. As it expanded, debt and liquidity were constant concerns. What's more, the company's ambitions were roving beyond therms and kilowatts as it began to make markets in everything from water to weather.

Enron's most highly touted non-energy initiative, and Mr. Skilling's pet project, came in the area of telecommunications. The company built a coast-to-coast fiber-optic network and envisioned trading "bandwidth," or network capacity, the way it traded electricity or natural gas. **Enron** has invested several hundred million dollars so far in the project, which has produced losses of over $400 million. Yet at the February analyst meeting in Houston, Mr. Skilling unabashedly valued **Enron**'s fiber-optic business at $36 billion, according to people who were at the meeting.

But to make all of its growth dreams possible, **Enron** had to make sure that its balance sheet didn't become too laden with debt. Too much debt would lead major ratings agencies, such as Moody's Investors Service and Standard & Poor's, to lower **Enron**'s credit rating. Such downgrades could significantly increase the company's cost of borrowing and make it more difficult to finance its continued expansion.

In typically aggressive fashion, **Enron** lobbied the ratings agencies with the same vigor that it lobbied legislators. At the February meeting, Mr. Fastow urged analysts to raise **Enron**'s credit rating on long-term debt from triple-B-plus to single-A-minus. But the analysts shrugged off Mr. Fastow's entreaties. They didn't see the cash flow, earnings, or debt coverage required for such an upgrade, says one attendee.

Undeterred, Mr. Fastow said the higher rating would strengthen the company's basic finances, which could then justify the higher rating. This circular argument provoked derision among analysts, and **Enron** didn't get its `A' rating. Instead, the company was recently downgraded by the major ratings agencies as a result of its financial turmoil.

In moves that kept down its reported debt burden, **Enron** turned increasingly to off-balance-sheet transactions through limited partnerships with outside parties. In such an arrangement, **Enron** could contribute money, stock or other assets to the partnership. The partnership could then borrow large sums to purchase assets or do business deals without the debt showing up on **Enron**'s books.

While such partnership transactions had long been used in the natural-gas industry to finance deals, **Enron** took the practice to new heights of complexity. Leading that effort was Mr. Fastow and his team of young financial experts.

In recent years, **Enron** has done myriad deals with more than 30 partnerships. By far the most controversial to come to light, so far, are the ones it has done with two partnerships -- known as LJM Cayman LP and LJM2 Co-Investment LP -- which were formed and operated by Mr. Fastow. The company has said that its transactions with these partnerships were designed to hedge against fluctuating market values of company assets and energy contracts.

It isn't clear why **Enron** would allow its chief financial officer to be in a fiduciary position at partnerships that stood to profit, possibly at the company's expense, from doing deals with it. To make matters worse, private LJM partnership documents indicate that Mr. Fastow personally made millions of dollars from the partnerships -- much more than he was being paid as **Enron**'s chief financial officer.

Enron officials have repeatedly said that Mr. Fastow's actions were reviewed and approved by top management and the board of directors. However, the company has refused to answer numerous specific questions about its dealings with the partnerships. **Enron** has said that Mr. Fastow formally severed his ties with the partnerships in July in the face of rising discomfort about the arrangements on the part of analysts and major company investors.

It is nearly impossible to stitch together anything comprehensible about the partnership deals from **Enron**'s SEC filings. The only thing clear is that millions of shares of **Enron** stock and billions of dollars of assets and notes were involved in the transactions.

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Neither **Enron** nor Dynegy would comment. Royal Dutch/Shell also declined to comment. Messrs. Lay, Skilling and Fastow either declined to comment or didn't return phone calls seeking interviews.

Enron officials have maintained that the markets are overreacting to a spate of bad, but nonfatal, news. On Oct. 16, the company announced a $618 million third-quarter loss and disclosed a $1.2 billion reduction of shareholder equity due in part to dealings with the Fastow-related partnerships. The company has said that its ongoing businesses are strong and it has the financial wherewithal to weather the crisis. All of its actions have been legal and properly disclosed, **Enron** has stressed.

Still, its predicament is daunting. The Securities and Exchange Commission has started a formal investigation into possible violations of federal securities law involving the Fastow-related partnerships. Several shareholder lawsuits seeking class-action status have been filed against top company officials, alleging fraud and seeking to recover some of the $20 billion in market value that **Enron** shares have lost in the past month. To address growing jitters in the energy and financial markets, **Enron** has drawn down billions of dollars of credit lines, negotiated new ones and sought a new equity infusion.

As turmoil has engulfed the company, Mr. Lay and other top **Enron** executives have kept largely out of public view -- in sharp contrast to the company's normally outspoken public persona. The one recent public-relations initiative, a conference call for analysts and big investors, turned into what even **Enron** officials concede privately was a debacle. It left company executives looking evasive and defensive rather than open and confident.

How did **Enron**, which routinely made published lists of the most-admired and innovative companies in America, fly so high and fall so fast? The answer lies in a combination of brilliance and overconfidence on a scale rarely seen in the business world.

In the process, the company helped redefine much of the energy marketplace on matters as fundamental as how power is bought and sold and how a company produces a profit from doing so. For example, the company helped create an electricity-trading market in which participants rarely take physical delivery of the commodity but instead merely tally profits or losses from transactions.

In the accounting realm, it pioneered techniques that allowed energy companies to record profits or losses on long-term contracts that hadn't yet produced any revenue. "We caught a little flak in the early 1990s from people who, I guess, thought we were pulling a fast one," **Enron**'s chief accounting officer, Richard Causey, said in an interview in August. He added that this accounting method was the most accurate way to measure energy-trading results.

Enron's audacity and success sent other energy companies scrambling to emulate it, a process that ABN Amro analyst Paul Patterson calls "**Enron** envy."

The company tested the limits of securities and accounting rules. For example, **Enron**'s SEC filings have included statements about the Fastow-related transactions that

might meet the letter of disclosure laws but are so complex that even some Wall Street analysts and accounting professors have found them indecipherable.

Enron's seemingly impenetrable financial structure, hardly noticed by Wall Street in the company's heyday, is now a matter of serious concern in a suddenly skeptical investment community. "It's not easy to regain something as basic as trust," says Goldman Sachs analyst David Fleischer, a longtime **Enron** fan. In the recent conference call with **Enron** executives, Mr. Fleischer pleaded with the company to be more forthcoming about its operations -- something it has been promising to do for months.

While **Enron** employs some 20,000 people, its rise and fall can, in large measure, be traced to three men: Messrs. Lay, Skilling and Fastow. Mr. Lay joined the company in 1984 when it was still called Houston Natural Gas, a regional pipeline operator. Back then, the natural-gas industry was a largely regional business and about as exciting as watching a pipeline operate.

But Mr. Lay had big plans for his company, always preaching that natural gas was the fuel of the future. His prediction has been largely borne out when it comes to such functions as fueling electric-power plants.

He wanted to take the company beyond natural gas. **Enron** bought an electric utility in Portland, Ore., and built power plants around the world. It developed its potent energy-trading operation, which buys and sells contracts to provide electricity in the same way that contracts for wheat and pork bellies are traded. These deals were done with utilities, industrial power users and other trading firms.

To help enlarge this empire, he recruited aggressive young executives. None was brighter or more assertive than Mr. Skilling, a Harvard Business School graduate and former McKinsey & Co. consultant who joined **Enron** in 1990.

Under Messrs. Lay and Skilling, the company pushed zealously for the deregulation of energy markets -- particularly that bastion of monopoly businesses, the electric-utility industry. **Enron** officials argued that open, competitive markets could help consumers and, not coincidentally, provide huge profit opportunities in energy trading.

Mr. Skilling called the energy-trading business "a once-in-a-lifetime opportunity to establish a position to last for the next 100 years." By the late 1990s, **Enron** had evolved into primarily a trading company, rather than an owner of power plants and pipelines.

In pursuit of their deregulation goals, **Enron** officials became major players in American politics. Mr. Lay has given nearly $2 million to President Bush during his political career and is a personal friend of the president, Vice President Cheney and several members of the cabinet.

One of Mr. Skilling's early hires after joining **Enron** was Mr. Fastow, at the time a 29-year-old MBA from Northwestern's Kellogg School who had been working on leveraged buyouts and other complicated deals at Continental Bank in Chicago. Former **Enron** officials and others say that Mr. Skilling quickly became Mr. Fastow's mentor in the same way that Mr. Lay had become Mr. Skilling's.

As Mr. Skilling oversaw the building of **Enron**'s vast trading operation, Mr. Fastow saw to the financing of it. "Andy was the guy you saw when you wanted money" for a project, says one former **Enron** senior manager.

Mr. Skilling was named **Enron**'s chief operating officer in 1997. Mr. Fastow got the top finance job a year later, at the age of 36. Under Mr. Fastow, **Enron**'s finance department tripled in size, to more than 100 people.

Enron needed the added financial brainpower. As it expanded, debt and liquidity were constant concerns. What's more, the company's ambitions were roving beyond therms and kilowatts as it began to make markets in everything from water to weather.

Enron's most highly touted non-energy initiative, and Mr. Skilling's pet project, came in the area of telecommunications. The company built a coast-to-coast fiber-optic network and envisioned trading "bandwidth," or network capacity, the way it traded electricity or natural gas. **Enron** has invested several hundred million dollars so far in the project, which has produced losses of over $400 million. Yet at the February analyst meeting in Houston, Mr. Skilling unabashedly valued **Enron**'s fiber-optic business at $36 billion, according to people who were at the meeting.

But to make all of its growth dreams possible, **Enron** had to make sure that its balance sheet didn't become too laden with debt. Too much debt would lead major ratings

agencies, such as Moody's Investors Service and Standard & Poor's, to lower **Enron**'s credit rating. Such downgrades could significantly increase the company's cost of borrowing and make it more difficult to finance its continued expansion.

In typically aggressive fashion, **Enron** lobbied the ratings agencies with the same vigor that it lobbied legislators. At the February meeting, Mr. Fastow urged analysts to raise **Enron**'s credit rating on long-term debt from triple-B-plus to single-A-minus. But the analysts shrugged off Mr. Fastow's entreaties. They didn't see the cash flow, earnings, or debt coverage required for such an upgrade, says one attendee.

Undeterred, Mr. Fastow said the higher rating would strengthen the company's basic finances, which could then justify the higher rating. This circular argument provoked derision among analysts, and **Enron** didn't get its `A' rating. Instead, the company was recently downgraded by the major ratings agencies as a result of its financial turmoil.

In moves that kept down its reported debt burden, **Enron** turned increasingly to off-balance-sheet transactions through limited partnerships with outside parties. In such an arrangement, **Enron** could contribute money, stock or other assets to the partnership. The partnership could then borrow large sums to purchase assets or do business deals without the debt showing up on **Enron**'s books.

While such partnership transactions had long been used in the natural-gas industry to finance deals, **Enron** took the practice to new heights of complexity. Leading that effort was Mr. Fastow and his team of young financial experts.

In recent years, **Enron** has done myriad deals with more than 30 partnerships. By far the most controversial to come to light, so far, are the ones it has done with two partnerships -- known as LJM Cayman LP and LJM2 Co-Investment LP -- which were formed and operated by Mr. Fastow. The company has said that its transactions with these partnerships were designed to hedge against fluctuating market values of company assets and energy contracts.

It isn't clear why **Enron** would allow its chief financial officer to be in a fiduciary position at partnerships that stood to profit, possibly at the company's expense, from doing deals with it. To make matters worse, private LJM partnership documents indicate that Mr. Fastow personally made millions of dollars from the partnerships -- much more than he was being paid as **Enron**'s chief financial officer.

Enron officials have repeatedly said that Mr. Fastow's actions were reviewed and approved by top management and the board of directors. However, the company has refused to answer numerous specific questions about its dealings with the partnerships. **Enron** has said that Mr. Fastow formally severed his ties with the partnerships in July in the face of rising discomfort about the arrangements on the part of analysts and major company investors.

It is nearly impossible to stitch together anything comprehensible about the partnership deals from **Enron**'s SEC filings. The only thing clear is that millions of shares of **Enron** stock and billions of dollars of assets and notes were involved in the transactions.

Running on Empty: Enron Faces Collapse As Credit, Stock Dive And Dynegy Bolts --- Energy-Trading Giant's Fate Could Reshape Industry, Bring Tighter Regulation --- Price Quotes Suddenly Gone

By **Rebecca Smith** and John R. Emshwiller Staff Reporters of The Wall Street Journal 11/29/2001

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Enron Corp., the once-mighty energy trader at the center of the nation's vast deregulated market for electricity and natural gas, wobbled on the brink of collapse yesterday after credit-rating agencies downgraded its debt to junk status.

Following the ratings announcements -- which force Enron to accelerate repayment of billions of dollars of debt from cash it doesn't have -- its smaller cross-town rival in Houston, Dynegy Inc., called off a planned merger. The $9 billion all-stock deal had been aimed at rescuing Enron after questions about a series of financial transactions involving company insiders shook investors and sent Enron's stock plunging. Dynegy yesterday accused Enron of "misrepresentations" -- an allegation Enron denied and is expected to contest in court.

In a day that brought a series of devastating rapid-fire blows to Enron, its energy-trading business -- the nation's biggest, having handled $1 trillion in transactions since

November 1999 -- shut down for two and a half hours. Soon after the downgrade announcements, price quotes on Enron's widely used online trading system went blank, as one trader after another at the company's Houston headquarters walked away.

Enron's breathtaking fall will reshape the U.S. energy business, casting doubt on the belief that gas and electricity markets should be lightly regulated, with their management largely left to freewheeling traders. The fiercest industry proponent of free markets, Enron was vilified by California officials earlier this year, when the state's deregulated market careened off course. California's largest utilities lurched toward insolvency, leaving the state saddled with billions of dollars of debt.

With no access to credit and its only potential savior on the fly, it now appears that Enron may well be joining PG&E Corp.'s Pacific Gas and Electric unit in U.S. bankruptcy court. That would be a striking irony, since Enron once was regarded as being in the vanguard of a new way of doing business that would relegate old-line utilities like Pacific Gas and Electric to second-class status.

On its books, Enron has assets worth $62 billion. But investors have little confidence in that number or in the company's accounting of its sizeable liabilities. Enron has recently been adjusting its financial figures, and many of its dealings are still poorly understood by outsiders. A week ago, the company said it had about $1.6 billion in cash -- a surprise to many analysts who thought it had $1 billion more than that.

The bottom line: Enron doesn't appear to have enough profitable assets to survive in its current form.

Under Chairman and Chief Executive Kenneth Lay, the company embarked on a revolutionary transformation, moving away from the business of running hard energy assets, such as power plants, and into the field of buying and selling contracts for energy. The crown jewel sought by Dynegy wasn't Enron's handful of power plants and pipelines around the globe, but its EnronOnline trading system.

Since its start in November 1999, the system had become the dominant forum for U.S. electricity and natural-gas trading. As Enron's problems mounted in recent weeks, other trading firms began limiting their exposure to the company, causing its trading volume -- and hence, cash flow -- to dry up.

The sudden decline of Enron's once-potent trading business is one big reason Standard & Poors Ratings Group, Moody's Investors Service Inc. and Fitch Inc. pulled the trigger yesterday. Noting that the Dynegy merger probably wouldn't go through, S&P also said Enron's woes in recent weeks had caused "significant damage" to its trading and marketing operations. The company's market capitalization has fallen from a peak of about $70 billion in 2000 to less than $1 billion.

S&P said that a voluntary filing by Enron under Chapter 11 of the U.S. Bankruptcy Code is "a distinct possibility." Chapter 11 gives a company protection from its creditors while it reorganizes.

Unwilling to concede defeat, Enron's chief financial officer, Jeff McMahon, said the firm is "reviewing all our options" but isn't contemplating liquidation.

Enron's stock and bond prices fell hard yesterday. Its shares, which had been hovering at about $4 as Dynegy and Enron worked to resuscitate the deal, closed at 61 cents in New York Stock Exchange composite trading. Enron's benchmark bonds fell to 20 cents on the dollar, down from their already-depressed level of 50 cents. Dynegy shares fell $4.92, to close at $35.97 in NYSE trading.

Enron, which has 21,000 employees, was dropped from the S&P 500 Index after the markets closed yesterday.

The company's crash is likely to push regulators to keep a closer eye on such asset-light energy traders that have reported huge profits while generating relatively little cash from operations. The Federal Energy Regulatory Commission is considering applying tougher rules to wholesale-energy markets, while other regulators will look more closely at accounting practices used by trading firms. "If you don't have the Ten Commandments, it's hard to find a sinner," said Nora Brownell, a Republican FERC commissioner.

It was Enron's habit of opening new markets, using imaginative financial structures and employing aggressive accounting methods that first brought it great success -- and then contributed to its downfall. Enron became a bold player in everything from commodities, such

as electricity, to exotic financial instruments, such as "weather derivatives," a form of insurance used to cover weather-related losses.

The company made much of its profit by buying and selling energy many times over, capturing the difference between buyers' bids and sellers' offers. Unlike a traditional commodities exchange, open to all, natural gas and electricity are traded privately, with many transactions involving just two players.

The company also borrowed heavily, sometimes recording the debt on separate operations off Enron's balance sheets, meaning that debt wasn't immediately apparent to many investors. Enron poured a lot of this money into building its new markets. Wall Street analysts and, in private, some company executives now say the company also priced some of the assets it kept on its books at inflated levels. The company repeatedly has said its accounting has been entirely proper.

By last year, Enron was in the middle of about one quarter of the electricity and natural-gas deals done by energy producers, traders and utilities. It had big operations as far afield as Bolivia and India, and it had a seemingly unstoppable ability to produce ever-higher quarterly earnings. Fortune magazine called it the most innovative company in America and ranked it No. 7 on the Fortune 500. With annual revenue of $100 billion, Enron had eclipsed International Business Machines Corp. and AT&T Corp.

Enron came unglued last month, after it disclosed a big quarterly loss and The Wall Street Journal reported that the company's chief financial officer and other executives had profited personally from partnerships that Enron used to move assets on and off its books. These profits apparently came at the expense of the company and its shareholders. The Journal also reported that the company was forced to shrink its equity base by $1.2 billion. The Securities and Exchange Commission launched an investigation.

Previously, even though Enron's practices had worried some regulators, the Bush administration had kept its distance. Over the last decade, the company and its chairman, Mr. Lay, have been Mr. Bush's biggest financial backers, donating nearly $2 million to his campaigns. Before the company's recent problems came to light, Mr. Lay enjoyed unusually good access to top administration officials, including Vice President Dick Cheney, who earlier this year drafted a new national energy plan that seemed to lean heavily on Mr. Lay's suggestions.

More recently, the White House hasn't stepped forward to defend Mr. Lay or Enron. And few members of the energy-trading fraternity, who have always seen Enron as sharp-elbowed, did anything to help the company.

Dynegy saw an opportunity, though, to acquire the company against which it had always been compared. Dynegy Chairman Chuck Watson agreed to buy Enron in an all-stock transaction that valued the firm at $9 billion, a pittance compared with its $70 billion peak market value.

But Enron's stock price fell further after more disclosures that future profits weren't likely to be as strong as expected and volume started to dry up at the company's trading desk. Dynegy sought to renegotiate the price downwards.

Executives of the two companies had huddled since Sunday, first in Westchester County, N.Y., and then in Houston, trying to come up with a formula that would allow Enron to survive until a merger could be completed. The talks fell apart when it became clear that even a proposed additional $1 billion investment from Dynegy and bankers J.P. Morgan Chase & Co. and Citigroup Inc.'s Citibank wouldn't be enough to see it through regulatory and shareholder approvals.

The disintegration of the Dynegy-Enron deal is a blow to the two huge banks, which were the leading cheerleaders and financiers behind the transaction. They had invested hundreds of millions of dollars to help get the deal done. Not only will the failure tarnish their status as merger-and-acquisition advisors, but they will also be on the hook, along with some 800 other creditors, in trying to recover several hundred million dollars in unsecured loans to Enron. J.P. Morgan shares were down $2.30, to $37.50, while Citigroup shares were down $2.75, to $47.80, in NYSE composite trading.

The breakdown of the talks will probably produce litigation. Dynegy used $1.5 billion of funding provided by its part-owner, ChevronTexaco Corp., to help provide liquidity to Enron. As a result of the collapse of the merger agreement, Dynegy said it planned to claim the collateral on that investment -- all of the preferred stock of an Enron subsidiary, Northern

Natural Gas, which owns 16,500 miles of interstate natural-gas pipelines between Texas and the Great Lakes.

Enron isn't likely to let that go without a fight. Neither Dynegy's Mr. Watson nor the company's president, Steve Bergstrom, attended the Westchester meeting. Mr. Watson was at the Mexican resort of Cabo San Lucas. As Enron's Mr. Lay flew back to Texas on Monday, believing he had an agreement to preserve the merger, he received a phone call saying that Mr. Watson wasn't happy with the terms. Enron executives asserted that they didn't breach any of the covenants of the merger agreement and didn't make any material misrepresentations to Dynegy.

Mr. Watson said he told Mr. Lay in a phone conversation early Wednesday that the deal was off. "I told him I was very disappointed we couldn't put this together," said Mr. Watson. "We part as friends," he added.

Mr. Watson said, "We worked our butts off to make this thing work." But he said Enron's "sharp deterioration" couldn't be ignored. "I wasn't about to put our balance sheet in jeopardy," he said.

Natural gas prices on the New York Mercantile Exchange surged about 25 cents yesterday morning on the Enron news, above $3 per million British thermal units, then dipped back into negative territory because of other factors.

Another big worry for Enron is keeping its bankers at bay. Enron's fall isn't expected to rattle credit markets in the fashion of the 1998 collapse of another financial high-flyer, hedge-fund Long Term Capital Management. But Enron has an estimated $13 billion in debt on its balance sheet and a further $7 billion in off-balance-sheet financings. It may be on the hook for additional debt in connection with four dozen investment partnerships.

Bankers and regulators said the risk of Enron's debt problems having a broader impact is limited by the fact that many lenders to the firm have syndicated the debt, spreading smaller chunks of it among many institutions.

Still, the credit downgrade brings immediate pressure. An estimated $3.9 billion of liabilities associated with two of those investment partnerships now will be triggered for repayment. Analysts estimate that even with the recent cash infusion from Dynegy and Enron's decision last month to draw down its remaining available credit lines, the company has less than $2 billion in available cash.

So far, it doesn't appear that Enron has started negotiations with lenders over a "prepackaged" bankruptcy-reorganization plan that could limit litigation. The company has hired Weil Gotshal & Manges, a New York-based law firm well-known for its bankruptcy practice. Yesterday, Enron engaged investment bankers with the Blackstone Group to come up with a restructuring plan.

As soon as word came yesterday that the Dynegy deal had fallen apart, a "war room" staffed by lawyers was set up on Enron's massive trading floor in Houston, with the goal of trying to stop suppliers and customers from trying to get out of pending contracts. Other traders struggled to meet Enron's delivery obligations.

"The utilities are all calling and want to make sure that the customers still want to take our gas, and the suppliers are wondering if we will pay for their gas," said one Enron trader. "We are going to have to be very innovative."

In the short term, there are fears that Enron's crippled state will, in the words of Merrill Lynch analyst Steve Fleischman, cast a "cloud of uncertainty" over all of the energy traders that do business with Enron. Other big traders, such as El Paso Corp., Mirant Co., Entergy Inc. and Duke Energy Corp., were busy yesterday, trying to calculate what exposure they still have to Enron.

In recent weeks, many of those companies, including Dynegy itself, have been cutting back on their trades with EnronOnline, fearing the company would fail. They have shifted their business to the rival Intercontinental Exchange and other trading systems. Most big energy-trading companies saw their stocks fall yesterday.

Some predict the energy-trading business will now shrink, with no clear successor to Enron's throne. They point out that stocks of competitors haven't moved up in anticipation of seizing market share from Enron. If anything, Enron's demise as a major trader will reduce the number of transactions possible -- not only for energy products, but also for such commodities as metals and pulp and paper.

Alexei Barrionuevo contributed to this article.

Shock Waves: Enron's Swoon Leaves A Grand Experiment In a State of Disarray --- Electricity Policy May Be Left To Lurch Between Poles Of Regulation, Free Rein --- Recession Is Powerful Factor

By **Rebecca Smith** Staff Reporter of The Wall Street Journal 11/30/2001

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It was one of the great fantasies of American business: a deregulated market that would send cheaper and more reliable supplies of electricity coursing into homes and offices across the nation.

But look what's happened instead. Enron Corp., the vast energy trader at the center of the new freewheeling U.S. power markets, now faces collapse amid a blizzard of questionable financial deals. And California, the first big state to deregulate its electricity market, has watched its experiment turn into a disaster, with intermittent blackouts and retail power rates as much as 40% higher than they were a year ago.

Now, with the power industry hovering uneasily between regulation and deregulation, it faces the prospect of a market that combines the worst features of both: a return to government restrictions, mixed with volatility and price spikes as companies struggle to meet the nation's future energy needs.

Investors and lenders, spooked by the twin specters of California and Enron, have become less likely to commit capital to building new power plants, transmission lines and natural-gas pipelines. The U.S. will require big additions to its power production and distribution capacity when it emerges from the current recession -- but for now, at least, the nation's capital markets are reluctant to cough up the necessary funds.

Responding to the dramatic decline in their stock prices and the recession, energy companies are retrenching. Calpine Corp., one of the most aggressive players in the deregulated market, is waffling on previously announced plans to build billions of dollars in new power plants. Virginia-based AES Corp., which has missed its recent earnings targets, has scaled back its expansion goals and is selling some of its foreign assets. Northeast Utilities is curtailing plans to build a 30-mile undersea transmission line from Connecticut to Long Island.

Meanwhile, regulators are racing to place new guardrails on the U.S. power market. The federal government is trying to beef up its market-surveillance activities. And it also is trying to broker deals between states that might make interstate energy transmission faster, cheaper and easier.

The power market is in "the midst of an ugly adolescence that we cannot allow to last much longer," says Nora Brownell, a member of the Federal Energy Regulatory Commission in Washington.

That's because, for the consumer, energy deregulation has been anything but good news. Unlike the deregulated telecommunications market, where fierce competition brought down prices while guaranteeing a reasonable level of reliability, the deregulated power market isn't likely to provide real benefits until it stabilizes. For now, consumers are at the mercy of wholesale forces they often can't understand and have few real options to switch between service providers.

The theory behind deregulation was that it would lead to the emergence of efficient companies that would specialize in providing electric power, carrying it over long distances or delivering it to a final customer.

While the industry started to move in that direction, it isn't anymore. Many big power companies in the most populous states, which are the ones that also happen to be deregulated, still do a little of everything and are increasingly confused about where to place their business bets.

When it comes to electricity markets, says Frank Wolak, a Stanford University economics professor, these kinds of "hybrids don't work." But, he fears that they will be around for some time to come, especially since regulators, who once thought the markets themselves would bring about deregulation's goals, are only belatedly assuming responsibility for making sure things run smoothly.

Enron's sudden meltdown will deal a heavy blow to the broader energy marketplace that sat at the center of electricity deregulation -- providing a place for utilities and power plants to buy energy they needed in a hurry, or to unload their excess supplies. The company's EnronOnline trading system, which was shut down Wednesday, accounted for a quarter of all wholesale energy trades among U.S. utilities, independent power producers and other market players.

The trading system's shutdown came in the wake of disclosures that Enron's directors and top officers approved a series of partnerships that moved debts off the company's balance sheet. In several cases, those partnerships enriched company officers but later produced huge losses for Enron.

That kind of "balance-sheet abuse" says Goldman Sachs analyst Jonathan Raleigh, might now "reduce overall liquidity and cause lenders to tighten credit standards" for the entire energy-trading industry. The result could be the kind of supply squeezes that led to six days of blackouts in California earlier this year.

California's supply problems didn't spread beyond the Pacific Northwest -- but that's largely because of the sharp economic downturn. As spot-market power prices in California shot up to an average of $317 per megawatt in December 2000 from $32 per megawatt hour the preceding April, energy companies were making enormous amounts of money. Investors drove up the price of the companies' stocks, with Enron at one point trading at 60 times its projected next year's earnings. New funding was flooding in from debt and equity markets. Under pressure from regulators worried about a repeat of the California debacle, energy companies got busy building power plants, drawing up plans to fix the nation's antiquated electric-transmission systems and plotting new natural-gas pipelines.

But that golden moment for the industry turned out to be short-lived. Early this year, federal energy regulators placed caps on the wholesale price of power sold in the western U.S. as California's two main investor-owned utilities were pushed to the brink of insolvency. Then, in the spring, natural-gas and electricity prices collapsed around the country as the economy suddenly slowed to a crawl. Even before Enron got into trouble, the big energy companies began to see their stock prices sink, and investors began to cast a more critical eye on their expansion plans in the wake of the California chaos and the resulting multibillion-dollar electricity payment crisis.

One of the first signs that a sea change was under way came a few months ago when demand for power-generation turbines began to soften. Because there are only three domestic suppliers of such multimillion-dollar engines, the most expensive pieces of machinery used by commercial electricity producers, the machines must be ordered well in advance of their deployment.

A year ago, says David Sokol, chief executive of Iowa-based utility owner Mid-American Energy Holdings Co., "you had to pay a premium to get a turbine." Companies with lots of turbines on order, such as San Jose, Calif.-based Calpine, boasted that they would clean up in newly deregulated markets such as the West, the Northeast and New York, where electricity supplies back then were tight. "But now," Mr. Sokol says, "I know of at least 100 [turbines] that are for sale. People want you to take their place in line."

While most energy companies are pressing ahead with projects they have started, they have grown cautious about breaking ground on new ones. Just a few months ago Calpine boldly claimed it would have 70,000 megawatts of generating capacity -- the equivalent of 35 to 45 big power plants -- in operation by 2005. Now it's backing away from that assertion. The company currently has only a fraction of that capacity, 11,000 megawatts.

At the root of the problem is a lack of capital and earnings. While energy companies routinely beat their own bullish quarterly profit estimates last year, many of them have lately indicated that they will miss earnings projections. With electricity and natural-gas prices down, energy sales tend to be less profitable. Hence, investors haven't been willing to pay the same price-earnings multiples for energy stocks.

Bankers, meanwhile, want convincing evidence that future power prices will be high enough to justify new projects. That's far from guaranteed in deregulated markets. In fact, national electricity prices, which hit a 52-week peak of $216 per megawatt, now are being quoted at $23.45 per megawatt, according to the Mirant National Power Index.

To give some idea of how radically the landscape has shifted, take the case of power conglomerate UtiliCorp United Inc., of Kansas City, Mo. In April, taking advantage of the

general enthusiasm toward deregulated markets, it spun off its Aquila Inc. trading unit at a price of $24 a share, raising $480 million. "We saw an opportunity to crystalize the value" of the trading company, says UtiliCorp President Bob Green.

Aquila's stock soared to $35 before it began slipping at the end of May. Since then, it has tumbled by half. Today, with a price/earnings ratio of eight -- less than most utilities -- the "equity markets are closed" to Aquila, Mr. Green says.

Now, UtiliCorp, which mainly owns regulated utilities, is planning to buy back all the publicly traded Aquila shares. It hopes that by taking shelter under UtiliCorp's umbrella, Aquila will be able to benefit enough from its parent's strong credit rating and healthy balance sheet to keep trading and buying more power plants.

In other words, the regulated utilities, once considered homely wallflowers, are looking more alluring these days as trading firms, such as Aquila and Enron, have fallen from favor. That could portend a reduction in the huge trading volumes, and accompanying price volatility, that marked the early stages of energy deregulation.

But that won't help consumers unless new power plants and transmission lines come online in time for the economy's resurgence and new rules are put in place that guarantee a more transparent market. The latter won't be an easy task, because power trading is done on a variety of public and private exchanges, with traders darting in and out to take advantage of price discrepancies.

Lately, there's been growing evidence that some power companies have found lucrative ways to exploit this system -- at consumers' expense. Their tactics include manipulating wholesale electricity auctions, taking juice from transmission systems when they aren't supposed to and denying weaker competitors access to transmission lines. Regulators believe that this behavior has contributed to supply glitches and inflated prices.

Under its new chairman, Pat Wood, the FERC has been pressing companies to take steps it believes will create power markets that are less susceptible to such shenanigans. Chief among them is for utilities to surrender control of their high-voltage power lines to independent operators that would give all market participants fair access and will operate spot markets for power.

Earlier this month, the commission told three of the nation's big integrated utilities -- American Electric Power Co., Entergy Corp. and Southern Co. -- that until they relinquish control of their power lines to an independent operator, FERC may intervene to limit the prices they charge wholesale customers. At least one of the three is appealing the FERC mandate.

The commission has also stepped up efforts to settle pesky but important technical issues, such as how independent power producers can hook up new plants to the lines of nearby utilities and how transmission services can best be priced.

Still, even a more aggressive FERC hasn't been able to solve some lingering problems. A good example is the continued existence of one of the nation's worst transmission bottlenecks. Known as "Path 15," the line interconnects the populous southern part of California with more abundant energy resources in the north. The Department of Energy has pledged to help expand Path 15, which was implicated as a key cause of the blackouts in California earlier this year.

But actually getting the work done may require PG&E Corp.'s Pacific Gas & Electric unit, which owns the 90-mile stretch of line, to get approval for the expansion from the state Public Utilities Commission. But Pacific Gas, which placed itself under the protection of the federal bankruptcy courts amid the California power crisis, is at loggerheads with the PUC. The upshot is that there may be significant delays in upgrading Path 15. The implication: when the economy cranks back up, so too will the possibility of more supply shortages and higher prices, says Terry Winter, chief executive of California's Independent System Operator, which operates the state's electricity grid.

Corporate Veil: Behind Enron's Fall, A Culture of Operating Outside Public's View --- Hidden Deals With Officers And Minimal Disclosure Finally Cost It Its Trust --- Chewco and JEDI Warriors

By John R. **Emshwiller** and Rebecca Smith

Staff Reporters of The Wall Street Journal 12/05/2001 The Wall Street Journal A1

HOUSTON -- Around the beginning of October, Enron Corp. executives visited credit-rating-agency officials for talks about the company's third-quarter results. Those results contained what turned out to be a bombshell.

Enron mentioned in the talks that shareholders' equity, the difference between the company's assets and its liabilities, would be reduced by $1.2 billion because of transactions with certain partnerships, says a person familiar with the matter. Some of the credit analysts, regarding this as so significant it needed to be disclosed, privately urged Enron to report it to the Securities and Exchange Commission, this person says.

But Enron didn't do so, nor did the company explain it in its nine-page earnings announcement in mid-October. The only public inkling came during an earnings-report conference call, in a reference by the company chairman so fleeting that some analysts say they missed it.

It was vintage Enron: minimal disclosure of financial information that, in retrospect, was central to understanding the complex company. Only a few months ago, Enron was wowing Wall Street with its growth and innovation, racking up large, steady earnings gains as it pioneered the global trading of everything from power to weather contracts. But virtually unseen until the end was an Enron culture that contained the seeds of its collapse, a culture of highly questionable financial engineering, misstated earnings and persistent efforts to keep investors in the dark.

Senior Enron executives flouted elementary conflict-of-interest standards. The company hired legions of lawyers and accountants to help it meet the letter of federal securities laws while trampling on the intent of those laws. It became adept at giving technically correct answers rather than simply honest ones.

One senior Wall Street official recalls recently asking Enron officials whether the company had retained bankruptcy counsel. He was told no. He later found out that while Enron hadn't formally retained such representation, it had met with bankruptcy lawyers. "If you don't ask the absolute right question, you don't get the right answer," he says. "Enron does that a lot."

Yet public trust, above all, was what Enron had to have, in order to conduct its business as a trader and party to thousands of contracts. Once doubts began to seep into the public realm, thanks partly to that mysterious hit to equity and Enron's waffling about what it meant, other suspicious Enron moves began to emerge.

The company had transactions with certain partnerships that were run by its own officers -- but treated by Enron as separate. It offered only murky and fragmented information about these partnerships. One partnership, whose existence Enron didn't reveal for four years, was part of an arrangement that inflated earnings by several hundred million dollars during that period.

And the company's debt level was much higher than it revealed, thanks to the partnerships, which allowed Enron to keep some debt off its books. Meanwhile, executives made repeated public assurances that Enron's finances and business operations were healthy, only to have those statements refuted by subsequent revelations. Ultimately, these disclosures created a crisis at Enron, sending its stock plunging and its partners and clients fleeing.

While Enron has acknowledged that a loss of investors' confidence was at the root of its woes, company officials have consistently defended their actions as legal and proper. An Enron spokesman reiterated yesterday that the company made every effort to put out accurate information. When something was found to be inaccurate, Enron took prompt steps to correct it, the spokesman said.

On Sunday, Enron filed for bankruptcy-law protection in New York federal court -- the biggest such filing ever. It simultaneously filed a multibillion-dollar suit against a company that last week backed out of a rescue pact, rival Dynegy Inc. Enron's stock, which touched $90 a share last year, closed yesterday on the New York Stock Exchange at 87 cents.

Top officials now are the targets of some two dozen shareholder suits. They face a formal SEC investigation, a Justice Department criminal probe and congressional inquiries. The company, now struggling to avoid liquidation, has tapped existing credit facilities and lined up fresh capital exceeding $7 billion in recent weeks, and is looking for more.

Not every detail of this tangled tale has yet been fully unraveled. It's still not clear whether concealment and financial engineering were a central strategy at Enron for years, or just a last desperate resort when earnings were falling short. Questions also still surround the sudden midsummer resignation of Chief Executive Jeffrey Skilling, whose role in Enron's collapse remains uncertain.

What is clear, though, is that rarely in the annals of American business has an enterprise so mighty and so highly regarded fallen so far so fast.

Led by its chairman, Kenneth Lay, Enron during the 1990s morphed from a nondescript gas-pipeline company into the nation's biggest energy trader, matching utilities, power suppliers and other investors in a vast unregulated marketplace. It gradually turned into a trading juggernaut that increasingly disdained long-term ownership of hard assets.

Moving far beyond energy, Enron pioneered hundreds of different types of trading contracts, ranging from commodities such as water to exotic new financial instruments. The company assembled an immense pool of financial and trading talent among its 21,000 employees.

As Enron concentrated on trading of complex instruments, it came to resemble a vast financial-services empire, handling billions of dollars of other people's money. But to analysts and investors seeking to understand it, Enron wasn't very informative. Officials could be dismissive of inquiries, even rude. Closely questioned during a conference call last spring, Mr. Skilling called one company critic an "a--h---."

Many Wall Street analysts admitted to not fully understanding chunks of Enron, a company that had 3,500 subsidiaries and affiliates spread across the globe. During the booming 1990s, as Enron delivered plump earnings and stock gains, this didn't matter. Investors "were scared not to be in it," says Paul Patterson, an analyst at ABN Amro.

The confluence of events that changed perceptions began in August with the sudden resignation of Mr. Skilling.

The former McKinsey & Co. consultant, who is 48, had become president in 1997. Last February he became CEO as well. Remaining chairman was his mentor, Mr. Lay, a friend and financial backer of President Bush and Vice President Cheney. In the early days of the Bush administration, Mr. Lay, who is 59, had been widely expected to take a cabinet post.

Messrs. Lay and Skilling made a formidable team. The courtly and amiable Mr. Lay had wide-ranging experience in government, academia and business, and his opinion was frequently sought in the energy world. Mr. Skilling, a Harvard M.B.A., was a brash, fiery figure who spoke rapidly and peppered his conversations with financial jargon.

Without warning, Mr. Skilling resigned on Aug. 14. He initially cited "personal reasons." But in an interview the next day he said his own frustration over Enron's weakening share price -- then about $43 -- played a major role in his decision. "I don't think I would have felt the pressure to leave if the stock price had stayed up," he said.

The abrupt departure forced Mr. Lay to retake the reins. He was reassuring to the public. "I can honestly say the company is in the strongest shape it's ever been in," Mr. Lay said at the time. He also promised that in the future, Enron would be more open and accessible to investors. Mr. Lay acknowledged that the company had "lost some credibility" with investors.

The day of the announcement, Enron filed its report with the SEC for the three months ended June 30. Tucked in the 36-page document were several paragraphs describing deals involving hundreds of millions of dollars between Enron and unnamed partnerships headed by and partly owned by an unnamed "senior officer" of the company. The filing added that the officer had sold his partnership interests in July and "no longer has any management responsibilities for these entities."

But it wasn't Mr. Skilling who ran the two partnerships, known as LJM Cayman LP and LJM2 Co-Investment LP. It was Chief Financial Officer Andrew S. Fastow, a Skilling protege who was still very much with the company. The "LJM" came from the first initials of Mr. Fastow's wife and two sons. A company spokesman said the dealings between Enron and Mr. Fastow's partnerships were perfectly proper and had been done to help Enron protect its assets against fluctuating market prices.

The partnerships had been around for two years and appeared in Enron SEC filings during that time. But the manner in which they were disclosed, with different pieces of

information appearing in different filings, made it difficult to learn such basics as which senior executive was running the partnerships.

Worse, there was no way from the available information to understand just what the partnerships were doing or what impact they had on Enron's finances. Some stock and credit analysts say they had never heard about the LJMs until they read about them in the newspapers in recent weeks.

Mr. Fastow's LJM dealings were, however, well-known within Enron and a magnet for criticism. Part of LJM's activities involved buying Enron assets, and some officials balked at doing deals that could enrich a senior executive at the company's expense, say people familiar with the matter. At least two senior officials complained internally about the potential conflicts of interest. The concerns were turned aside by top management, say the people familiar with the events.

The anger might have been greater had those who complained known the extent of Mr. Fastow's financial gains from LJM. Internal partnership documents show that the CFO made millions of dollars a year from LJM, far more than his corporate compensation.

One private document for LJM2's successful effort to raise nearly $400 million boasted of "preferred access" to Enron deals and said that Mr. Fastow's economic interests would be "aligned" with the partners'. Late last year, Mr. Fastow and Enron were laying plans for a $1 billion LJM3 fund, though it never came to fruition. Enron later estimated that Mr. Fastow made more than $30 million from the LJM partnerships.

Mr. Fastow has declined repeated requests to be interviewed. His attorney points to Enron statements saying that all of the company's dealings with the partnerships were proper and thoroughly vetted by the board and top management.

In September, Enron faced questions from The Wall Street Journal about the partnerships. According to a person familiar with the matter, there were sharp internal disagreements over whether to make top officials available for interviews. This person says that at one point, Mr. Fastow shouted that he saw no "upside" to talking.

Then came Enron's Oct. 16 report of its third-quarter earnings. Although a $1 billion write-off for telecommunications and other ventures produced a big net loss, the company trumpeted a 26% increase in "recurring earnings" due to "very strong results" of its "core" businesses. The stock posted a gain for the day.

The news release contained a cryptic reference to a charge relating to the "early termination . . . of certain structured finance arrangements with a previously disclosed entity." This seemed to be Enron code for LJM. In response to questions, the company said the LJM-related charge was $35 million.

Mr. Lay himself tried to put the LJM matter to rest. "I don't think we need to say anything more about that," he said in an interview at the time.

Later, however, an Enron SEC filing on Nov. 8 disclosed that the actual charge related to LJM dealings was $462 million. The $35 million figure represented cash paid to LJM in the termination, company officials now said, with the other hundreds of millions reflecting declines in the value of Enron assets held by LJM-related entities.

"It was not our intent to mislead," said Mr. Lay's chief of staff, Steve Kean, in mid-November.

On Oct. 17, the Journal revealed some of the partnerships' inner workings, their dealings with Enron and the fact that Mr. Fastow stood to make millions from his participation. Shortly afterward, Enron's stock began tumbling.

That same day, word of the $1.2 billion reduction in shareholders' equity started rippling through Wall Street. On Oct. 18, the Journal reported for the first time that the equity reduction stemmed from transactions related to the LJM partnerships.

During the earlier discussions with credit-rating agencies, Enron had attributed the equity reduction to an "accounting error," says the person familiar with those discussions. However, in an Oct. 17 interview with the Journal, Enron Chief Accounting Officer Rick Causey didn't mention an accounting error. He said that as part of its dealing with the partnerships, Enron had put up 62 million of its own shares. In return, it gained a $1.2 billion note receivable from the partnerships. When the arrangements were terminated, he explained, Enron simply canceled the note and retired the stock. The retirement of so many shares accounted for a $1.2 billion reduction in shareholders' equity.

A spokesman added that Enron didn't see this as a material transaction that needed to be publicly disclosed. The spokesman yesterday said that he had been told by company officials at the time that it was "a balance-sheet issue" and didn't need to be included in the third-quarter earnings discussion.

However, in a Nov. 8 SEC filing, Enron declared that the equity reduction was largely due to an accounting error -- one that required the company to restate prior-year financial reports.

The SEC within a few days started an informal inquiry. It soon grew into a formal investigation, which meant the agency had power to subpoena witnesses and documents. At the same time, credit-rating agencies were beginning to put Enron on review for possible downgrade.

That was worrisome. Keeping an investment-grade rating was vital for the health of the trading operation, which produced more than 90% of Enron's third-quarter operating earnings. Moreover, a fall to "junk" status would trigger accelerated repayment of billions of dollars of obligations.

In an effort to stanch the bleeding and restore confidence, Mr. Lay and other top officials, including Mr. Fastow, held a conference call on Oct. 23. Sparring with analysts and investors, the executives seemed defensive and even hostile at times. Mr. Lay wouldn't let Mr. Fastow answer questions about the partnerships, but expressed his "highest faith and confidence" in his chief financial officer.

The next day, the company announced Mr. Fastow was no longer Enron's CFO. Mr. Lay said the about-face was necessary to "restore investor confidence."

After the conference call, Enron top brass retreated from the public arena. Behind the scenes, Enron was frantically looking for a rescue strategy, approaching both competitors such as Dynegy and wealthy investors such as Warren Buffett for a cash infusion. So intense was the quest that one Enron attorney, a member of the Weil, Gotshal & Manges law firm, flew from Dallas to Houston for a planned two-hour meeting and didn't get back for two weeks.

Dynegy was intrigued by the notion of taking over a company that was five times its size and had long overshadowed it. Dynegy President Steve Bergstrom, an Enron alumnus, had a scheduled social lunch with an old friend, Stan Horton, who runs Enron's pipeline business. Mr. Horton asked if he could bring Enron Vice Chairman Mark Frevert and President Greg Whalley. In a private room at Houston's Plaza Club, Mr. Whalley popped the question: Would Dynegy be interested in buying Enron? "I was flabbergasted," says Mr. Bergstrom. "We were like the little kid on the block to them." He remembers thinking, "They're in worse trouble than I thought."

Mr. Bergstrom suggested having Mr. Lay call Dynegy Chairman and founder Chuck Watson, and within hours the two talked. Then they met face to face and privately Oct. 27 at Mr. Lay's home in Houston's exclusive River Oaks neighborhood, hammering out major points of a deal.

Dynegy's biggest shareholder, ChevronTexaco Corp., approved a $2.5 billion investment in Dynegy that Dynegy would use to give Enron a cash infusion. The first $1.5 billion would come right away and the rest at the closing. J.P. Morgan Chase & Co. and Citibank arranged a further $1 billion of credit, so that on Nov. 9, the two sides were able to announce a $9 billion all-stock betrothal. Mr. Lay, deflecting questions about Enron's woes, said the combination "is all about the future."

But amid the optimistic talk, new bombshells were exploding at Enron. Its Nov. 8 SEC filing disclosed for the first time company dealings with an entity called Chewco Investments LP. Just four days before the filing, the company had refused requests by The Wall Street Journal to discuss the entity or even acknowledge its existence.

As it turned out, Enron had plenty of reason to be sensitive about Chewco, named for the "Star Wars" character Chewbacca. Chewco had been set up in late 1997 during a rocky period for Enron, when the company was missing its quarterly earnings targets and losing a bit of its Wall Street credibility. Prudential Securities analyst Carol Coale recalls a meeting with Mr. Skilling during this period when, she says, he promised "some strong earnings growth" in the coming quarters.

Now it's known that between 1997 and the end of last year, Enron's dealings with Chewco and a related partnership known as JEDI (for Joint Energy Development

Investments) kept hundreds of millions of dollars of debt off Enron's books. Moreover, business deals with the partnerships also allowed Enron to book $390 million in net income, roughly 13% of reported profits for the period, according to the Nov. 8 SEC filing.

Although Enron treated Chewco as an independent third party, there were lots of indications to the contrary. Chewco was managed by Michael Kopper, an Enron officer who later helped Mr. Fastow run the LJM partnerships. Early Chewco funding of $383 million came almost entirely via Enron through loans it arranged or guaranteed.

In its Nov. 8 filing, Enron said that Chewco and JEDI should never have been treated as separate parties. Retroactively folding them back into Enron was the principal cause of a restatement that slashed Enron earnings for the prior four years by $586 million, or 20%. The company said its financial statements for those years could no longer be relied upon.

These disclosures further rocked an already-shaken investment community. If Enron officials knowingly created and controlled Chewco as a sham third party to boost profits, they could be in violation of federal fraud statutes, says Jacob Frenkel, a former SEC attorney and federal prosecutor. At the very least, says Ronald Barone, head of Standard & Poor's energy and utility group, Chewco represented "financial engineering on the razor's edge."

Mr. Kopper, who last summer left Enron to run the LJM operation, declines to be interviewed. According to Enron, he bought out Mr. Fastow's partnership interests. A recent visit to LJM's offices, across the street from Enron's Houston headquarters, found no one willing to talk.

During the years in which Enron was issuing earnings statements it now says were incorrect, Mr. Lay, Mr. Skilling and other top executives of Enron sold hundreds of millions of dollars in Enron stock. Partly as a result, they and others face a raft of shareholder suits. Some Enron traders complained angrily at a company meeting last month about $62 million in severance the Dynegy deal would bring Mr. Lay. After a day of giving out conflicting signals, Mr. Lay announced he wouldn't take the severance.

Revelations about Chewco and LJM fueled concern about other surprises that might be hidden in dozens of other partnerships with which Enron did business. One problem: Millions of shares of Enron stock provided the underpinnings for at least some of those partnerships.

As Enron's stock price fell, the stability of those structures was threatened, says one Enron insider, who speculates that Mr. Skilling's decision to resign might have been influenced by this development. "When he saw the stock price falling, I think he knew a crisis was coming," this person says.

Mr. Skilling won't talk about Chewco or anything else having to do with Enron. On a recent morning, outside his newly built mansion in Houston's River Oaks neighborhood, Mr. Skilling reiterated his desire to be left alone but didn't seem angry about being approached. "I understand it's a big story," he said in a soft voice.

On Nov. 19, Enron revealed more bad news. In another SEC filing, it said it could be forced to take a further $700 million pretax hit to earnings because of a plunge in the value of assets at yet another investment partnership. In addition, Enron said its declining credit rating had triggered $690 million in accelerated payments to investors.

Trading partners began to back away. The stock plunged anew, falling to about $5 a share by Thanksgiving.

Dynegy executives say the Nov. 19 filing was pivotal in changing their thinking about the merger. Enron appeared to be burning through cash at a frightening rate, says Mr. Bergstrom, Dynegy's president, and it kept coming up with unpleasant surprises. "I think they knew more than they were telling," he says. Enron spokesman Mark Palmer replies that "if they had done their due diligence, they would have known about" Enron's condition.

The companies made one last stab at saving the deal over the Thanksgiving weekend, huddling at a resort in Westchester County, N.Y.

They slashed the deal's price to $4.17 billion. But in an ominous sign for Enron, neither of Dynegy's top two executives attended. And the revised deal was never made final. Analysts estimated that at least $4 billion more cash was needed to bolster trading partners' confidence, and no one was willing to put up that kind of money.

A week ago, Enron's world caved in. Standard & Poor's, tired of waiting for the negotiations to produce a new rescue of Enron, dropped its credit rating below investment grade.

Other rating agencies followed. Later the same day, Dynegy formally called off the acquisition, and Enron traders walked away from their screens. About 4,000 Enron employees already have been laid off, with $4,500 in severance pay.

Many face an further hit as retirement accounts, heavy with Enron shares they weren't allowed to sell, are decimated. After the collapse of the merger, some of the 7,500 headquarters employees headed to Houston bars to blow off steam.

One took the time to remove Dynegy's stock symbol and stock price from the electronic tote board in the Enron lobby. Left behind was Enron's stock price, by then measured in dimes, and the constantly replaying message at the bottom of the board: "Enron . . . . endless possibilities.”