

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

UNITED STATES OF AMERICA	§	
	§	
v.	§	Cr. No. H-04-25 (S-2)
	§	
JEFFREY K. SKILLING, and	§	<u>Violations:</u> 15 U.S.C. §§ 78j(b), 78m(a),
KENNETH L. LAY,	§	78m(b)(2) and 78ff; 18 U.S.C. §§ 371,
	§	1343, 17 C.F.R. §§ 240.10b-5 and
Defendants.	§	240.13b2-2.
	§	

[REDACTED]
SUPERSEDING INDICTMENT

The Grand Jury charges:

INTRODUCTION

At all times relevant to this Indictment:

1. Enron Corp. (“Enron”) was an Oregon corporation with its headquarters in Houston, Texas. Among other businesses, Enron was engaged in the purchase and sale of natural gas and power, construction and ownership of pipelines, power facilities and energy-related businesses, provision of telecommunications services, and trading in contracts to buy and sell various commodities. Before it filed for bankruptcy on December 2, 2001, Enron was the seventh largest corporation in the United States.

2. Enron was a publicly traded company whose shares were listed on the New York Stock Exchange and were bought, held, and sold by individuals and entities throughout the United States and the world. Enron and its directors, officers, and employees were required to comply with regulations of the United States Securities and Exchange Commission (“SEC”). Those regulations protect members of the investing public by, among other things, requiring that

a company's financial information is fully and accurately recorded and fairly presented to the public. The regulations require, among other things, that a company submit filings to the SEC in Washington, D.C. that include fair and accurate financial statements and management discussion and analysis of a company's business.

3. The price of Enron's stock was influenced by factors such as Enron's reported revenue, earnings, debt, cash flow, and credit rating, as well as its growth potential and consistent ability to meet revenue and earnings targets and forecasts. Enron executives provided guidance to the investing public regarding anticipated revenue, earnings for upcoming reporting periods, and other information regarding Enron's business activity. Such guidance was communicated in presentations and conference calls to securities analysts and in other public statements by Enron executives. Relying in part on the company's guidance, securities analysts disseminated to the public their own estimates of the company's expected performance. These earnings estimates, or analysts' expectations, were closely followed by investors. Typically, if a company announced earnings that failed to meet or exceed analysts' expectations, the price of the company's stock declined.

4. It was also critical to Enron's ongoing business operations that it maintain an investment grade rating for its debt, which was rated by national credit rating agencies. An investment grade rating was essential to Enron's ability to enter into trading contracts with its counterparties and to maintain sufficient lines of credit with major banks. In order to maintain an investment grade rating, Enron executives were required to demonstrate that its financial condition was stable and that the risk that Enron would not repay its debts and other financial obligations was low. The credit rating agencies relied on, among other things, Enron's public

filings, including its financial statements filed with the SEC, in rating Enron's debt. In addition, members of Enron's senior management spoke regularly with, and provided financial and other information to, representatives of credit rating agencies. Two primary factors influencing Enron's credit rating and the willingness of banks to extend loans to Enron were Enron's total amount of debt and other obligations and its cash flow.

PRINCIPAL CONSPIRATORS AND THEIR ROLES AT ENRON

5. As detailed below, defendants KENNETH L. LAY ("LAY"), JEFFREY K. SKILLING ("SKILLING"), and their conspirators, engaged in a wide-ranging scheme to deceive the investing public, including Enron's shareholders, the SEC, and others (the "Victims"), about the true performance of Enron's businesses by: (a) manipulating Enron's publicly reported financial results; and (b) making public statements and representations about Enron's financial performance and results that were false and misleading in that they did not fairly and accurately reflect Enron's actual financial condition and performance, and they omitted to disclose facts necessary to make those statements and representations fair and accurate.

6. LAY was named Chief Executive Officer ("CEO") and Chairman of the Board of Directors (the "Board") of Enron upon its formation in 1986. LAY held both of these positions until February 2001, when he stepped down as CEO and continued as Chairman, and SKILLING became the CEO. On August 14, 2001, SKILLING abruptly resigned from Enron and LAY resumed his position as Enron's CEO and remained Chairman.

7. SKILLING was employed by or acted as a consultant to Enron from at least the late 1980s through early December 2001. In August 1990, Enron hired SKILLING. SKILLING held various executive and management positions at Enron and in January 1997, Enron promoted

SKILLING to President and Chief Operating Officer (“COO”) of the company. SKILLING then reported directly to LAY. In February 2001, SKILLING was named President and CEO of Enron. He resigned in August 2001.

8. LAY and SKILLING oversaw the operations of Enron’s numerous business units. As CEO, LAY and SKILLING were responsible for supervising the activities of each of Enron’s business units and the heads of those business units, as well as the activities of the senior Enron managers who conducted the company’s financial and accounting activities. LAY and SKILLING held weekly management meetings with the leaders of Enron’s business units to review, among other things, the company’s budget and operating performance.

9. LAY and SKILLING also routinely provided guidance and information concerning the company’s performance to securities analysts, as well as to Enron’s employees and the public. Indeed, LAY and SKILLING served as Enron’s principal spokespersons with the investing public. LAY and SKILLING reviewed and approved proposed press releases concerning Enron, and they signed Enron’s annual reports filed on Form 10-K with the SEC. SKILLING signed Enron’s quarterly and annual representation letters to its auditors.

10. As Chairman, LAY was responsible for presiding over meetings of the Board and assisting in developing the agenda for Board meetings. Among other things, the Board periodically reviewed Enron’s operations, financial results, proposed transactions and executive compensation. LAY and SKILLING also attended meetings of the Board’s committees, including the Finance Committee and the Audit and Compliance Committee. According to its charter, the Finance Committee served as a “monitor for the Company’s financial activities” and reviewed and approved the company’s significant financings, debt levels, and performance of

portfolio assets, among other things.

11. As Enron's Chief Accounting Officer, Richard A. Causey managed Enron's accounting practices. Causey reported to LAY and SKILLING. Together with LAY, SKILLING, Enron's Chief Financial Officer ("CFO") Andrew S. Fastow, its Treasurer Ben F. Glisan, Jr., and others, Causey was a principal manager of Enron's finances. Causey was also a principal manager of Enron's disclosures and representations to the investing public. He routinely participated in discussions with securities analysts and in other communications in which Enron provided the public with guidance concerning the company's performance. Causey signed Enron's annual reports filed with the SEC on Form 10-K and its quarterly reports on Form 10-Q and he signed quarterly and annual representation letters to Enron's auditors.

12. LAY, SKILLING, and Causey had numerous conspirators, including, but not limited to: Fastow, who supervised such matters as Enron's structured finance, cash flow, and debt management activities; Glisan, who also assisted in supervising Enron's structured finance, cash flow and debt management activities; David W. Delainey, the CEO of two Enron business units -- Enron North America ("ENA") and Enron Energy Services ("EES") -- who supervised large portions of Enron's wholesale energy business and, later, its retail energy business; Wesley Colwell, the CAO of ENA, who managed the accounting for Enron's wholesale energy business; Michael Kopper, a Managing Director in Enron's Global Finance group, who conducted structured finance activities for Enron and assisted in running important Enron off-balance sheet vehicles; as well as others.

Defendants' Profit as a Result of the Scheme

13. LAY, SKILLING, and their conspirators enriched themselves as a result of the

scheme through salary, bonuses, grants of stock and stock options, other profits, and prestige within their professions and communities.

14. Between 1998 and 2001, SKILLING received approximately \$200 million from the sale of Enron stock options and restricted stock, netting over \$89 million in profit, and was paid more than \$14 million in salary and bonuses.

15. Between 1998 and 2001, LAY received approximately \$300 million from the sale of Enron stock options and restricted stock, netting over \$217 million in profit, and was paid more than \$19 million in salary and bonuses. During 2001 alone, LAY received a salary of over \$1 million, a bonus of \$7 million and \$3.6 million in long term incentive payments.

Additionally, during the period of August 21 through October 26, 2001, LAY sold approximately 918,104 shares of Enron stock to repay advances totaling \$26,025,000 he had received from a line of credit extended to LAY by Enron.

OVERVIEW OF THE DEFENDANTS' SCHEME TO DEFRAUD

16. LAY and SKILLING were among the principal operators of the scheme, which SKILLING spearheaded until his sudden departure in August 2001, at which point LAY took over leadership of the conspiracy. Due to the efforts of LAY, SKILLING, and their conspirators, the financial appearance of Enron presented to the investing public concealed the true state of Enron. Enron's publicly reported financial results and filings and its public descriptions of itself, including in public statements made by and with the knowledge of LAY and SKILLING did not truthfully present Enron's financial position, results from operations, and cash flow of the company and omitted facts necessary to make the disclosures and statements that were made truthful and not misleading. The misleading portrayal of Enron's financial condition supported

Enron's stock price and its credit rating.

17. The conspiracy's objectives included:

- reporting recurring earnings that falsely appeared to grow smoothly by approximately 15 to 20 percent annually and thus create the illusion that Enron met or exceeded the published expectations of securities analysts forecasting Enron's reported earnings-per-share and other results;
- touting falsely the success of Enron's business units;
- concealing large losses, "write-downs," and other negative information concerning its business units;
- masking the true magnitude of debt and other obligations required to keep the company's varied and often unsuccessful business ventures afloat;
- deceiving credit rating agencies in order to maintain an investment-grade credit rating; and
- artificially inflating the share price of Enron's stock, including attempting to stem the decline of Enron's share price in 2001.

18. SKILLING and Causey set and monitored annual and quarterly earnings and cash flow targets ("budget targets") for the company as a whole and for each of Enron's business units. SKILLING and Causey set the budget targets by determining the numbers necessary for each Enron business unit to report in order to meet Enron's artificial mandates for growth and analysts' expectations, rather than by determining the earnings and cash flow that a particular business unit could be expected to generate. On a quarterly and year-end basis, they assessed Enron's progress toward its budget targets. When the budget targets were not met through actual

results from business operations, the desired budget targets were achieved by conspirators through the use of various earnings and cash flow “levers” described in this Indictment. These levers were designed to manipulate Enron’s finances and prop up its stock price by, among other things, filling earnings and cash flow shortfalls that were at times in the hundreds of millions of dollars. These shortfalls were referred to within Enron variously as the "gap," "stretch" or "overview."

19. For a significant time, the scheme to support artificially the share price of Enron's stock succeeded. In early 1998, Enron's stock traded at approximately \$30 per share. By January 2001, even after a 1999 stock split, Enron's stock had risen to over \$80 per share and Enron was ranked the seventh-largest company in the United States, according to the leading index of the "Fortune 500." Until the scheme unraveled in late 2001, Enron maintained an investment grade credit rating.

The Third and Fourth Quarters of 2001

20. On August 14, 2001, SKILLING resigned from Enron, according to SKILLING and LAY, for personal reasons. Enron’s stock price, which had been declining since January 2001, fell sharply. LAY resumed his position as CEO of the company, intensified his oversight of Enron’s day-to-day operations, and took control of the conspiracy. For a time, the conspirators were able to forestall even greater declines in the price of Enron stock by various levers, until mid-October when the scheme started to unravel and Enron ultimately filed for bankruptcy.

21. During the last two weeks of August 2001 and the first week of September 2001, LAY was briefed by numerous Enron employees on Enron’s mounting and undisclosed financial and operational problems, including several billion dollars of losses embedded in Enron’s assets

and business units. As a result of these and other issues confronting Enron, LAY and Causey privately considered a range of potential solutions, including mergers, restructurings, and even divestiture of Enron's pipelines, assets that LAY considered to be the crown jewels of the company.

22. Throughout the remainder of September 2001, LAY and his conspirators engaged in a series of high-level meetings to discuss the growing financial crisis at Enron and the likely impact on Enron's credit rating. Among other things, as LAY knew, the total amount of losses embedded in Enron's assets and business units was, at a minimum, \$7 billion. LAY also learned that Enron's auditors had changed their position concerning the accounting treatment of four off-balance sheet vehicles called the Raptors, which required Enron to determine in short order whether an acceptable alternative methodology existed or whether, instead, Enron would have to restate its earnings and admit the error.

23. In the weeks leading up to Enron's third quarter earnings release on October 16, 2001, LAY determined that Enron could not publicly report a loss in excess of \$1 billion without triggering negative action by Enron's credit rating agencies. LAY thus artificially capped Enron's losses at that amount, by among other things, manipulating accounting standards in order to conceal additional write-downs. On October 16, 2001, when Enron announced losses of approximately \$1 billion, LAY sought to minimize the import of the reported losses and continued to make false and misleading statements to the market about Enron's financial health.

24. From this juncture, the scheme rapidly unraveled. On October 22, 2001, Enron announced that it was the subject of an SEC investigation. By October 23, 2001, LAY had authorized Enron to enter into merger discussions with its far smaller rival, Dynegy Inc.

(“Dynergy”). On October 25, 2001, LAY authorized Enron to use the remaining \$3 billion from its corporate lines of credit. On October 29 and November 1, 2001, the two leading credit rating agencies downgraded Enron’s credit rating. On November 8, 2001, Enron announced its intention to restate its publicly reported financial statements for 1997 through 2000 and the first and second quarters of 2001 to reduce previously reported net income by an aggregate of \$586 million. The next day, Enron and Dynergy announced a merger agreement. On November 28, 2001, Enron’s credit rating was further downgraded to “junk” status and Dynergy announced its withdrawal from the merger agreement. And on December 2, 2001, Enron filed for bankruptcy, making its stock, which less than a year earlier had been trading at over \$80 per share, virtually worthless.

DEVICES EMPLOYED IN FURTHERANCE OF SCHEME

25. At various times, LAY, SKILLING, and their conspirators presented Enron's financial results, which had been engineered to appear far more successful than they actually were, in a false and misleading manner to the investing public through, among other things, conferences with securities analysts and rating agencies, press releases, media statements, and SEC filings.

26. LAY, SKILLING, and Causey used and caused to be used secret oral side-deals, back-dated documents, disguised debt, material omissions, and outright false statements to further the scheme. Specifically, each at various times during the conspiracy employed one or more of the following devices in furtherance of the fraudulent scheme:

- structuring financial transactions in a misleading manner in order to achieve earnings and cash flow objectives, avoid booking large losses in asset values, and

conceal debt, including through the fraudulent use of purported third-party entities that in fact were not independent from Enron;

- manufacturing earnings and artificially improving Enron's balance sheet through fraudulent overvaluation of assets;
- fraudulently circumventing accounting standards applicable to the sale of financial assets in order to conceal the amount of Enron's debt and to create the false appearance of greater earnings and cash flow;
- concealing large losses and failures in Enron's two highly-touted new businesses, Enron Broadband Services ("EBS") and EES;
- manipulating earnings through fraudulent use of reserve accounts to mask volatility in Enron's wholesale energy trading earnings and use those reserves later in order to appear to achieve budget targets;
- fraudulently circumventing accounting standards applicable to the disclosure and recognition of impairments to goodwill; and
- making false and misleading statements, and omissions of facts necessary to make statements not misleading, about Enron's financial condition.

A. Use of Special Purpose Entities and LJM Partnership to Manipulate Financial Results

27. Special Purpose Entities: With SKILLING's and Causey's approval, conspirators created and used Special Purpose Entities ("SPEs") to ensure that Enron met financial reporting targets. SPEs were used to achieve "off-balance-sheet" accounting treatment of assets and business activities so that Enron could present itself more attractively as measured by criteria favored by securities analysts, credit rating agencies, and others. Under applicable accounting

rules, an SPE could be considered separate from Enron if the SPE included at least a 3%, at risk, equity investment from a true third party that was not under Enron's control. If these conditions were satisfied, Enron could record the earnings and cash flow from a deal with the SPE, but would not have to record liabilities such as the SPE's debt on its own balance sheet.

28. Creation of LJM Partnership: In June 1999, in order to have a purportedly independent third party available to provide this outside equity funding so that Enron could more easily create and use SPEs to achieve its desired financial reporting results, SKILLING and Causey sought and obtained the approval of the Board for Fastow to create and serve as the managing partner of an investment partnership named LJM Cayman, L.P., that would invest in SPEs with Enron. The Board later approved Fastow's participation in an even larger entity used to fund SPEs by Enron, LJM2 (the LJM entities are collectively referred to as "LJM"). LJM's business activity principally involved transactions with Enron and Enron affiliates.

29. As SKILLING knew, LJM was not a true third party acting independently from Enron. Instead, LJM was controlled by Fastow acting simultaneously in his capacity both as Enron's CFO and as the general partner in LJM. SKILLING, Causey, and Fastow then exploited this dual role as a means to ensure that LJM did not act as a true third party investor, but rather as Enron's surrogate to achieve its financial reporting objectives and as a means for Fastow and others to be heavily compensated for contributing to the appearance of Enron's success.

30. From approximately July 1999 through October 2001, SKILLING and Causey caused Enron to enter into a series of transactions with LJM that defrauded the Victims. The transactions with LJM enabled the conspirators, among other things: (a) to manipulate Enron's reported financial results by fraudulently omitting poorly performing assets from Enron's balance

sheet, when in fact such off-balance-sheet treatment was improper; (b) to conceal Enron's poor operating performance by engaging in transactions designed to close gaps between Enron's actual business results and its stated financial reporting goals; (c) to manufacture earnings through sham transactions when Enron was having trouble meeting its goals for a quarter or year; and (d) to inflate improperly the value of Enron's investment portfolio by backdating documents.

31. "Raptor" Hedges: Beginning in the spring of 2000, Enron and LJM engaged in a series of financial transactions called Raptor I, Raptor II, Raptor III and Raptor IV (collectively referred to as the "Raptors"). SKILLING and Causey used the Raptors to manipulate fraudulently Enron's reported financial results. They designed and approved Raptor I to protect Enron from having to report publicly decreases in value in large portions of its merchant asset portfolio and investments by hedging their value with an allegedly independent SPE created by Enron and LJM, known as Talon.

32. As SKILLING and Causey knew, however, the Raptor I structure could not properly be excluded from Enron's financial statements, because Talon was not independent from Enron, and LJM's investment in Talon was not sufficiently at risk to qualify as outside equity. With SKILLING's approval, Causey and Fastow entered into a secret oral side-deal that LJM would receive its \$30 million investment back plus a substantial profit, prior to Talon engaging in any of the transactions for which it was created. In return, Enron could use Raptor I to manipulate Enron's balance sheet, including by allowing Enron, without negotiation or due diligence on behalf of LJM, to select the values at which the Enron assets were hedged with Talon.

33. In order to conceal the true reason for the payment from Enron to LJM, Causey

satisfied the oral side-deal by causing the manufacture of a separate transaction between Enron and Talon that had no legitimate business purpose and was undertaken solely to generate a \$41 million payment to LJM. After providing LJM with this payment, Enron used Raptor I to hedge the value of Enron's assets. Causey further used Raptor I fraudulently to promote Enron's financial position by back-dating a hedge of Avici stock – a company in which Enron held a significant stock position – to a date prior to the significant decline of the Avici stock price. With SKILLING's and Causey's knowledge and approval, the basic structure used in Raptor I, including the secret oral side-deal, was repeated in Raptors II, III and IV.

34. Manufacturing Earnings and Concealing Debt through Purported Sales to LJM: SKILLING and Causey used LJM to enter into other transactions in order to achieve purported asset sales to generate earnings and cash flow and move poorly performing assets off Enron's balance sheet. SKILLING and Causey made secret side-deals that guaranteed LJM against equity risk in various transactions with Enron.

35. Cuiaba. One such transaction involved LJM's "purchase" of Enron's interest in a company that was building a power plant in Cuiaba, Brazil (the "Cuiaba project"). On or about September 30, 1999, when no true third-party buyer could be found, Enron "sold" a portion of its interest in the Cuiaba project to LJM. LJM agreed to "buy" this interest only because, as SKILLING knew, Causey in a secret side-deal agreed that Enron would buy back the interest, if necessary, at a profit to LJM. Based on this purported sale, which was known amongst various conspirators as a "parking" or "warehousing" arrangement, Enron recognized approximately \$65 million in income in the third and fourth quarters of 1999, when it was straining to meet budget targets.

36. By 2001, the Cuiaba project was approximately \$200 million over budget. Nonetheless, in the spring of 2001, SKILLING and Causey caused Enron to buy back LJM's interest in the Cuiaba project at a considerable profit to LJM, in fulfillment of the side-deal. So as to conceal the role of Fastow and LJM in the Cuiaba repurchase, SKILLING and Causey decided not to announce the deal until Fastow sold his interest in LJM. Consequently, they caused Enron improperly to fail to disclose in its second quarter 2001 financial report the agreement to repurchase. The Cuiaba repurchase was effectuated just weeks after the second quarter report.

37. Nigerian Barges. In the fourth quarter 1999, SKILLING and Causey pushed through several end-of-the-year transactions that were designed solely to achieve budget targets at a time when Enron was struggling to produce earnings sufficient to ensure that Enron met analysts' expectations and Enron's predictions for earnings growth. One such transaction was a "sale" by Enron to Merrill Lynch & Co. ("Merrill Lynch") of an interest in electricity-generating power barges moored off the coast of Nigeria. When Enron was unable to find a true buyer for the barges by December 1999, conspirators parked the barges with Merrill Lynch so that Enron could record \$12 million in earnings and \$28 million in cash flow needed to meet 1999 budget targets.

38. As SKILLING knew, Merrill Lynch entered into the Nigerian barges transaction based on a promise in a secret oral side-deal that Merrill Lynch would receive a return of its investment plus an agreed-upon profit within six months. As SKILLING knew, the oral side-deal was concealed from Enron's auditors and the public. Because of the side-deal, Merrill Lynch's supposed equity investment was not sufficiently "at risk" under accounting rules to allow

Enron to treat the transaction as a sale from which it could record earnings and cash flow. In June 2000, as SKILLING knew, conspirators caused Enron to deliver on the side-deal to Merrill Lynch by producing LJM as a buyer for the Nigerian barges, while secretly promising to take LJM out of the Nigerian barge deal at a profit plus a large fee.

39. Global Galactic. By approximately July 2000, a range of secret side-deals were pending between Enron and LJM. As a result, in or about and between July 2000 and September 2000, Causey and Fastow resolved on a comprehensive basis the timing and means of fulfilling the illegal side-deals. The agreement was then memorialized in writing and initialed by Causey and Fastow, and was termed by them the “Global Galactic” agreement. Among other things, Causey and Fastow reaffirmed the side-deals between Enron and LJM concerning the Nigerian barges and Cuiaba. In addition, Causey and Fastow agreed that the “put” in Raptor I would be backdated to August 3, 2000, and that of the \$41 million to be paid by Enron to LJM as part of the Raptor I deal, approximately \$6 million would be “re-invested” by LJM in a Raptor vehicle in order to appear to increase the vehicle’s alleged outside equity. .

B. Concealing EES Failures

40. In presentations to the investing public, LAY, SKILLING, and Causey at various times during the conspiracy emphasized the performance and potential of EES as a major reason for past and projected increases in the value of Enron’s stock. In order to enable EES to appear successful, conspirators concealed EES’ massive losses by fraudulently manipulating Enron's “business segment reporting.”

41. As LAY and SKILLING knew, in the first quarter of 2001, Enron executives manipulated EES’s financial position through a reorganization designed to conceal the existence

and magnitude of EES's business failure. Large portions of EES's business – which otherwise would have to report hundreds of millions of dollars in losses – were moved into another Enron business unit, Enron Wholesale. Enron Wholesale was capable of hiding these losses because it housed most of the company's wholesale energy trading profits. In spite of their knowledge of this maneuver, at various times LAY and SKILLING claimed publicly that EES was continuing to perform successfully and as expected.

C. Promoting EBS to Manufacture Earnings and Concealing Failure of EBS

42. "Rollout" of EBS: Beginning in 1999, SKILLING sought artificially to support and inflate Enron's stock price by falsely claiming that Enron's earnings and future prospects were supported to a substantial extent by its telecommunications business unit, EBS. At that time, stocks of technology sector companies, commonly known as "dot-coms," generally traded at a significant premium on public securities markets. A centerpiece of this strategy to promote EBS as a major factor in Enron's earnings and share value was a dramatic presentation by SKILLING and other Enron executives about EBS on January 20, 2000, to securities analysts.

43. Concealment of EBS Failure: By late 2000, SKILLING knew that EBS was a struggling business that was losing far larger than expected amounts of money. They took steps to ensure that EBS's public financial results did not reflect the extent of its problems. For example, during 2000, as SKILLING knew, conspirators authorized misleading, one-time, financial transactions, known as Project Braveheart and Backbone Trust, which manufactured earnings that Enron executives used to create the false impression that EBS would generate operating profits. Even with these transactions, EBS still faced larger than expected losses during the first quarter 2001. In order to ensure that EBS did not record losses that exceeded

Enron's annual budgeted loss target for EBS, and in order to ensure that the quarterly budgeted loss target for the first quarter 2001 was met, Causey reduced EBS's expenses and costs for the first quarter of 2001 by shifting numerous EBS costs off EBS's books, changing the depreciable life of certain of EBS' assets from five to 10 years, and halving the bonus accrual for EBS employees.

D. Manipulating Reported Earnings
Through Improper Use of Reserves

44. Second Quarter 2000: In mid-July 2000, well after the second quarter 2000 reporting period was supposed to be closed, SKILLING and Causey executed a plan artificially to support and inflate Enron's share price by fraudulently reporting an earnings-per-share figure of 34 cents, as opposed to the 32 cents per share that analysts predicted Enron would report. SKILLING and Causey were aware that Enron's performance for the second quarter did not support an earnings-per-share figure of 34 cents, even after they used earnings levers and manipulated Enron's budget targets.

45. In order to achieve the target that SKILLING and Causey sought to report publicly, a conspirator improperly released into earnings millions of dollars from a reserve account in Enron's energy trading business. The release of millions of dollars from the reserve account had no legitimate business purpose and was done solely to accomplish SKILLING's and Causey's aim to report publicly higher earnings per share than Enron actually achieved.

46. Third Quarter 2000 through Third Quarter 2001: SKILLING and Causey fraudulently reserved trading profits in accounts maintained on an internal Enron ledger designated as "Schedule C." By early 2001, "Schedule C" reserves contained over \$1 billion in

unreported earnings. These reserves came principally from Enron's wholesale energy trading business, the profits of which had dramatically increased for reasons including rapidly rising energy prices in the western United States, especially in California. If disclosed to the public, the sudden and large increase in trading profits would have made it apparent that the revenues were closely tied to the market price for energy, and that Enron therefore was exposed to the risk of a decline in such prices. Such disclosure would have undermined Enron's presentation of itself as an "intermediator" in the energy markets, rather than as a speculative (and therefore risky) trading company, the stock of which would trade at a much lower price-to-earnings multiple.

47. SKILLING and Causey fraudulently used funds that had been improperly placed in the "Schedule C" reserve accounts to avoid reporting large losses in other areas of Enron's business. In the first quarter of 2001, SKILLING and Causey improperly used hundreds of millions of dollars of "Schedule C" reserves to conceal from the investing public hundreds of millions of dollars in losses within Enron's EES business unit.

E. Fraudulently Circumventing Accounting Standards Regarding Goodwill Impairment

48. In the third quarter of 2001, LAY and Causey fraudulently circumvented the accounting standards with respect to "goodwill." The goodwill value of a company is generally the difference between the cost of an acquired entity and the recorded value of the entity's net assets. In or about June 2001, a new accounting rule, known as FAS 142, eliminated the ability to amortize goodwill impairments over a 40-year span, effective January 2002. LAY and Causey undertook to determine the impact of the new goodwill rule on Enron for the purpose of disclosing in Enron's third quarter 2001 results that the rule would not adversely effect Enron's financial results.

49. Enron owned direct and indirect interests in Wessex Water Services (“Wessex”), a United Kingdom-based water company that Enron had purchased in 1998 as part of a strategic initiative to establish a large international water business called Azurix. By October 2000, Enron executives, including LAY, recognized that Enron’s water growth strategy had failed. In early 2001, Enron announced that the water business was not one of its “core businesses” and began the process of selling water-related assets. In the third quarter of 2001, as LAY knew, Enron’s internal accountants had determined that the amount of goodwill attributable to Wessex was approximately \$700 million. As LAY also knew, Enron’s internal accountants also determined that Enron would have to disclose the impact on Enron of a Wessex goodwill impairment unless Enron was able to assert that the company would once again pursue a water growth strategy backed by Enron. Enron’s internal accountants estimated that pursuing such a strategy would require Enron to expend between \$1.5 and \$28 billion.

50. LAY knew that Enron did not intend to pursue a water growth strategy and that Enron did not have the capital needed to support such a strategy. LAY also knew that the credit rating agencies would view an announced impairment as a reason to reevaluate Enron’s precarious credit rating. Nevertheless, in October 2001, in order to avoid disclosing to the investing public, the credit rating agencies, and the SEC the impact on Enron of any goodwill impairment associated with Wessex, LAY and Causey falsely claimed to Enron’s auditors that Enron was committed to developing a water growth strategy. LAY and Causey then failed to disclose to the market the impact on Enron of an impairment of Wessex goodwill, when they purported to disclose the impact on Enron of all goodwill impairment that had been reviewed by Enron and its auditors.

F. False and Misleading Representations to Investing Public, SEC, and Rating Agencies

51. At various time during the conspiracy, LAY and SKILLING presented knowingly false and misleading statements and made material omissions about Enron's financial results, the performance of its businesses, and the manner in which its stock should be valued. These statements and material omissions were disseminated to the investing public in conferences, telephone calls, press releases, interviews, statements to the media and rating agencies, and SEC filings. They included, but were not limited to, those described in paragraphs 51 through 73 below.

52. False and Misleading Statements in Public Filings. In furtherance of the scheme to manipulate Enron's financial results and inflate its stock price, SKILLING and Causey filed and caused to be filed with the SEC false annual 10-K reports for the years ending December 31, 1999 and December 31, 2000, and false quarterly 10-Q reports for the quarters ending September 30, 1999, June 30, 2000, September 30, 2000, March 31, 2001 and June 30, 2001. Among other things, those filings contained materially false and misleading financial statements that misstated Enron's actual revenues and earnings and understated Enron's actual debt and expenses and contained materially false and misleading management descriptions and analysis of Enron's business, and they omitted to disclose facts necessary in order to make the disclosures made, in light of the circumstances under which they were made, not misleading.

53. Fourth Quarter 2000 Analyst Call. On January 22, 2001, Enron held its quarterly conference call with securities analysts to discuss its earnings for the fourth quarter of 2000. SKILLING prepared for and participated in the call. SKILLING stated that "for Enron, the situation in California had little impact on fourth quarter results. Let me repeat that. For Enron,

the situation in California had little impact on fourth quarter results.” He further stated that “nothing can happen in California that would jeopardize” Enron’s earnings targets for 2001 and that California business was “small” for Enron. In fact, as SKILLING knew, Enron reaped huge profits in 2000 from energy trading in California and concealed hundreds of millions of dollars of those earnings in undisclosed reserve accounts. As SKILLING also knew, by late January 2001, California utilities owed EES hundreds of millions of dollars that EES could not collect, and Enron personnel had concealed large reserves that Enron was forced to use to offset those uncollectible receivables within Enron Wholesale’s books.

54. In support of SKILLING’s claims that EBS continued to be successful and a major positive factor contributing to Enron’s stock price, a conspirator misled analysts during the call about the source of EBS’s earnings in the fourth quarter of 2000. After being directed by SKILLING to answer a question about the source of EBS’s revenues, the conspirator said that one-time, nonrecurring transactions such as sales of “dark fiber” and part of EBS’s nascent video-on-demand venture with the Blockbuster company accounted for “a fairly small amount” of EBS’s revenues. In fact, as SKILLING knew, the sale of projected future revenues from the Blockbuster video-on-demand venture accounted for \$53 million of EBS’s fourth quarter 2000 revenues of \$63 million.

55. January 25, 2001 Analyst Conference. Enron held its annual conference in Houston with securities analysts on January 25, 2001. SKILLING claimed that all of Enron’s major businesses, including EBS and EES, were “strong franchises with sustainable high earnings power.” With regard to EBS, he said that “Our network’s in place. We have customers and specific products and [devices] for the marketplace.” He asserted that Enron’s stock, which

was then trading at over \$80 per share, should be valued at \$126 per share, attributing \$63 of that alleged stock value to EBS and EES. He also stated that Enron was “not a trading business.”

56. In fact, as SKILLING knew, EBS was performing poorly and had made little commercial progress in 2000; EBS personnel had recommended shutting down or selling EBS’s network; EBS had few revenue prospects for the upcoming year; and EBS had an unsupportable cost structure that, without correction, could lead to substantial losses well in excess of those Enron had publicly forecast. As SKILLING also knew, EES too was a struggling business. EES was owed hundreds of millions of dollars in receivables by California utilities that it could not collect and that Enron personnel were concealing within Enron Wholesale. As SKILLING knew, these uncollected receivables were in part the result of a lack of internal controls and poor risk management within EES.

57. March 23, 2001 Analyst Call. Enron held a special conference call with securities analysts on March 23, 2001 in an effort to dispel growing public concerns about Enron’s stock, which had fallen from over \$80 per share to under \$60 per share in less than two months. SKILLING prepared for and participated in the call. SKILLING stated that “Enron’s business is in great shape” and “I know this is a bad stock market but Enron’s in good shape,” even though, as SKILLING knew, both of Enron’s showpiece new businesses, EBS and EES, were failing. SKILLING stated that Enron was “highly confident” of its income target of \$225 million for the year for EES and that EES was seeing the “positive effect” of “the chaos that’s going on out in California.” In fact, as SKILLING knew, EES’s existing contracts were overvalued by hundreds of millions of dollars. EES was owed hundreds of millions of dollars by the California utilities that it could not collect and Enron personnel had concealed. EES’s new management privately

was predicting that it would take a year or more for EES to become truly profitable.

58. SKILLING further stated that EBS “is coming along just fine” and that the company was “very comfortable with the volumes and targets and the benchmarks that we set for EBS.” He said that EBS’s two profit-and-loss centers, intermediation and content services, were “growing fast” and that EBS was not laying off employees but rather “moving people around inside EBS” and that this was “very good news.” In fact, as SKILLING knew, EBS was continuing to fail. Senior personnel at EBS privately had reported that the unit had an unsupportable cost structure and unproven revenue model. One senior EBS executive estimated that Enron would need to record as a loss approximately half of EBS’s \$875 million book value. EBS was laying off employees and SKILLING had told employees based in Portland, Oregon that EBS would be centralized in Houston and jobs would be cut because of a “total meltdown” in the broadband industry.

59. First Quarter 2001 Analyst Call. Enron held its conference call with securities analysts to discuss its first quarter 2001 results on April 17, 2001. SKILLING prepared for and participated in the call. SKILLING talked about continued “big, big numbers” in EES’s energy contracting business. He falsely explained Enron’s movement of EES’s energy contract portfolio into Enron Wholesale by omitting any reference to EES’s large losses or their transfer to Enron Wholesale and stating, “[W]e have such capability in our wholesale business that we were -- we just weren’t taking advantage of that in managing our portfolio at the retail side. And this retail portfolio has gotten so big so fast that we needed to get the best -- the best hands working risk management there.” While Enron reported modest first quarter earnings for EES of \$40 million, in fact, as SKILLING knew, EES was facing losses approaching one billion dollars, including

overvalued contracts, uncollectible receivables with the California utilities, and huge costs from an increased California regulatory surcharge.

60. SKILLING also stated regarding EBS that “[o]ur network is now substantially complete” and that it “is just not the case” that Enron was reducing staff of EBS because it was getting out of the content services business. SKILLING stressed that the reported losses in the unit were on target and “anticipated” and that the unit’s capital expenditures were being reduced because it was “able to get access to connectivity without having to build it.” In fact, as SKILLING knew, the cost-cutting measures at EBS were instituted because the business was continuing to fail and to lay off employees rather than redeploy them, and was incurring much larger than expected losses that could not be offset with projected future revenues.

61. Second Quarter 2001 Analyst Call. Enron held its conference call with securities analysts to discuss its second quarter 2001 results on July 12, 2001. SKILLING prepared for and participated in the call. SKILLING stated that Enron had a “great quarter” and that EES “had an outstanding second quarter” and was “firmly on track to achieve our 2001 target of \$225 million” in earnings; that losses in EBS were due to “industry conditions” and “dried up” revenue opportunities; and that Enron’s “new businesses are expanding and adding to our earnings power and valuation, and we are well positioned for future growth.”

62. In fact, as SKILLING knew, by the close of the second quarter of 2001, EBS had failed and its increased losses were because it had stopped the one-time sales of portions of its business that had previously been the only significant source of its earnings. EES was facing hundreds of millions of dollars in concealed losses and was a year or more away from any prospect of success.

63. September 26, 2001 Employee On-Line Forum. On September 26, 2001, LAY held an on-line forum with Enron employees. LAY stated that “[t]he third quarter is looking great. We will hit our numbers. We are continuing to have strong growth in our businesses, and at this time I think we’re positioned for a very strong fourth quarter.” He added that “we have record operating and financial results” and that “the balance sheet is strong.” In fact, as LAY knew, Enron was preparing to announce a significant overall quarterly loss for the first time since 1997, and had committed a \$1.2 billion accounting error, among other problems facing the company. In addition, LAY knew that the balance sheet reflected approximately \$7 billion in embedded losses in business units and overvalued investments and that Enron had been exploring such drastic solutions to Enron’s financial problems as a merger with another company and the sale of Enron’s pipelines.

64. LAY announced to the employees, “I have strongly encouraged our 16b [management] officers to buy additional Enron stock. Some, including myself, have done so over the last couple of months and others will probably do so in the future. . . . My personal belief is that Enron stock is an incredible bargain at current prices.” LAY deliberately created the impression with Enron employees that his confidence in Enron’s stock was such that he had increased his personal ownership of Enron stock in the past two months. In fact, as LAY knew, during the prior “couple of months,” LAY had purchased approximately \$4 million in Enron stock but sold \$24 million in Enron stock in sales to Enron that were concealed from Enron employees and the rest of the investing public.

65. October 12, 2001 Call with Credit Rating Agency. On or about October 12, 2001, LAY had a telephone call with a representative of a prominent credit rating agency. LAY stated

that Enron and its auditors had “scrubbed” the company’s books and that no additional write-downs would be forthcoming. In fact, as LAY knew, Enron’s international assets were being carried on Enron’s books for billions of dollars in excess of their fair value. LAY further knew that he made misrepresentations to representatives of Andersen in order to conceal the Wessex \$700 million goodwill impairment, and had falsely claimed that Enron would pursue a growth strategy in the water business. In addition, as LAY knew, Enron’s auditors had not been able to “scrub” the books due to misrepresentations by him and others to them regarding Wessex goodwill.

66. Third Quarter 2001 Analyst Call. On October 16, 2001, Enron held its quarterly conference call with securities analysts to discuss its third quarter 2001 earnings results. LAY prepared for and participated in the call. For the first time during the duration of the scheme to manipulate its reported financial results, Enron conceded that it had suffered large losses, totaling approximately \$1 billion, in certain segments of its business. These areas included many declining assets that had been concealed in the “Raptor” hedges, as well as EBS. However, LAY attempted to mislead the investing public and omit information about these losses in order to minimize the negative effect on Enron’s stock price. LAY described the losses as “nonrecurring,” that is, a one-time or unusual earnings event. However, as LAY knew, the losses were not properly characterized as non-recurring.

67. In addition, LAY stated: “In connection with the early termination [of the Raptor structures], shareholders’ equity will be reduced approximately \$1.2 billion.” In fact, as LAY knew, the reduction in equity resulted not from the termination of the “Raptor” structures, but principally from a huge accounting error by Enron. In a further effort to deflect attention from

the equity reduction, LAY and others chose not to disclose the problem in Enron's third quarter press release.

68. LAY further stated that after review by its outside auditors, "we currently estimate, based upon this recent review, that up to \$200 million goodwill adjustment may be necessary, and will be recorded as required by the accounting principles in the first quarter of 2002." In fact, as LAY knew, the adjustment did not account for the impact on Enron of the impaired Wessex goodwill of approximately \$700 million, due to misrepresentations by LAY and others.

69. In response to questions regarding the value of Elektro, a Brazilian power plant, which Enron carried on its books as worth in excess of \$2 billion, LAY stated that "[w]e may well have that asset and operate that asset for quite some time. It's not a bad asset, it's a good asset, just like a lot of the other assets in this portfolio." In fact, as LAY knew, Elektro was overvalued by as much as \$1 billion and was classified by Enron's Risk Assessment and Control group as "troubled."

70. Third Quarter Investor and Analyst Roadshows. Immediately after the announcement of Enron's third quarter earnings results, LAY and other senior Enron executives held a series of meetings, or roadshows, with analysts and large institutional investors. LAY and the other senior executives touted EES as one of Enron's three primary businesses, and misleadingly portrayed EES as rapidly increasing in profitability, quarter to quarter and year to year. In fact, as LAY knew, Enron had shifted hundreds of millions of dollars in EES losses to Enron Wholesale in the first quarter of 2001, which gave EES the false appearance of profitability. LAY additionally distributed materials at the roadshows that misleadingly

described the value of the international portfolio as \$6.5 billion. In fact, as LAY knew, the \$6.5 billion valuation vastly overstated the true value of the international assets by billions of dollars.

71. October 23, 2001 Analyst Call. Enron held a special conference call with securities analysts on October 23, 2001, in an effort to dispel growing public concerns about Enron's stock, which had lost 25% of its value in the week following the October 16, 2001, third quarter earnings announcement. LAY prepared for and participated in the call. LAY stated that "[w]e're not trying to conceal anything. We're not hiding anything." "We're really trying to make sure that the analysts and the shareholders and the debt holders really know what's going on here. So, we are not trying to hold anything back." "I'm disclosing everything we've found." In fact, while professing candor, LAY failed to disclose numerous dire facts about the state of Enron's business that he knew and that are outlined in this Indictment.

72. LAY further stated that "we, in fact both we and our outside auditors had already looked at all of our assets to determine if we had impairments under the new goodwill accounting rules that take effect first quarter next year. And as you probably recall, out of that review, indeed there was somewhat less than \$200 million of adjustments that will be required in the first quarter out of our whole portfolio. And clearly, if there are impairments other than that, why then of course Arthur Andersen as well as our internal accounting staff would require that we write that down also." In fact, as LAY knew, the adjustment did not include the impact on Enron of the impaired Wessex goodwill of approximately \$700 million, due to misrepresentations by LAY and others.

73. October 23, 2001 All Employees Meeting. Shortly after the October 23 analyst call, LAY attended another all-employee meeting, with live webcast and video teleconference

communication to Enron's 28,000 employees. LAY stated "[o]ur liquidity is fine. As a matter of fact, it's better than fine, it's strong" In fact, LAY knew that in order to maintain liquidity, Enron had been forced to take the unusual step of offering its pipelines as collateral to obtain a needed \$1 billion bank loan. LAY knew that Enron had failed to complete a \$1 billion bond deal planned for execution since July, 2001. LAY also knew that the only readily available source of liquidity was the \$3 billion corporate line of credit, which, if drawn, would signal the dire straits of Enron's finances. Indeed, three days later, LAY authorized the withdrawal of the entire \$3 billion from the line of credit.

COUNT ONE

(ALL DEFENDANTS: Conspiracy to Commit Securities and Wire Fraud)

74. The allegations in paragraphs 1 through 73 are realleged as if fully set forth here.

75. In or about and between late 1999 and December 2001, both dates being approximate and inclusive, within the Southern District of Texas and elsewhere, defendants KENNETH L. LAY, JEFFREY K. SKILLING, and others, did knowingly and intentionally conspire (1) to willfully and unlawfully use and employ manipulative and deceptive contrivances and directly and indirectly (i) to employ devices, schemes and artifices to defraud; (ii) to make untrue statements of material fact and omit to state facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (iii) to engage in acts, practices, and courses of conduct which would and did operate as a fraud and deceit upon members of the investing public, in connection with the purchase and sale of Enron securities and by use of the instruments of communication in interstate commerce and the mails, all in violation of Title 15, United States Code, Sections 78j(b) and 78ff and Rule 10b-5 of

the SEC, Title 17, Code of Federal Regulations, Section 240.10b-5, and (2) to devise a scheme and artifice to defraud Enron, its shareholders and other members of the investing public, the SEC, and others, including depriving Enron and its shareholders of the intangible right of honest services owed by LAY, SKILLING, and other Enron executives to them, and to obtain money and property by means of materially false and fraudulent pretenses, representations and promises, and, for the purpose of executing such scheme and artifice would transmit and cause to be transmitted by means of wire communications in interstate commerce writings, signs, pictures and sounds, all in violation of Title 18, United States Code, Section 1343.

OVERT ACTS

76. In furtherance of the conspiracy and in order to carry out the objectives thereof, on or about the dates listed below, in the Southern District of Texas and elsewhere, defendants KENNETH L. LAY, JEFFREY K. SKILLING, and others, committed and caused to be committed the following overt acts, among others:

a. On or about March 30, 2000, SKILLING and Causey signed and caused to be filed via electronic transmission from Houston, Texas to the SEC in Washington, D.C., Enron's annual report on Form 10-K for the period ending December 31, 1999;

b. On or about August 14, 2000, SKILLING and Causey caused to be filed via electronic transmission from Houston, Texas to the SEC in Washington, D.C., Enron's quarterly report on Form 10-Q for the period ending June 30, 2000;

c. On or about November 14, 2000, SKILLING and Causey caused to be filed via electronic transmission from Houston, Texas to the SEC in Washington, D.C., Enron's quarterly report on Form 10-Q for the period ending September 30, 2000;

- d. On or about January 22, 2001, SKILLING and others conducted a quarterly conference call from Houston, Texas with securities analysts;
- e. On or about January 25, 2001, SKILLING and others planned and delivered an annual presentation in Houston, Texas to securities analysts;
- f. On or about March 23, 2001, SKILLING and others conducted a conference call from Houston, Texas with securities analysts;
- g. On or about April 2, 2001, SKILLING and Causey signed and caused to be filed via electronic transmission from Houston, Texas to the SEC in Washington, D.C., Enron's annual report on Form 10-K for the period ending December 31, 2000;
- h. On or about April 17, 2001, SKILLING and others conducted a quarterly conference call with securities analysts;
- i. On or about May 15, 2001, SKILLING and Causey caused to be filed via electronic transmission from Houston, Texas to the SEC in Washington, D.C., Enron's quarterly report on Form 10-Q for the period ending March 31, 2001;
- j. On or about July 12, 2001, SKILLING and others conducted a quarterly conference call from Houston, Texas with securities analysts;
- k. On or about August 14, 2001, Causey caused to be filed via electronic transmission from Houston, Texas to the SEC in Washington, D.C., Enron's quarterly report on Form 10-Q for the period ending June 30, 2001;
- l. On or about September 26, 2001, LAY conducted an "online forum" with Enron employees;
- m. On or about October 12, 2001, LAY spoke to a representative of a national

credit rating agency regarding Enron's credit rating;

- n. On or about October 12, 2001, LAY and Causey met with Arthur Andersen audit partners regarding goodwill;
- o. On or about October 16, 2001, LAY and others conducted a quarterly conference call from Houston, Texas with securities analysts;
- p. On or about October 23, 2001, LAY and others conducted a quarterly conference call from Houston, Texas with securities analysts;
- q. On or about October 23, 2001, LAY and others conducted an "all employee" Enron meeting from Houston, Texas; and
- r. On or about November 12, 2001, LAY and others conducted a conference call from Houston, Texas with securities analysts.

(Title 18, United States Code, Sections 371 and 3551 et seq.)

COUNT TWO

(SKILLING: Securities Fraud: Raptor Fraud)

- 77. The allegations in paragraphs 1 through 73 are realleged as if fully set forth here.
- 78. In or about and between January 2000 and December 2001, both dates being approximate and inclusive, within the Southern District of Texas and elsewhere, defendants JEFFREY K. SKILLING and others, in a course of conduct involving the construction and use of Enron financial devices known as the Raptors, did willfully and unlawfully use and employ manipulative and deceptive devices and contrivances and directly and indirectly (i) employ devices, schemes and artifices to defraud; (ii) make untrue statements of material facts and omit

to state facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (iii) engage in acts, practices, and courses of conduct which would and did operate as a fraud and deceit upon members of the investing public, in connection with purchases and sales of Enron securities and by the use of the instruments of communication in interstate commerce and the mails.

(Title 17, Code of Federal Regulations, Section 240.10b-5; Title 15, United States Code, Sections 78j(b) and 78ff; Title 18, United States Code, Sections 2 and 3551 et seq.)

COUNTS TWELVE AND THIRTEEN

(LAY: Wire Fraud: False And Misleading Statements in Employee Meetings)

79. The allegations of paragraphs 1 through 73 are realleged as if fully set forth here.

80. On or about the dates set forth below, each such date constituting a separate count of this Indictment, within the Southern District of Texas and elsewhere, defendant KENNETH L. LAY, having devised a scheme and artifice to defraud Enron, its shareholders and other members of the investing public, the SEC, and others, including depriving Enron and its shareholders of the intangible right of honest services owed by LAY and other Enron executives to them, and to obtain money and property by means of materially false and fraudulent pretenses, representations, and promises, did for the purposes of executing such scheme and artifice transmit and cause to be transmitted by means of wire communication in interstate and foreign commerce writings, signs, signals, pictures, and sounds, as follows:

Count	Date	Wire Transmission
12.	September 26, 2001	Enron Online Forum electronic transmission from Houston, Texas to other states and internationally
13.	October 23, 2001	All Employee Meeting video teleconference from Houston, Texas to other states and internationally

(Title 18, United States Code, Sections 1343, 2 and 3551 et seq.)

COUNTS FOURTEEN THROUGH TWENTY
(SKILLING: Securities Fraud: Financial Statements)

81. The allegations of paragraphs 1 through 73 are realleged as if fully set forth here.

82. On or about the dates set forth below, each such date constituting a separate count of this Indictment, within the Southern District of Texas and elsewhere, defendant JEFFREY K. SKILLING and others, in Enron Forms 10-K and 10-Q filed with the SEC in Washington, D.C., did willfully and unlawfully use and employ manipulative and deceptive devices and contrivances and directly and indirectly (i) employ devices, schemes and artifices to defraud; (ii) make untrue statements of material facts and omit to state facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (iii) engage in acts, practices, and courses of conduct which would and did operate as a fraud and deceit upon members of the investing public, in connection with purchases and sales of Enron securities and by the use of the instruments of communication in interstate commerce and the mails.

Count	Date	Report
14.	March 30, 2000	Form 10-K for Enron for the Fiscal Year 1999
16.	August 14, 2000	Form 10-Q for Enron for the Second Quarter 2000
17.	November 14, 2000	Form 10-Q for Enron for the Third Quarter 2000
18.	April 2, 2001	Form 10-K for Enron for the Fiscal Year 2000
19.	May 15, 2001	Form 10-Q for Enron for the First Quarter 2001
20.	August 14, 2001	Form 10-Q for Enron for the Second Quarter 2001

(Title 17, Code of Federal Regulations, Section 240.10b-5; Title 15, United States Code, Sections 78j(b) and 78ff; Title 18, United States Code, Sections 2 and 3551 et seq.)

COUNTS TWENTY-ONE THROUGH THIRTY

(ALL DEFENDANTS: Securities Fraud:
Presentations to Securities Analysts and Rating Agency Representative)

83. The allegations of paragraphs 1 through 73 are realleged as if fully set forth here.

84. On or about the dates set forth below, each such date constituting a separate count of this Indictment, within the Southern District of Texas and elsewhere, defendants KENNETH L. LAY, JEFFREY K. SKILLING, and others, in presentations to securities analysts and rating agencies, did willfully and unlawfully use and employ manipulative and deceptive devices and contrivances and directly and indirectly (i) employ devices, schemes and artifices to defraud; (ii)

make untrue statements of material facts and omit to state facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (iii) engage in acts, practices, and courses of conduct which would and did operate as a fraud and deceit upon members of the investing public, in connection with purchases and sales of Enron stock and by the use of the instruments of communication in interstate commerce and the mails.

Count	Defendant(s)	Date	Presentation
22.	JEFFREY K. SKILLING	January 22, 2001	Fourth Quarter 2000 Analyst Conference Call
23.	JEFFREY K. SKILLING	January 25, 2001	Annual Analyst Conference in Houston, Texas
24.	JEFFREY K. SKILLING	March 23, 2001	Analyst Conference Call to Discuss Enron Stock Price
25.	JEFFREY K. SKILLING	April 17, 2001	First Quarter 2001 Analyst Conference Call
26.	JEFFREY K. SKILLING	July 12, 2001	Second Quarter 2001 Analyst Conference Call
27.	KENNETH L. LAY	October 12, 2001	Telephone Call with Rating Agency Representative in New York
28.	KENNETH L. LAY	October 16, 2001	Third Quarter 2001 Analyst Conference Call
29.	KENNETH L. LAY	October 23, 2001	Analyst Conference Call

(Title 17, Code of Federal Regulations, Section 240.10b-5; Title 15, United States Code, Sections 78j(b) and 78ff; Title 18, United States Code, Sections 2 and 3551 et seq.)

COUNTS THIRTY-ONE AND THIRTY-TWO

(SKILLING: False Statements to Auditors In Annual Representation Letters)

85. The allegations in paragraphs 1 through 73 are realleged as if fully set forth here.

86. On or about the dates set forth below, each such date constituting a separate count of this Indictment, within the Southern District of Texas and elsewhere, defendant JEFFREY K. SKILLING and others, as officers of the company, knowingly and willfully made and caused to be made materially false and misleading statements, and omitted to state material facts necessary in order to make statements made, in light of the circumstances under which the statements were made, not misleading, to accountants retained by Enron, an issuer of a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, in connection with the audit and examination of the financial statements of Enron as required by law to be made, and the preparation and filing of documents and reports required to be filed with the SEC pursuant to rules and regulations enacted by the SEC.

87. Specifically, while agreeing that they were “responsible for the fair presentation of the financial statements,” SKILLING falsely represented to Enron’s accountants that, among other things, (a) the statements and representations made in Enron’s financial statements were true; (b) Enron properly recorded or disclosed in its financial statements all agreements to repurchase assets previously sold; (c) Enron properly recorded or disclosed in its financial statements guarantees, whether written or oral, under which Enron was contingently liable; (d) Enron’s unaudited quarterly financial data fairly summarized, among other things, the operating revenues, net income and per share data based upon that income for each quarter; (e) there was no material fraud or any other irregularities that, although not material, involved management or

other employees who had a significant role in Enron’s system of internal control, or fraud involving other employees that could have a material effect on the financial statements; (f) all related party transactions, including sales and guarantees (both oral and written), were properly recorded and disclosed; and (g) Enron made available to the accountants all financial records and related data; well knowing that these statements were false.

Count	Defendant(s)	Date	Statement to Auditors
31.	JEFFREY K. SKILLING	March 13, 2000	Annual Representation Letter in Connection with Enron Form 10-K for Year 1999
32.	JEFFREY K. SKILLING	February 23, 2001	Annual Representation Letter in Connection with Enron Form 10-K for Year 2000

(Title 15, United States Code, Sections 78m(a), 78m(b)(2), and 78ff; Title 17, Code of Federal Regulations, Section 240.13b2-2; and Title 18, United States Code, Sections 2 and 3551 et seq.)

COUNTS THIRTY-THREE THROUGH THIRTY-SEVEN
 (SKILLING: False Statements to Auditors In Quarterly Representation Letters)

88. The allegations in paragraphs 1 through 73 are realleged as if fully set forth here.

89. On or about the dates set forth below, each such date constituting a separate count of this Indictment, within the Southern District of Texas and elsewhere, defendant JEFFREY K. SKILLING and others, as officers of the company, knowingly and willfully made and caused to be made materially false and misleading statements, and omitted to state material facts necessary in order to make statements made, in light of the circumstances under which the statements were made, not misleading, to accountants retained by Enron, an issuer of a class of securities

registered pursuant to Section 12 of the Securities Exchange Act of 1934, in connection with the review of the financial statements of Enron as required by law to be made, and the preparation and filing of documents and reports required to be filed with the SEC pursuant to rules and regulations enacted by the SEC.

90. Specifically, while agreeing that they were “responsible for the fair presentation of the financial statements,” SKILLING falsely represented to Enron’s accountants that, among other things, (a) the financial statements were presented in accordance with generally accepted accounting principles; (b) Enron properly recorded or disclosed in its financial statements guarantees, whether written or oral, under which Enron was contingently liable; (c) there was no fraud involving management or employees who had a significant role in internal control, or fraud involving others that could have a material effect on the financial statements; (d) all related party transactions, including sales and guarantees (both oral and written), were properly recorded and disclosed; and (e) Enron made available to the accountants all financial records and related data; well knowing that these statements were false.

Count	Defendant(s)	Date	Statement to Auditors
34.	JEFFREY K. SKILLING	August 11, 2000	Quarterly Representation Letter in Connection with Enron Form 10-Q for Second Quarter 2000

35.	JEFFREY K. SKILLING	November 13, 2000	Quarterly Representation Letter in Connection with Enron Form 10-Q for Third Quarter 2000
36.	JEFFREY K. SKILLING	May 15, 2001	Quarterly Representation Letter in Connection with Enron Form 10-Q for First Quarter 2001

(Title 15, United States Code, Sections 78m(a), 78m(b)(2), and 78ff; Title 17, Code of Federal Regulations, Section 240.13b2-2; and Title 18, United States Code, Sections 2 and 3551 et seq.)

COUNTS FORTY-TWO THROUGH FIFTY-ONE
(SKILLING: Insider Trading)

91. The allegations in paragraphs 1 through 73 are realleged as if fully set forth here.

92. On or about the dates set forth below, each such date constituting a separate count of this Indictment, within the Southern District of Texas and elsewhere, defendant JEFFREY K. SKILLING knowingly and willfully used and employed manipulative and deceptive devices and contrivances, by use of means and instrumentalities of interstate commerce, in violation of Rule 10b-5 of the Rules and Regulations of the SEC (Title 17, Code of Federal Regulations, Section 240.10b-5), in that he engaged in acts, practices, and courses of business which would and did operate as a fraud and deceit upon members of the investing public in connection with the purchase or sale of securities, in violation of Title 15, United States Code, Sections 78j(b) and 78ff. Specifically, while in possession of material non-public information, SKILLING sold

shares of Enron stock and generated total proceeds of \$62,626,401.90.

Count	Date	Shares	Sale Price(s)	Gross Proceeds
42.	April 25, 2000	10,000	\$73.875 \$73.9375	\$738,893.75
43.	April 26, 2000	86,217	\$74.00 \$73.875 \$72.50	\$6,338,183.00
44.	August 30, 2000	15,000	\$86.125	\$1,291,875.00
45.	September 1, 2000	60,000	\$87.00 \$86.875 \$87.25	\$5,220,000.00
46.	September 5, 2000	11,441	\$85.00	\$972,485.00
47.	November 1, 2000	72,600	\$83.2406 \$83.0625	\$6,041,023.50
48.	November 2, 2000	20,000	\$82.3381	\$1,646,762.00
49.	November 7, 2000	46,068	\$82.5872	\$3,804,627.13
50.	November 15, 2000	10,000 per week for 31 weeks per written sales plan	\$84.00 to \$49.90	\$20,985,247.42
51.	September 17, 2001	500,000	\$31.5061 \$31.0822	\$15,587,305.10

(Title 17, Code of Federal Regulations, Section 240.10b-5; Title 15, United States Code, Sections 78j(b) and 78ff; Title 18, United States Code, Sections 2 and 3551 et seq.)

Dated: Houston, Texas
July 7, 2004

A TRUE BILL

FOREPERSON

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Acting U. S. Attorney

ANDREW WEISSMANN
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