

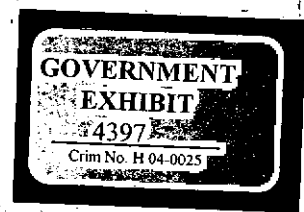
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ENRON CORPORATION

Houston, Texas

October 23, 2001

All Employee Meeting



1 P R O C E E D I N G S

2 KEN LAY: Good morning. Good morning. There it  
3 is. We've got a packed house again, and we appreciate that.  
4 But I think we've got an overflow crowd outside. And some of  
5 you apparently because of fire marshals and other people  
6 like that may have to go back to your desks and watch this on  
7 the webcast. But I'm sorry again we didn't have quite enough  
8 space, but this is the biggest place we've got close by.  
9 Probably in more normal circumstances I would have  
10 had a few more words to say about September the eleventh  
11 because it  
12 obviously has changed our world forever, probably forever.  
13 And horrendous acts of terrorism, needless loss of lives, I  
14 think we've now seen who the true heroes in our country are.  
15 And again, men and women of character and people  
16 willing to run into burning buildings and give their lives  
17 for other people or try to save other people. Somebody commented  
18 recently that I think we're looking to that event and the  
19 very courageous behavior during that event for heroes a lot  
20 more than we're looking at Hollywood today, and that's  
21 probably not all bad.  
22 But, of course, today we're going to talk about  
23 Enron because just like America's under attack by terrorism,  
24 I think we're under attack. And we're going to talk about  
25 that today.  
26 I said we, in my phonemail and my e-mail we do have a lot.

1 to talk about. I've been reading your questions. You  
2 particularly want to hear more about LJM, the related party  
3 transaction which involved our chief financial officer. And,  
4 of course, now we've got the SEC inquiry, informal inquiry,  
5 underway. And I'm going to talk about all of that. And I'm  
6 going to try to talk about anything else you want to talk  
7 about in the Q and A.

8 I will say that there are going to be some limitations  
9 given we do have the SEC request. And that's what it is  
10 right now, a request for some information. But certainly out  
11 of events like this you have lawsuits and other things that  
12 occur. And so I may, I and others in the audience might have  
13 limitations on some specific details. But we're going to be  
14 as candid as we can.

15 But before I discuss this I think it important that  
16 you hear an abbreviated -- of course, recently we've had a  
17 much larger and abbreviated presentation on our third quarter  
18 results from Greg Whalley, our president and chief operating  
19 officer. These results were, in fact, very strong as the  
20 company continues to perform at a very high level.

21 But after Greg concludes his 10 or 15 minute  
22 presentation on the highlights of our third quarter results,  
23 then I'm going to jump back in to talk about LJM and some  
24 other matters and, of course, to take your questions.

25 So Greg, if you'd do that, please.

1 (Applause)

2 GREG WHALLEY: Okay, good morning. I want to thank  
3 everybody for coming today. And I do want to address our  
4 third quarter results. I'll try to be quick, there are a lot  
5 of issues to get to. It shouldn't take me more than about ten  
6 minutes. Despite the fact that we've done some resegmenting  
7 and some incremental disclosures on our business, which we  
8 will, by the way, continue on through the end of the year as  
9 we try to provide balance sheets and allocated capital by  
10 these segments, we still can characterize them, at least for  
11 the time being, in these three broad groups -- the  
12 transportation distribution group, wholesale services group  
13 and the retail services group.  
14 The overall performance of the company was to  
15 report a net income increase of thirty five percent over the prior  
16 over the relative quarter in the prior year. As you look at  
17 the numbers, the transportation distribution numbers, which  
18 includes natural gas pipelines, Portland General and the  
19 global assets, reported an IBIT of eighty seven million for the  
20 quarter compared to a hundred and  
21 seventy six million for the same period a year ago.  
22 The primary results for the decline had to do with  
23 the earnings off of Portland General and had to do with  
24 purchased power to serve their load, which had declined in  
25 value. We'll answer questions on that to the extent

1 necessary. The wholesale services business also reported  
2 substantial earnings growth. Growth in IBIT of twenty eight  
3 percent to seven hundred fifty four million for the third quarter  
4 of two thousand and one compared to the five hundred and eight  
5 nine for the prior year. This increase is attributed to  
6 extremely strong growth throughout the business segment,  
7 especially in the energy businesses in Enron Americas.  
8 The retail services business also reported positive  
9 quarterly IBIT of seventy one million, a hundred and sixty three  
10 percent increase over a year ago.  
11 The profitability continues to accelerate very quickly in the  
12 business and we're very pleased with those results.  
13 Enron's broadband segment reported a loss of eighty  
14 million, which is, substantially exceeded the prior year. And  
15 we'll address some of the issues associated with broadband.  
16 In total we had a total IBIT of seven hundred and seventy three  
17 Million resulting in a net income of three hundred and ninety  
18 three million. There were non-recurring items written off of  
19 about one point oh one billion dollars. Two hundred and eight  
20 seven million dollars of the write-down was related to the sale of  
21 Azurix and the write-down of certain Azurix's assets in North  
22 America. A hundred and eighty three million was associated with  
23 Enron broadband services primarily associated with severance  
24 costs, write-down of inventory costs as well as the write down of  
25 content. Five hundred forty four million related to investments  
26 primarily in new power and other broadband investments and  
27 technology investments in the underlying of the facility that held  
28 them.

1 To talk more specifically in transportation  
2 distribution. Our natural gas pipeline system is one of the  
3 largest and most cost-effective in North America. Total  
4 combined it means approximately fifteen percent of the total  
5 natural gas in the United States with a peak capacity of  
6 about ten point eight BCF a day.

7 The outlook for the pipelines is excellent. Gas  
8 demand in the United States continues to grow primarily due  
9 to new gas-fired power generation. And a majority of our  
10 capacity is contracted under long-term contracts and no new  
11 rate cases until the end of two thousand and three.

12 We do continue to expand into high-growth markets  
13 to a total of approximately two point two BCF a day into Florida  
14 by two thousand and three. Transwestern is also expanding in  
15 Arizona and California. As well as Northern Border is finding new  
16 markets with more gas-fired power generation.

17 The growth in this business and the cashflow in  
18 this business is very strong and stable and provides a solid  
19 base of cashflows for the corporation.

20 I do want to talk about global assets. The largest  
21 assets as listed here are Elektro in Brazil, Dabhol in India  
22 and Cuiaba also in Brazil. You can see the asset mix by  
23 location. We have talked over a period of time about scaling  
24 back these assets.

25 The global assets group has been moved in with Stan

1 Horton, who's been managing our assets on the pipeline side  
2 for some time. Hopefully we'll be able to make them more  
3 efficient, reduce the cost and increase the IBIT that we  
4 actually get out of these assets.

5 As to asset dispositions, we have this quarter  
6 closed a number of transactions which -- or inked a  
7 number of transactions where we should be receiving the cash  
8 in the near future to include the power plant assets in  
9 Puerto Rico, gas distribution assets in South America, ENPS  
10 that's in India and Portland General. And to the extent we  
11 want to talk about balance sheets later, we'll talk a little  
12 bit more about that.

13 Suffice to say, just to address that issue up  
14 front, despite the downgrade or the review for downgrade by  
15 Moodys, there are sufficient inked transactions to  
16 take our debt to total cap ratio after these asset sales to a  
17 level that's lower, in fact, than they were before we took  
18 the write-offs.

19 I want to talk about the wholesale services group,  
20 which has experienced substantial growth. Just to give you a  
21 couple of general items, physical settlements were up sixty five  
22 percent. Income before interest and taxes was up twenty eight  
23 percent. We had substantial increase in physical settlements,  
24 substantial increase in transactions and our franchise in  
25 energy wholesale markets in North America continues to

1 increase its lead in terms of physical volumes settled,  
2 financial settlements and transactions completed. And it  
3 continues to extend that.  
4 In Europe we've also begun to have some substantial  
5 penetration on the continent with the number of transactions  
6 increasing. And we're hoping to expand that business well  
7 into the future. In the new markets, which we can talk about  
8 at some time and I'd like to get everyone together for --  
9 separate groups together for presentations on the markets  
10 that we're getting into, we're having substantial penetration  
11 in getting some real traction on some of the new markets that  
12 we're moving into. The results were very strong, and I  
13 expect them to continue. In the retail services business income  
14 before interest and taxes was up substantially to a hundred and  
15 seventy one million, seventy one million actually being done in  
16 this quarter.  
17 We're having significant penetration in this market and  
18 significant growth in a number of new transactions, especially as  
19 we take the model in the United States for the large consumer  
20 complete out-sourcing and begin migrating that to Europe. And we  
21 take the small consumer model established with Enron Direct in  
22 Europe and begin applying it in the United States.  
23 The number of customers that we're achieving there  
24 is beginning to grow and our ability to penetrate downstream  
25 to further expand our presence in the energy markets in the



1 United States is absolutely critical to our continued growth  
2 and our strong position in franchise in both North American  
3 energy as well as European energy. Very pleased with these  
4 results. We're looking for strong growth into the future.  
5 Enron broadband services -- were missing a couple of  
6 slides, okay. Enron broadband services was not the best  
7 quarter. We have had some difficulty there related to the  
8 continued deterioration of the credit quality in the industry  
9 and certain consolidation there reducing the number of  
10 counterparties to be transacted with and the number of  
11 credit-worthy counterparties which can be transacted with in the  
12 future.

13 As such, we've stated a quarter ago that we would begin  
14 scaling down this operation. We've done so, and we'll  
15 continue to try and size this operation to fit whatever  
16 opportunity is available in the future. We would expect  
17 that in some period of time there would, in fact, be a  
18 substantial business available in broadband and bandwidth  
19 intermediation as well as network services around that.

20 Given the current condition of the telecom industry  
21 it's unclear at what point that will occur and we'll have to  
22 scale this business down to a size where we can maintain the  
23 option to move into that business in the future. We are  
24 considering all alternatives available to try to preserve this  
25 option to participate in the market which could be growing and

1 expanding at some point in the future.

2 With those as results we'll be happy to answer

3 questions on those results later. And I will turn the

4 presentation over to Mr. Lay.

5 KEN LAY: Did you say anything at all about New Point?

6 GREG WHALLEY: What's that?

7 KEN LAY: Did you say anything at all about New Power?

8 GREG WHALLEY: Yeah.

9 KEN LAY: You did?

10 GREG WHALLEY: Yeah, you missed it.

11 KEN LAY: Thank you, Greg.

12 As you can of course see, the underlying fundamentals of

13 our businesses are very strong, in deed the strongest they've

14 ever been. But regrettably, that's not what Wall Street is

15 focusing on, and I doubt that's what you're focusing on.

16 And let me say right up front, I am absolutely

17 heartbroken about what's happened, both the last few months

18 and more importantly the last several days. Having said

19 that, and I'll say this probably once more, maybe twice more

20 today, what was done a couple of years ago was done very

21 appropriately.

22 It was approved or reviewed and approved by inside

23 auditors and accountants and outside auditors and inside and

24 outside lawyers and, of course, the Board of Directors and

25 all the appropriate procedures were put in place to, in fact,

1 make sure that Enron and its shareholders' best interest was  
2 served. It was appropriately disclosed.  
3 But certainly the one thing I think nobody  
4 understood two years ago was how difficult it was to explain  
5 it, the perception of it. And certainly if we knew back then  
6 what we knew today we wouldn't have done it. And we'll never  
7 do it again anything like it.  
8 Now, let me start off by giving just a little bit  
9 of history because I think we need to put this and everything  
10 else this year in some kind of context. I was fortunate to  
11 be involved in forming the modern day Enron in nineteen eighty  
12 five when two large pipeline companies, Internorth in Omaha,  
13 Nebraska and Houston Natural Gas here in Houston were merged  
14 together. We've had difficulties since nineteen eighty five. As a  
15 matter of fact, the merger was concluded in July of eighty five.  
16 The day after Christmas in eighty five the Peruvian armed forces  
17 marched in and took control of one of our largest assets, an  
18 off-shore oil and gas operation. One of the company's largest  
19 income producers and one of the company's largest cashflow  
20 producers was expropriated.  
21 In nineteen eight six, oil and gas prices collapsed from  
22 anywhere from two-thirds to three-quarters, we had a very  
23 high debt to total cap ratio, about seventy percent, over seventy  
24 percent. And then we had a couple of raiders come in and try  
25 to buy us. And we had a difficult time finding any other

1 good alternatives. Now, we finally worked that through and  
2 got rid of them and moved ahead.

3 In nineteen eighty seven we had a rogue oil trader in New York. I  
4 believe there were two of them, a trader and the treasurer.  
5 And, indeed, they went way beyond the limits that were  
6 imposed on them exposing the company. And those exposures  
7 were so great that they could have taken the company down.  
8 And it took us three weeks to unravel those.

9 Now, that's right in the middle also when there's a  
10 lot of gunfire in the Persian Gulf, to unravel those in such  
11 a way that we could, in fact, protect the company. And we  
12 still took about a hundred and eighty million dollar write-off  
13 when the company was pretty small.

14 Nineteen ninety seven we had a big gas contract in the North Sea  
15 that in fact had gotten out of the money because of some  
16 changes in policies in Great Britain. And we took a very  
17 large write-off on that, I think about six hundred and fifty  
18 million. But let me say in each and every case the company  
19 has come back and its come back stronger than it was before  
20 these incidents. And that's exactly what I think is going to  
21 happen here. And in the intervening years since nineteen eighty  
22 five we've transformed what was basically a very traditional,  
23 regulated, natural gas pipeline company with some other energy  
24 assets into today what is the world's largest provider of natural  
25 gas and electricity and recognized generally, although a

1 little tarnished right now, as the preeminent company in our  
2 space. And, in deed, we will return that that preeminence  
3 and we'll take that tarnish away with a little time.  
4 And as sad as the current market price is, and  
5 certainly I've lost a substantial portion of my net worth and  
6 my family's net worth, at current prices the market value is  
7 about seventeen or eighteen billion dollars. It was two billion  
8 when we started in eighty five.  
9 But I also know that many of you who were a lot  
10 wealthier six to nine months ago are now concerned about the  
11 college education for your kids, maybe the mortgage on your  
12 house, maybe your retirement. And for that I am incredibly  
13 sorry. But we're going to get it back.  
14 Let me get into the LJM issue and then I'll share  
15 with you some ways we can reduce the pain and hopefully  
16 restore Enron to its greatness, which I am fully committed to do.  
17 LJM. First, what was it? It was primarily a  
18 private equity fund formed by Andy Fastow with Enron's  
19 approval. Again, after all the necessary approvals. It was  
20 formed in order to provide Enron an additional source of  
21 equity funding for projects and investments that would not  
22 otherwise be available to the company and with a management  
23 structure that could provide reasonably quick approval of  
24 projects and investments because of Andy's familiarity with

1 these projects and with the company.

2 But you should know Enron did not have to offer any  
3 projects to LJM. It had to be in the company's best interest  
4 to offer the projects and investments to LJM. Transactions  
5 were offered to LJM only when it was in Enron's and its  
6 shareholders' best interest and because it was fully  
7 recognized from the beginning by Enron management and Board  
8 that there was an inherent conflict of interest in Andy  
9 investing in LJM, along with a number of significant other  
10 investors I might add, major banks.

11 And being general manager of LJM at the same time,  
12 he was CFO of Enron, the Enron Board put in place specific  
13 controls and procedures to protect Enron and its  
14 shareholders' interest.

15 I have reconfirmed over just the last few days that  
16 these controls and procedures have been adhered to. Both the  
17 structure of LJM as well as the controls and procedures were  
18 approved by Enron's accountants and our outside auditors, our  
19 inside and outside lawyers and, of course, approved by the  
20 Board and then, of course, subsequently appropriately disclosed  
21 in all of our SEC filings for over two years.

22 I know there's a lot of speculation about Andy's  
23 involvement. As I said, management and the Board recognized  
24 there was a potential conflict of interest. It was because  
25 of this that some very strict governance and control

1 procedures were put in place to make sure the best interest  
2 of Enron and its shareholders were always protected. And  
3 despite what you've read in the Wall Street Journal and  
4 probably elsewhere, I'm sure that, in fact, these interests  
5 have been protected.

6 I and the Board are also sure that Andy has  
7 operated in the most ethical and appropriate manner possible.  
8 But I will say here today in Andy's presence that if anything  
9 comes up indicating to the contrary then a totally different  
10 decision would be made, just like it would for anybody else  
11 in a senior management job.

12 Let me make a few comments about the SEC  
13 investigation. This is what is referred to as an informal  
14 inquiry. It is voluntary. It's a voluntary request for  
15 information, what it technically is. It is not considered a  
16 material event, and thus, not necessarily discloseable.

17 In deed, about eighty percent of the companies that  
18 receive these informal requests do not disclose them. And we  
19 did not have to. But given the white hot spotlight on Enron,  
20 and it is white hot spotlight, we decided we should disclose  
21 it and the Board agreed last Friday.

22 This inquiry will take a lot of time on the part of  
23 our accountants and lawyers and others. But it will finally  
24 put these issues to rest. This is the final and best arbitor  
25 to put these issues that have been talked about to rest.

1 Now, what does all this mean for the future?

2 First, although the financial structures were approved by the  
3 inside and outside lawyers and all the rest of that, they  
4 just created way too much noise and way too bad a perception.  
5 And thus, I and I'm sure several others are very sorry that  
6 this incredibly complicated thing ever happened and the  
7 damage it's done to our image.

8 But more than being sorry, going forward we will be  
9 much more interested in simplicity. As I've said many times  
10 over the last several days, vanilla is just fine, vanilla is  
11 just fine. Now, not to discourage creativity and innovation.  
12 That's what we're all about as a company, but don't get too  
13 fancy, don't get too complicated.

14 Also as you know, Andy disposed of his management  
15 and economic interest in June of this year. So he's no  
16 longer involved in LJM and LJM is no longer a related  
17 party vehicle. In our third quarter report just one week  
18 ago, and, of course, not it seems like a lifetime ago, we  
19 terminated a number of arrangements in which LJM had some  
20 involvement, some investment. And again, these vehicles also  
21 made sense at the time they were entered into but do not make  
22 sense now. So we terminated them, so there are no similar  
23 vehicles now in the company.

24 We also need to realize that although these  
25 vehicles may have made a lot of sense when they were set up,



1 many of the investments did not work out well. And that was  
2 a bigger problem here than the fact that the structures were  
3 set up. And, of course, among those new power company,  
4 broadband and technology, other technology stocks, as part of  
5 that transaction, that termination, that early termination we did,  
6 in fact, take a reduction in equity of one point two billion  
7 dollars that was talked about explicitly on the conference call  
8 Tuesday morning. There was no attempt to conceal that.  
9 That again, was something that did not have to be  
10 disclosed until the 10Q was filed in mid-November. But  
11 again, in the interest of trying to get everything out, we  
12 put it in the conference call. And then, of course, a couple  
13 of days later it got beat up because we didn't more  
14 prominently highlight it.  
15 But that also resulted in about a sixty two million share  
16 reduction in our diluted share account, which obviously is a  
17 big positive for shareholders.  
18 Now, let me conclude by saying a few other things  
19 that may be of some interest. I'll start off with bonuses.  
20 Is that of any interest? And, I know there's been some concern  
21 about it. If we make our targets on a recurring basis, if we  
22 make our targets, bonuses will be full, full amount based  
23 upon recurring earnings.  
24 And we, Greg and I have already, and Mark, have

1 already gone through this with the compensation committee and  
2 the Board, and they totally agree. They also agree that  
3 we've got to do whatever is necessary to retain our talent,  
4 particularly in these turbulent times, because our talent is  
5 our franchise. And we will do everything we can to make sure  
6 that that talent is protected.

7 These are very turbulent and very tough times. And  
8 I expect we still have quite a bit more to come. I will do  
9 everything I can to turn it around. Certainly our management  
10 committee and MDs who met yesterday morning for about three  
11 hours came out of that room unified. And, in fact, they're  
12 going to do everything they can to turn it around. It's okay  
13 to be mad. It's okay to be frustrated. It's okay to kind of  
14 feel the world's not fair. And probably all of those are  
15 very legitimate sentiments right now.

16 But the company is doing well despite the rumors,  
17 despite the speculation. The company is doing well both  
18 financially and operationally. And, in fact, we expect it to  
19 continue doing well. Our liquidity is fine. As a matter of  
20 fact, it's better than fine, it's strong. We went through  
21 that on the conference call this morning. And our balance  
22 sheet is strong even with the write-off.

23 As Jeff said, with the transactions that are  
24 already under contract, indeed, by year end next year the  
25 balance sheet will have a lower debt to total cap ratio than

1 it did before this write-off. And it will be the strongest  
2 balance sheet that certainly we've had since the merger in eighty  
3 five. I don't know how far back you might go to find a stronger  
4 one. But now is our testing time. These are tough  
5 times. Will we measure up to the challenge or will we not?  
6 True character is born in times of crisis. I commented earlier  
7 about the true heroes that we saw on September the eleventh.  
8 That was real character. But true character is born  
9 in times of crisis. We need to show our character as an  
10 organization. And I will say also, this may be good news and  
11 may be bad news, that I am here until the Board throws me out  
12 or until we restore Enron to its greatness that most of us  
13 have experienced.

14 (Applause)

15 And now let me ask you to do the same. Commit  
16 yourself that you're going to redouble everything you do.  
17 You're going to focus harder. You're going to work harder.  
18 You're going to be more committed than you've ever been  
19 before. And we will come through this and we will be  
20 stronger and better on the other side. And we will again be  
21 recognized by everyone as the greatest company in the energy  
22 business.

23 Thank you.

24 (Applause)

25 All right, we're down to questions. And I've got a

1 few up here. But now, I think there's usually -- you've got  
2 cards. I hope people have been jotting down some thoughts or  
3 will jot down some thoughts. And I've got, of course, Greg  
4 and I've got really the whole management team here in front.  
5 So I think we can answer -- among us hopefully we can answer  
6 most of them.

7 (Question read) "In two sentences can you please  
8 define Enron's business strategy?"

9 I probably could do it in even one sentence. But  
10 basically our business strategy today is to identify energy  
11 and commodity markets where we think we could apply our  
12 skills, including obviously our intellectual capital, our  
13 skills and, in fact, become the lead participant in those  
14 markets.

15 And, of course, we have extended that beyond energy  
16 as you well know into things like pulp and paper and lumber  
17 and, of course, coal and many other areas. And thus far that  
18 business model is working very well, very well. We've had  
19 some really great successes in areas outside of our  
20 traditional electricity and natural gas businesses. And I  
21 think we'll continue to see other successes.

22 Now, I know there's been a lot of interest, and I'm  
23 not going to answer this one today, but there's been a lot of  
24 interest in the company's vision and whether, in fact, we  
25 need a new vision. And I can't answer that today. That's

1 going to be something that the management committee is going  
2 to give a lot of thought to over the next few weeks. And there's,  
3 we will see because we are becoming quite a different company.  
4 But, indeed, whatever the vision is we will be the premier  
5 company in that space. And I think we've got some good ideas  
6 on that.

7 (Question read) "Having worked for ten years and  
8 showing very little in my 401(k) and Enron being my primary  
9 stock, is there any speculation in the future to guarantying  
10 a pension for those that have put in ten to twenty years or more?"

11 Of course, you have the regular pension as it is.  
12 And 401(k)s are supplemental to that. And, in deed, I think  
13 we do have some options where you can put up to five percent of  
14 your salary into investments, into retirement-type  
15 investments and earn on that kind of a ten year federal funds --  
16 not ahh ahh the bond rate, ten year government bond rate.  
17 So those that want to kind of be risk averse in  
18 this environment after the last few months can, in fact, at  
19 least get cash in and pretty good return on that cash over  
20 some period of time to be supplemental to your retirement  
21 too.

22 Now from the standpoint of Enron stock, we're going  
23 to bring it back. We're going to bring it back. We're going  
24 to do everything we can to get it back as quickly as we can.  
25 But we're going to bring it back. There are a lot of

1 believers out there as well as a lot of disbelievers.

2 (Question read) "Our group recently requested

3 permission to start working on the Enron-approved nine eighty

4 flexible work schedules." And I'm going to summarize this a

5 little bit. "But after only three weeks the vice president

6 of our group decided that we could not continue on the nine eighty

7 schedules. Since our group was extremely happy with the

8 schedule, we were very disappointed when it was taken away,

9 even when it appeared to be working successfully."

10 Well, we do give individual working groups a lot of

11 flexibility in setting things such as hours and work

12 schedules as well as how they organize the space where they

13 work and so forth. But in that case I would suggest first

14 that go talk to your supervisor. And, you know,

15 communications is another one our values.

16 And in the alternative or in addition to that, we've

17 got Cindy Olson, who is now head of among other things

18 employee relations and really responsible for trying to take

19 care of concerns and problems among other people, but

20 concerns and problems of employees. So that will give you

21 still one more avenue.

22 (Question read) "Recently a Merrill Lynch report

23 upgraded Enron stock to a good long-term investment. Part of

24 this is a result of Enron's efforts to minimize debt. Will

25 minimizing debt be the Enron strategy over the near term, and

1 will this mean a moratorium of long-term investments and  
2 large capital assets like power plants?"  
3 We'll continue to look for good investments in  
4 power plants, pipelines, gas distribution systems. We will  
5 look a lot less aggressively for those in developing  
6 countries. And we've already made that decision a long time  
7 ago. We're going to de-emphasize these big infrastructure  
8 projects in developing countries. We're going to sell a lot  
9 of those off. Greg gave you a list there of where they are,  
10 at least regionally.  
11 But certainly we will still continue to make good  
12 investments in our core businesses wherever we need to make  
13 those where we see are the good opportunities. And the core  
14 business, basically wholesale, retail and pipelines.  
15 Now, that can also include LNG facilities in some  
16 cases. We're developing a large LNG facility off the shore  
17 of Florida. And we're going to build a pipeline into Florida  
18 to bring that into the U.S. That can also include other  
19 related type investments. And, of course, increasingly now  
20 we're looking at things like pulp mills and paper mills and  
21 some other things if we get these new businesses moving.  
22 Let me make another comment. I made this yesterday  
23 I think at the managing directors' meeting. But clearly some  
24 of our big investments have not paid off. Some of that was  
25 shown in the third quarter results. Some of that's shown

1 with the very low return we're getting from many of our large  
2 international assets in developing countries.  
3 I think if we're to be faulted, first of all, I  
4 also made the point that we weren't in the wholesale business  
5 a little over ten years ago. And now that's an enormous and  
6 highly profitable business. And, of course, we weren't in  
7 the retail business as little as about five years. And we  
8 think we have a business model there today where that can be  
9 a huge and highly profitable business. Of course, we weren't  
10 on line two years ago. And, of course, that has become a  
11 very key part of our success in wholesale.  
12 So we've had failures. We've also had successes  
13 along the way. We need more successes and probably fewer  
14 failures. But I think if we've made a mistake in some of  
15 these new ideas and we don't want to cut off creativity or  
16 innovation. We probably threw too much capital at them too  
17 soon. I think the truly great company of the future is  
18 going to be the one that can be really nimble. They can  
19 change direction quickly. They can be creative and  
20 innovative. But they are very disciplined in not committing too  
21 much capital to move new concepts, new ideas, new businesses  
22 to pan out. And I hope we can all take that to heart as we  
23 kind of look forward in our businesses.  
24 (Question read) "Despite the lowest interest



1 rates" -- I'm kind of waiting until we get the cards up here  
2 from the floor because I think those are more current. Not  
3 more current but I'll take this next one.  
4 Greg, I might ask you to come up here too and take a few of these.  
5 And Mark, do you want to come up too? I always kind of like to  
6 see, I like to have somebody to kind of lay the tough ones off on.  
7 Here, you can take that one. I'll answer this next  
8 one here on the sheet first and I'll sift through these.  
9 (Question read) "Despite the last interest rates  
10 on treasuries in my lifetime, Enron's internally reported  
11 cost to capital remains very high. What tangible steps has  
12 the executive committee taken to reduce the huge default  
13 premium built into our debt's price? Andy?"  
14 ANDY FASTOW: (Inaudible)  
15 KEN LAY: Yeah, in internal. I think it is.  
16 ANDY FASTOW: Is this on?  
17 KEN LAY: There you go.  
18 ANDY FASTOW: Okay. Is this working? Okay. I  
19 think the relevant cost of capital that everybody should be  
20 looking at for any investment they're making is what is the  
21 cost of capital that compensates Enron for the risks that  
22 Enron will then own when they make the investment.  
23 It is irrelevant in my opinion what our weighted  
24 average cost of capital is, what our cost of equity is or  
25 what our marginal cost of debt is. If we are not going to  
26 get compensated for the risks that we're buying, then we

1 shouldn't be making the investment.

2 So I think that's why the RAC process,

3 which is probably the best point to evaluate that, is so

4 important. But it's up to any commercial person as well

5 who's making an investment to make this evaluation

6 themselves. It's not enough to just say, "I have an opportunity,

7 and I'm going to make this investment if it gets approved."

8 I think everyone has to take responsibility for

9 making that determination that, in fact, when we make an

10 investment the assumptions we use when we make that

11 investment are going to come true. And so did that answer

12 the question?

13 KEN LAY: okay. Thank you, Andy.

14 GREG WALLEY: (Question read) "Will EBS continue or

15 will broadband continue as a market for Enron?" As well as

16 three or four questions regarding the outsourcing of it, et.

17 cetera.

18 Yes, at this point in time we are considering whatever

19 strategic alternatives are available. We believe that

20 over time there should be the establishment of a viable and

21 vibrant bandwidth and broadband marketplace. I will say that

22 there are certain areas of uncertainty in the company, and

23 this is certainly one where we're going to have to continue

24 to evaluate that market as we go forward.

1 Needless to say, as we've moved over the course of  
2 the past six to nine months the continued deterioration in  
3 that industry has extended out the date at which we believe  
4 there would be such a market established. And we'll continue  
5 to try and size our organization appropriately to make sure  
6 that we're not spending too much money in that regard and  
7 going forward.

8 We'll make all of these decisions as we go but as  
9 you can see from the credit quality and the continued  
10 deterioration of the company in the telecom space, it is  
11 pretty dire out there in the telecom space, and we'll  
12 continue to evaluate all of our options. Some more broadband?

13 KEN LAY: (looking at question cards) If you don't want to, not  
14 yet. Why don't you take one of yours?

15 MARK FREVERT: A couple of questions here.

16 (Question read) "What is my recourse, my real

17 recourse, when my supervisor does not respect my team ideas  
18 and threatens to redeploy us if we do not do what he asks?"

19 Well first of all, you know, you probably ought to talk to that  
20 supervisor and see if you can work it out yourself. But it  
21 looks like that might not be possible here. So as Ken said,  
22 you did have recourse in a couple of different ways.

23 Talk to your HR rep. If that doesn't lead to any sort of  
24 solution or towards any solution, Cindy and her team are  
25 available. And, you know, we're free in the office of the  
26 chairman also, are very available to talk to people if you

1 have problems with supervisors and problems with the  
2 organizational structure there.  
3 So a number of recourses. And we do want to  
4 identify those types of supervisors that are providing that  
5 feedback because that's just not something we're going to  
6 tolerate. It's not consistent with our values. And we'll  
7 take care of those problems as they arise.

8 KEN LAY: A lot of these I think I'm going to need  
9 to handle. Like this one.

10 (Question read) "I would like to know if you are  
11 on crack." I'll come back with the answer. "If so, that  
12 would explain a lot. If not, you may want to start because  
13 it's going to be a long time before we trust you again."  
14 I think that's probably not a very happy employee.  
15 And that's understandable. I mean, I'm sure a lot of you  
16 have some hatred. Though I'm not on crack. It might have been  
17 a lot easier to take the last few days if I was.

18 (Question read) "In the past we have made certain  
19 projections regarding our stock price based on different  
20 Enron business valuations. Based on the outlook today what  
21 do you think is a fair price for our stock?"  
22 Well, let me say that probably the lowest valuation  
23 out there, and this is one that just came out recently from  
24 John Olson who is over at Sanders here in Houston, but he is  
25 a well-respected analyst, a very respected analyst. His

1 price is forty two dollars a share. And we have others as high  
2 still as eighty dollars a share or more.

3 My personal view, if you kind of look at what would  
4 be fair given our performance but also given what's happened  
5 to broadband, what's happened to the markets, what's  
6 happened to multiple compression, everything else and, you  
7 know, take into account some other uncertainties like Dabhol and  
8 California, I think certainly we ought to be somewhere in the  
9 fifties. That would be kind of a fair value today. You might  
10 even be able to argue for something in the low sixties.

11 But indeed, if we can get these uncertainties'  
12 removed and get back to somewhat more normal markets, that  
13 doesn't mean we can't get back up to the eighties or nineties in  
14 the not-too-distant future. But we've got to first kind of get  
15 through this mess now. Yeah?

16 ENRON EMPLOYEE: (Inaudible)How is this different from Jeff  
17 knowing that the investment structures were falling apart, walked  
18 around the company knowing that he was selling his own  
19 personal shares and his options and saying that Enron plans  
20 to go to a hundred per share (inaudible)?

21 MR. LAY: That's fair. That's very fair. And Jeff  
22 did have some very aggressive numbers out there, including at  
23 the analysts' meeting in January. But I will also say really  
24 up to the first quarter, even into the first quarter, I mean,  
25 even then it appeared that everything was on track to keep it  
26 in probably the seventies or eighties at least. I would have been

1 surprised if anybody had been talking about the fifties,  
2 certainly not forties.  
3 But there has been quite a shift including  
4 September eleventh. I mean, we've had an enormous shift in  
5 psychology, among other things, over the last several months.  
6 Now, we've got a lot of Enron-specific issues to deal with.  
7 And we started dealing with some of those a week ago with the  
8 write-offs.  
9 And I think with that we had three major  
10 uncertainties still left. You've got broadband and that's on  
11 the books net today for about six hundred million dollars, not an  
12 unreasonable valuation. You can always justify something  
13 less than that. We've got California where we are -- we think  
14 fully reserved, could be more than adequately reserved.  
15 And again, the regulatory decisions, the  
16 settlements, et cetera out there are beginning to move our  
17 direction. And then you've got India. And we're doing both.  
18 We're still working to try to get a settlement out of India.  
19 But at the same token, we're aggressively pursuing all of our  
20 legal remedies. And just like they were in ninety five those are  
21 very significant.  
22 So yeah, we've got to solve our internal issues.  
23 But if we keep performing like we've been performing, we can get  
24 this stock value back. Now, I don't want to be unrealistic about  
25 you know getting it you know back to eighty in three months or

1 six months. But we can certainly get it back into the forties  
2 or fifties. And then, of course, from there we'll see how the  
3 market is doing and everything else is going.

4 Let me just run through a few if you don't mind.

5 (Question read) "In the past we have made certain"

6 -- I've got that one.

7 (Question read) "Any layoffs planned for Enron

8 Houston office?"

9 And let me say, no. I mean, I say no. We can, we always  
10 have attrition. And probably the workforce is coming down a  
11 little bit right now and it has been this whole year. And I  
12 would expect that to continue. But there are no big,  
13 significant layoffs planned in any group that I'm aware of.  
14 So I think it's mainly just a matter that we'll keep fine-tuning  
15 the workforce and try to make sure that you've always got it  
16 right just like they are in Europe right now except they've  
17 got more significant attrition and layoffs over there. But  
18 just trying to make sure we've got the cost structure right.  
19 These are tough times, and we're going to have to make sure  
20 that we're just as efficient and effective as we can be. You want  
21 to take one?

22 GREG WALLEY: There's one question that came up a

23 number of times I understand because of how it was written up  
24 in a report that had to do with --

25 -- what was the IR strategy and the reason for not

1 including the one point two billion dollar hit directly to equity  
2 in the release. I know Ken addressed this point already. And I  
3 want to say also that given the difficulties that -- the  
4 comments that have been made, I wish we had put it in the  
5 release. There was no requirement to place it in the release.  
6 It was in that, the designing an earnings release we designed a  
7 release about earnings. In reading the earnings release we  
8 attempted to track down in the conference call every one of  
9 the questions that would be asked about those earnings, which  
10 included this write-down of one point two billion in equity.  
11 And there was no strategy, conspiracy or anything  
12 to not place this one point two billion equity in the release. We  
13 thought it was appropriately placed in the conference call.

14 KEN LAY: Mark?

15 MARK FREVERT: A couple more questions here.

16 (Question read) "In the future looking forward to  
17 two thousand two, would Enron start to decrease benefits such as  
18 severance pay, vacation, medical, dental and office space?"  
19 I think we did have a revision to the severance  
20 policy last year just to get us more in line with what other  
21 companies are paying severance-wise. So there shouldn't be  
22 any changes going forward there. Really no plans to  
23 decrease vacation. I'm sure that's what people are concerned  
24 about. So I think we'll continue forward on that basis.



1 As far as the medical and dental premiums, I think right now Enron  
2 pays for about ninety five percent of the overall cost  
3 of the benefits to employees. And the company norm in  
4 the industry is about eighty percent. I think we recently  
5 announced that this year we were going to maintain that payout  
6 from the company covering about ninety five percent of the medical  
7 and dental costs.

8 But the next year and the following years we're  
9 going to look to shift a little bit more of that back to the  
10 employees. So we wanted to give you a year's notice. Didn't  
11 want to do it in this type of environment, but we will be  
12 shifting some additional costs to the employees over the next  
13 several years starting with the two thousand three plan.

14 And as far as office space goes, I don't think  
15 there's really any changes there. I think everybody -- you  
16 know, some of you have seen the new building. We are moving  
17 to a very open floor plan concept. I think that's working  
18 very well. We haven't heard a lot of complaints here  
19 recently.

20 And the second question, (question read) "What are  
21 some of the new markets that Enron is considering venturing  
22 into?"

23 We've already made a great head start, as Greg  
24 mentioned, in a number of areas. I think our European  
25 business continues to be very strong. That's a relatively

1 new business over the last few years for Enron. And moving  
2 aggressively into new markets in continental Europe in both  
3 gas and power.

4 A lot of the businesses that Mike McConnell and his  
5 team are focused on in global markets show tremendous  
6 promise also. Our weather business is taking off. Our coal  
7 business is growing very rapidly. We're making good progress  
8 in our food and products area. And a number of other  
9 businesses in Mike's shop I think are showing some  
10 tremendous potential going forward.

11 Another area that we have very high hopes for is  
12 Jeffrey Mann's (phonetic) and Ray Bowen's  
13 industrial markets group. That's the effort that really for  
14 the first time is trying to take our wholesale business model  
15 and extend it into new non-energy markets. And they're getting  
16 very good traction in the paper and pulp businesses, very  
17 good traction in the steel business. And we think those will  
18 be significant businesses going forward for it.

19 And all those businesses, I mentioned, are  
20 already profitable. So we're not going to have the same  
21 issues that we've had with broadband and retail early on in  
22 terms of incurring big losses versus the same periods of  
23 time. So I think as these businesses kick in we're going to  
24 see some tremendous upside as far as earnings go.

25 KEN LAY: (Question read) "Given Enron's current

1 credibility issues with the investment community, shouldn't  
2 Enron fill its top management positions from outside the  
3 company, I guess outsource management or bring in other  
4 management?"

5 That's a fair question. That's a fair question.

6 Let me say, I think, in fact, we've got a very strong senior  
7 leadership group. As I said we met yesterday as a group yesterday  
8 morning for about three hours. I did make a comment to them  
9 yesterday in reference to your question I think it was. But, you  
10 know, this management team wasn't probably as good as it appeared  
11 a year ago. But it's sure not as bad as it appears today.

12 And, in deed, this is the team --

13 (Applause)

14 -- but this is the team that can lead this company  
15 forward. And as you saw earlier in Greg's presentation, the  
16 operations, the financial performance and the operations are  
17 superb and strong, particularly strong for a recessionary  
18 economy. Few, if any, companies our size can show that  
19 kind of performance. We do have some credibility issues and  
20 they're not brand new.

21 They've had some time to, you know, to percolate  
22 here. And we're addressing them as best we can. We  
23 addressed a few more this morning and we're going to keep  
24 addressing them until they're all gone. And then, of course,  
25 they'll go onto the next target and start attacking that

1 target.

2 (Question read) "Will Mr. Fastow and his partners  
3 get to keep the money or perhaps should they consider finding  
4 a better place for it, for example, investing in Enron stock  
5 or funding the Enron families who lose their jobs, as a  
6 consequence of our stock falling?"

7 (Applause)

8 I think I'll answer that for Andy. I expect, first  
9 of all, what he does with that money is his own business. I  
10 will say Andy did buy some shares here not too long ago to show  
11 his, at least his confidence in the company. But, indeed,  
12 whatever happened on the other side of that wall was, in fact, as  
13 I said, it was approved. And whatever happened on the other  
14 side of that wall was up to Andy and his partners.

15 (Question read) "Are we ripe for a takeover or  
16 merger?"

17 Certainly the price is low enough, the price is low  
18 enough. And I'm sure that even at a pretty good premiums to  
19 this price there's some people that might have some interest.  
20 We've not been contacted. But, indeed, another reason to  
21 try to get this all turned around.

22 And I think that when we talked about this two  
23 months ago, I mean, the problem that many companies have is  
24 that they understand that the value of Enron is in its  
25 intellectual capital. And that goes up and down the

1 elevator every day. And so unless it's a company that  
2 believes they can maintain or sustain this culture and keep  
3 this talent base, they would be buying an empty suit.  
4 So we'll see. But we'll deal with that if and when  
5 it happens. Right now we just need to be thinking about how  
6 we just continue to make the company stronger. I'll take one  
7 more, Greg, and I'll let you.  
8 I think that's the same thing.  
9 (Question read) "What is the status of the parking subsidy?"  
10 You know, were getting down to something maybe -- what is  
11 the status of the parking subsidy? Anybody on the front row  
12 know? Parking subsidy. We've stumped the whole group. Mark  
13 Prevert said "Not enough."  
14 UNIDENTIFIED MALE: fifty dollars a month like it always has been.  
15 KEN LAY: Always been? It's fifty dollars a month. Now,  
16 there's a good, clean, crisp answer, fifty dollars a month.  
17 All right, Greg.  
18 GREG WHALLEY: Um, do you want to (inaudible) another  
19 one. (Inaudible) No, go ahead.  
20 KEN LAY: (Inaudible) (Question read) "What other Enron  
21 employees are invested in LJM?"  
22 To my knowledge, none. I mean, at least when you  
23 were invested in LJM you were the only, only person, only Enron  
24 employee that invested in LJM.  
25 ANDY FASTOW: Michael Kopper who is no longer an employee at Enron  
26 and he's at LJM (Inaudible - no mike.)

1 KEN LAY: Michael Kopper now has an interest?  
2 ANDY FASTOW: He's no longer at Enron.  
3 KEN LAY: He's no longer at Enron. But he now, he was at Enron and  
4 now has an investment in LJM.  
5 SCHWIEGER: (unintelligible) about LJM. Did the partnership  
6 have anything at risk, did they loose money?  
7 KEN LAY: Ah, I think they could. You want to answer that?  
8 SCHWIEGER: We lost one point two billion dollars, so what did  
9 the partnership loose?  
10 KEN LAY: Now, we didn't lose one point two billion dollars.  
11 Now, let's -- let's not -- not confuse those two. Ah --  
12 SCHWIEGER: Well, we adjusted our equity in the investment  
13 that was a guarantee for the partnership.  
14 KEN LAY: We adjusted our equity. But we also took  
15 fifty five -- I mean, as far as the diluted share count, we took  
16 fifty five million dollars, or fifty five million shares, out of  
17 the diluted share account as well as canceling a -- a note  
18 receivable.  
19 SCHWIEGER: Alright let me repeat the first question:  
20 How could the partnership loose money? And then, two,  
21 if it did not loose money, how do you convince the lawyers  
22 of that, isn't that like giving away money?  
23 MR. LAY: Ah Boy. I mean, it -- it was risk capital on the  
24 other side, including the banks.  
25 SCHWIEGER: We guaranteed the other side, how could --  
26 MR. LAY: We didn't guaranty it.

1 SCHWIEGER: How could they loose money?

2 KEN LAY: We didn't guaranty it. I mean, it was risk capital.

3 SCHWIEGER: How could they loose money?

4 KEN LAY: Well, I suppose if the investments were bad they lost  
5 some money too. Of course, they invested in a lot of different  
6 entities.

7 (Question read) "Are there any more off-balance

8 sheet special SPVs like Raptor or funds like LJM that need to

9 be written down? Was this one point two billion dollar write-down

10 all or are there more hidden problems?"

1 Well first, again, this one point two billion dollar was not a  
2 write-down. There wasn't a problem. It was a matter of --  
3 Rick, do you want to explain that? Let's get our chief accounting  
4 officer up here to explain that.

5 RICK CAUSEY: The adjustment to equity, the one point two  
6 billion dollar adjustment to equity, related to an increase, in  
7 fact, of equity that we had recorded associated with shares  
8 that we were committed to deliver in future that we never  
9 delivered. So once the -- we were going to deliver shares in the  
10 future. We recorded an increase in equity appropriately to  
11 reflect that, that commitment. When that commitment was  
12 terminated as a part of terminating these, that  
13 increase in equity was reversed.

14 As Ken said, it was actually sixty two million shares that  
15 were reflected in our third quarter fully diluted share  
16 calculation. It goes down by sixty two million shares. Our third  
17 quarter diluted share number was around nine hundred twelve  
18 million shares. Our fourth quarter number will be around eight  
19 hundred fifty million shares reflecting that decrease.

20 And so the one point, just to be clear again, the one point two  
21 billion reduction in equity did not relate to losses we took or  
22 certainly losses we covered related to LJM, rather related to  
23 shares we will never issue but we had reflected as  
24 potentially issuable when we set these up.

25 GREG WALLEY: (Question read) "Are we going to



1 provide balance sheets on the various businesses to Wall Street?"

2 I made that comment earlier. And we are going to  
3 attempt at the end of this year and perhaps going forward on  
4 an annualized basis to provide a balance sheet breakdown by  
5 business segment.

6 Now, that involves some pretty detailed things as  
7 far as attributing long-term debt that's on the balance sheet  
8 to the various segments, assessing how much leverage is there  
9 and how much equity is there. But it is something that  
10 people want on incremental disclosure to be able to look at  
11 return on capital, return on equity associated with the  
12 various businesses. We're going to try to break that down  
13 and give that incremental disclosure.

14 Also, a question about the survey results, several  
15 questions about the lay-it-on-the-line survey and actions  
16 that are being taken. We did put out a memorandum the other  
17 day talking about some of the actions that are being taken.

18 We are making some modifications to the PRC.

19 We do believe, as we stated in the memorandum that  
20 went out on e-mail, that we do believe that a relative  
21 evaluation of people for the purposes of determining what  
22 skillsets you have, the quality of the talent base you have,  
23 what management gaps that you may have is absolutely  
24 critical.

1 We do know that it has led to some discomfort in  
2 how the process was handled, and we're looking at how we can  
3 make that a little bit easier. And as we've said, the  
4 process that we're asking for at this point in time requires  
5 the identification of the top and bottom ten percent. And I  
6 believe we're only asking that the mandatory delivery of that  
7 occur once a year.

8 To the extent the business unit finds the need to  
9 do something greater than that, that will be up to the heads  
10 of the various business units. There will be more  
11 information coming on this. If you want some more  
12 information on what's going on regarding the results, please  
13 speak to Cindy Olson.

14 MARK FREVERT: A couple more questions here.

15 (Question read) "Please explain why we are  
16 redeploying American citizens and leaving foreign nationals  
17 employed in the U.S."

18 As far as redeployment goes, I think redeployment  
19 is really driven almost exclusively by business unit needs.  
20 If we're oversized or overstaffed, or our businesses aren't  
21 performing well, we're going to move people out of those. So it  
22 really has nothing to do with whether somebody's an American or a  
23 foreign national.

24 We're redeploying people in some of our U.S.  
25 businesses. We're also redeploying people in our European

1 business. And some of you read about some of the cut-backs  
2 that are going on in Europe. That's really a normal course  
3 of business cut-back. We are trying to cut about five to ten  
4 percent of the overall employee base because certain  
5 businesses just weren't going to generate the returns that we  
6 had expected.

7 So we cut back a little bit there. Virtually all  
8 of those employee cut-backs were done voluntarily. I think  
9 we had over three hundred people that accepted the voluntary  
10 severance plan, which means that virtually nobody is going to be  
11 asked to move out that didn't want to.

12 So I think it's important also to keep in mind that  
13 as we continue to grow we are a global company. We've got  
14 tremendous talent in Europe. We've got tremendous talent in  
15 North America, in our South American operations, our Asian  
16 operations. And we're always going to want to move people  
17 around.

18 So hopefully we're going to continue to have people  
19 from Europe and South America in North America and vice-a-  
20 versa. I think that's going to be a real key to continuing to  
21 grow on a global basis.

22 Second question, (question read) "Please comment  
23 on considerations given to repricing employee options."

24 I think we talked about this a little bit before.

25 It's really not something that we would consider, or the

1 board would consider or the Comp. committee would consider.  
2 We think there's other ways we can continue to get equity out  
3 into people's hands and help people share in the upside as  
4 the stock price rebounds.  
5 But repricing options would destroy credibility  
6 entirely with our shareholder base, our outside investors.  
7 And it's just not something we could really do at this time  
8 or probably in the future either.  
9 And then finally (question read) "Any truth to the  
10 rumor that the Christmas party will be a company-wide event  
11 at Enron field?"  
12 Yes.  
13 KEN LAY: And let me say on the stock option  
14 question, of course this year we had a special one-year stock  
15 option award. And we have not made any decisions for next  
16 year. We'll certainly look at it. But hopefully the next  
17 year it will become a lot less of an issue. I think we got  
18 time for just a few more.  
19 (Question read) "You say that earnings are strong  
20 and we are performing well, but how much of this is actually  
21 realized? Are we going to be more conservative in the future  
22 in determining the fair value of some of our transactions and  
23 investments?"  
24 We've gone through this, and for the most part we  
25 think we've been pretty conservative. Now, in some cases, of

1 course, we've been surprised later. But I think the more  
2 important question is whether we can get cash tracking the  
3 earnings closer. And certainly we're working hard on that.  
4 And I think, in fact, we will get there. I mean, this year a  
5 lot of improvements have been made, and I think in future  
6 years it will.

7 (Question read) "Street.com referenced two trusts, one a billion  
8 dollar trust, two point, another two point four billion trust and  
9 asked how we were going to cover those liabilities. And our  
10 response has been asset sales. How are we going to improve  
11 our debt into, asset, debt ratio of asset sales recovering  
12 these trusts?"

13 Well as a matter of fact, the two trusts they're  
14 referring to have a bunch of assets in them. And those  
15 assets are primarily energy assets including large  
16 power plants with long-term contracts behind them, long-term  
17 power purchase agreements behind them. And, indeed, based  
18 on the valuations, the most recent valuations, those assets  
19 are adequate to cover those trusts. And those are public trusts.  
20 I mean all of the, and that's not like  
21 LJM and that's not like some of the others. But, indeed, it  
22 shows how some people are using various places to try to get  
23 people thinking about things that. We had a question like that on  
24 the conference call this morning.

25 Now, I think the calculation there was if they all

