

Ms. Sherron Watkins

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Opening Statement

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Good Morning Mr. Chairman, members of the sub-committee. I am Sherron Watkins. Thank you for the opportunity to address the sub-committee this morning.

Background:

I am currently employed by Enron Corporation as a Vice President. By way of background, I hold a masters degree in professional accounting from the University of Texas at Austin and have been a certified public accountant since 1983.

- I began my career in 1982 at Arthur Andersen as an auditor. I spent 8 years at Andersen in both the Houston and New York offices.
- I joined New York-based MG Trade Finance in 1990 to manage their portfolio of commodity-backed finance assets-- a position I held until October 1993.
- In October of 1993, I was hired by Mr. Andrew Fastow and moved back to Houston to manage Enron's newly formed partnership with CalPERS, the California Public Employee Retirement System. The partnership was called the Joint Energy Development Investments Limited Partnership or JEDI. I held the JEDI portfolio management position until the end of 1996.
- From 1997 until early 2000, I worked for Enron International, working primarily in the mergers and acquisitions group, which is also known as the corporate development group.
- In early 2000, I transferred to Enron Broadband Services where I worked until early June of 2001 in a variety of roles.
- In mid to late June of 2001, I went to work directly for Mr. Fastow, assisting in the corporate development work that had been put under his supervision after Cliff Baxter retired in May of 2001. I worked for Mr. Fastow in this new role until late August 2001.
- I have since been reassigned into the human resources group with a variety of assignments.

Discovery of Raptor problems:

- While working for Mr. Fastow in 2001, I was charged with reviewing all assets that Enron considered for sale and determining the likely economic impact of a sale. As part of the sale analysis I reviewed the estimated book values and market values of each asset.
- A number of assets were hedged with an entity called Raptor. Any asset that was hedged should, for the most part, have a locked-in sales value for Enron. Meaning that despite current market prices, Enron should realize the hedged price with Raptor.
- It was my understanding that the Raptor special purpose entities were owned by LJM, the partnership run by Mr. Fastow.
- In completing my work, certain Enron business units provided me with analyses that showed certain hedged losses incurred by Raptor were actually coming back to Enron. The general explanation was that the Enron stock backstopping the Raptor hedge had declined in value such that Raptor would have a shortfall and would be unable to fully cover the hedge price that it owed to Enron.
- I was highly alarmed by the information I was receiving. My understanding as an accountant is that a company could never use its own stock to generate a gain or avoid a loss on its income statement. I continued to ask questions and seek answers, primarily from former co-workers in the global finance group or in the business units that had hedged assets with Raptor. I never heard reassuring explanations.

Events leading to my memos to Mr. Kenneth Lay:

- I was not comfortable confronting either Mr. Skilling or Mr. Fastow with my concerns. To do so, I believed would have been a job terminating move.
- On August 14, 2001, I was informed of Mr. Skilling's sudden resignation and felt compelled to inform Mr. Lay of the accounting problems that faced Enron.
- I sent Mr. Lay an anonymous letter on August 15, 2001 in response to a request for questions for an upcoming all-employee meeting to be held August 16th to address Mr. Skilling's departure.
- At the all-employee meeting Mr. Lay commented that our visions and values had slipped and that if any employee was truly troubled by anything at Enron, please bring those concerns to him or any number of the top management including Cindy Olson, Steve Kean and others.

- On August 16th, I met with Ms. Olson to show her a copy of the letter and discuss it with her. She encouraged me to meet with Mr. Lay personally. Since Mr. Lay was traveling through the rest of the week, she said the meeting would probably take place the week of August 20th.
- I was concerned that Mr. Lay was planning to fill the Office of the Chair over the weekend and that he might choose Mr. Fastow or Rick Causey, the Chief Accounting Officer. To voice my concerns, I met with Rex Rogers, Enron's Associate General Counsel on Friday, August 17, 2001. I provided Mr. Rogers with a version of the anonymous letter as well as two (2) additional memos, all of which are part of the seven (7) pages that the committee discovered in mid January 2002.
- On Monday, August 20, 2001, Mr. Lay's assistant scheduled a meeting for me to meet with Mr. Lay on Wednesday, August 22nd. I subsequently held discussions with a former mentor at Andersen, James Hecker, and a long time friend and co-worker, Jeffrey McMahon, to vet my concerns before my meeting with Mr. Lay.
- I met with Mr. Lay on the afternoon of Wednesday, August 22, 2001. The meeting lasted just over one half hour. I provided him with five (5) memos I had drafted to help explain the problems facing the company. These five (5) memos constitute the seven (7) pages this committee discovered and subsequently disclosed on January 14, 2002. Additionally, I provided an analysis of the Raptor entity economics and a presentation prepared by Enron's risk assessment and control group.
- I primarily used the memo titled *Summary of Raptor Oddities* as talking points with Mr. Lay. My main point to Mr. Lay, was that by this time, Raptor owed Enron in excess of \$700 million under certain hedging agreements. My understanding was that the Raptor entities basically had no other business aside from these hedges; therefore they had collectively lost over \$700 million. I urged Mr. Lay to find out who lost that money. If he discovered that this loss would be borne by Enron shareholders via an issuance of stock in the future, then I thought we had a large problem on our hands.
- I gave Mr. Lay my opinion that it is never appropriate for a company to use its stock to effect the income statement.
- At the conclusion of the meeting, Mr. Lay assured me that he would look into my concerns. I also requested a transfer as I was uncomfortable remaining as a direct report to Mr. Fastow.

I intend to fully cooperate with the sub-committee and welcome the opportunity to answer any questions the members may have at this time.