Excerpts from the Powers Report

Page 5 "Enron's original accounting treatment of the Chewco and LJM1 transactions that led to Enron's November 2001 restatement was clearly wrong, apparently the result of mistakes either in structuring the transactions or in basic accounting."

Page 15 "Rather than take that loss, Enron 'restructured' the Raptor vehicles by, among other things, transferring more than $800 million of contracts to receive its own stock to them just before quarter-end. This transaction apparently was not disclosed to or authorized by the Board, involved a transfer of very substantial value for insufficient consideration, and appears inconsistent with governing accounting rules. It continued the concealment of the substantial losses in Enron's merchant investments."

Pages 15-16 "As we stated above, in 2001, Enron and Andersen concluded that Chewco lacked sufficient outside equity at risk to qualify for non-consolidation. At the same time, Enron and Andersen also concluded that the LJM1 SPE in the Rhythms transaction failed the same threshold accounting requirement. In recent Congressional testimony, Andersen's CEO explained that the firm had simply been wrong in 1999 when it concluded (and presumably advised Enron) that the LJM1 SPE satisfied the non-consolidation requirements."

Page 58 "Accounting standards for revenue recognition generally require that the services be provided before recording revenue. It seems doubtful that the management services related to the 'required payment' (covering 1998 to 2003) had all been provided at the time Enron recognized the $25.7 million in income. If those services had not been provided by March 1998, Enron's accounting appears to be incorrect."

Pages 97-98 “In three of the four Raptors, the vehicle’s financial ability to hedge was created by Enron’s transferring its own stock (or contracts to receive Enron stock) to the entity, at a discount to the market price. This ‘accounting’ hedge would work, and the Raptors would be able to ‘pay’ Enron on the hedge, as long as Enron’s stock price remained strong, and especially if it increased. Thus, the Raptors were designed to make use of forecasted future growth of Enron’s stock price to shield Enron’s income statement from reflecting future losses incurred on merchant investments. This strategy of using Enron’s own stock to offset losses runs counter to a basic principle of accounting and financial reporting: except under limited circumstances, a business may not recognize gains due to the increase in the value of its capital stock on its income statement.”

Pages 125-126 “Enron had accounted for the Enron shares sold in April 2000 to Talon (Raptor 1), in exchange for a $172 million promissory note, as an increase to ‘notes receivable’ and to ‘shareholders’ equity.’…Enron made similar entries when it sold Enron stock contracts in March 2001 to Timberwolf and Bobcat (Raptors II an IV) for notes totally $828 million. This accounting treatment increased shareholders’ equity by a total of $1 billion in Enron’s first and second quarter 2001 financial reports.…In September 2001, Andersen and Enron concluded that the prior accounting entries were wrong, and the proper accounting for these transactions would have been to show the notes receivable as a reduction to shareholders’ equity.…The correction of the error in Enron’s third quarter financial statements resulted in a reduction of $1 billion ($172 million plus $828 million) to its previously overstated equity balance.”

Page 129 “Proper financial accounting does not permit this result [Enron’s hedging itself through the Raptors]. To reach it, the accountants at Enron and Andersen—including the local engagement team and, apparently, Andersen’s national office experts in Chicago—had to surmount numerous obstacles presented by pertinent accounting rules. Although they apparently believed that they had succeeded, a careful review of the transactions shows that they appear to violate or raise serious issues under several accounting rules…."

Pages 197-199 "FAS Statement No. 57 required Enron to provide '[a] description of the transactions,…and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements.' We think that Enron's related-party transaction disclosures fell short of this goal….First, Enron lacked the factual basis required by the accounting literature to make the assertions in each SEC filing concerning how the LJM transactions compared to transactions with unrelated third parties.…Second, the publicly filed financial statement disclosures omitted a number of key details about the transactions."