Memo

ANDERSEN

Tel
Fax

J:\misc data\raptor final\ 1200raptorupdate_final.doc

To The Files

From Dave Duncan
Deb Cash
Patty Grutzmacher
Jennifer Stevenson

Date December 28, 2000, as amended, October 12, 2001

Subject Raptor Structures Update

This memo provides an update on various transactions that have been executed within each of the Raptor structures since their inception. The detailed description of each Raptor structure may be found in the respective memos within the 2000 audit files.

Raptor 1

- The Enron share settled put that was to terminate in October 2000, was settled early on August 3, 2000, for a payment of $3.9 million (settled by an increase in the note receivable from Talon) by Talon to Enron based on the value of the unearned premium originally paid to Talon. Because the SPE, Talon, included the maximum exposure under the put in its 3% capital requirement test, the termination of this put created excess equity capital in the vehicle of approximately $412 million that can be utilized to execute derivative transactions. As a result of the early termination, the manager of Talon declared a distribution in the amount of $41 million in cash to be made by Talon to the LJMII member. This distribution was made in accordance with Section 5.1 of the Amended and Restated Limited Liability Company Agreement of Talon LLC, and satisfied the required return on the equity capital.

- On August 3, 2000, Talon sold a put option to Enron for a $36 million premium whereby Enron has the right to put certain of its equity investment price risks (related to those previously sold in the Merlin CLO Trust structure) to Talon up to $93 million (maximum payout). This put requires for payouts by Talon upon certain default events related to these investments. The maximum notional amount of this derivative reduced the available capacity of the entity by approximately $93 million, which represents the maximum payout by Talon under this put option.

- Equity price swaps and option transactions of approximately $730 million in notional value were executed to hedge the exposure of fair value investments of Enron North America and Enron Broadband Services. (See memo with details in the 3rd quarter ENA file.) Capacity is available as a result of the early termination of the share settled put option between Enron and Talon, as described above, to support these instruments.

- On October 30, 2000, an equity collar transaction was executed on the 7,615,930 shares of Enron common stock in the vehicle at a floor price of $81 and a cap price of $116.12. This collar locks in the value of the Enron common stock between this floor and cap, therefore limiting Talon's exposure to the volatility of the Enron stock. Enron's credit capacity test should reflect this transaction in assessing the value of Talon's assets.

Raptor 2

- The Enron share settled put that was to terminate in December 2000, was settled early on September 22, 2000, for a payment of $6.7 million by Timberwolf to Enron based on the value of the unearned premium originally paid to Timberwolf. Enron allowed Timberwolf to satisfy this payment obligation by increasing the payable amount of the note receivable from Timberwolf. Because the SPE, Timberwolf, included the maximum exposure under the put in its 3% capital requirement test, the termination of this put created excess equity capital in the vehicle of approximately $427 million that can be utilized to execute additional derivative transactions. As a result of the early termination, the manager of Timberwolf declared a distribution in the amount of $41 million in cash to be made by Timberwolf to the LJMII member. The distribution was made in accordance with Section 5.1 of the Amended and Restated Limited Liability Company Agreement of Timberwolf LLC, and satisfied the required return on the equity capital.

- On September 22, 2000, an equity swap transaction with a $460 million notional amount was executed to hedge Enron's exposure of three international investments that are accounted for under the equity method. These equity interests are in international local distribution companies that Enron management expects to sell to third parties. The notional amount of the derivatives closely approximates Enron's book value in these assets. As of September 30, 2000 and December 30, 2000, the equity swap derivative had a fair value of 0. To support these values at each quarter end, Enron obtained an independent fair value from CSFB that supports the total fair value and restriction discount that should be allocated due to the restrictive nature of these assets.

- On November 27, 2000, an equity collar transaction was executed on the 7,809,790 shares of Enron common stock in the vehicle at a floor price of $78.875 and a cap price of $111.8633. This collar locks in the value of the Enron common stock between this floor and cap, therefore limiting Timberwolf's exposure to the volatility of the Enron stock. Enron's credit capacity test should reflect this transaction in assessing the value of Timberwolf's assets.

- On December 28, 2000, an equity collar and swap transaction was executed to hedge ENA's exposure to one of its merchant investments. Because the combination of the transactions netted to a maximum exposure to the vehicle of approximately $53 million, that amount reduced the available capacity.

Raptor 3

- Three swap transactions were executed on October 22, 2000, to hedge Enron's exposure in several total return swaps relating to three series of trusts (McGarrett within the Hawaii 125-0 Trust structure (see the applicable memo in the EES file for a detailed description of the transaction and related accounting issues). The total return swaps expose Enron to the volatility of approximately 90,000 warrants that are convertible into 18,000,000 shares of common stock of The New Power Company ("TNPC"). Therefore these swaps within Raptor 3 were executed to mitigate Enron's exposure to the price volatility of TNPC stock. As a result of these swaps, Porcupine is now exposed to changes in the value of TNPC shares. The initial price at the date of execution of the swaps was $10.75 per share of common stock.

Raptor 4

- No transactions have been executed to date.

As noted in our transaction memos, we review quarterly Enron's assessment of the adequacy of the credit capacity of each of the Raptor vehicles because Enron has various notes and derivatives with these entities. Consistent with the valuation of all notes and derivatives, the value recognized by each party is subject to the capacity of the other party to financially fulfill the obligation (i.e. creditworthiness). As a result, the creditworthiness of Raptor will be factored into the value of the derivative and in assessing the collectibility of the notes. Therefore, as Enron records an asset based on the value of the derivatives, its value may be impaired based on each entity's ability to pay.

To mitigate Enron's exposure to the potential decline in creditworthiness of each of the Raptor vehicles, Enron negotiated and executed an agreement with LJM, as equity holders in each of the Raptor vehicles, in December 2000. Under the agreement, the assets of each entity, Talon, Timberwolf, Porcupine and Bobcat, with the exception of the Promissory Note dated September 27, 2000, by Porcupine in favor of Pronghorn I LLC, were cross collateralized for the benefit of the creditors of each entity for a 45 day period. As consideration for this cross-collateral protection, Enron agreed to pay $50,000 to LJMII. Enron believed that this cross collateralization would allow them to benefit from the assets of each entity on an aggregate basis in assessing the credit capacity of the entities if the credit capacity test for any individual entity resulted in the need for an impairment at December 31, 2000. (However, since the individual entity credit capacity test did not yield the need for an impairment at year end, we agreed to revisit the appropriateness of the cross-collaterization in first quarter.)

During our deliberations on assessing the creditworthiness of the Raptor entities, we discussed with Carl Bass, Professional Standards Group, several options. Those options included (1) the cross collateralization for a 45 day period as described above, (2) cross collateralization for the entire term of these vehicles to be entered into after yearend but before the date of Enron's earnings release, and (3) conveying Enron's investment in certain Raptor entities to other Raptor entities to satisfy the credit worthiness test of an individual entity (in effect, an aggregation methodology). Carl Bass did not view Option 1 to be substantive because there was no true cross collaterization of the assets of the vehicle upon settlement only for a 45 day period. He did not view Option (3) to be substantive because the effect was to satisfy the creditworthiness of an entity that did not have credit capacity by using Enron owned assets, not the assets of that entity. Although he believed Option (2) achieved such cross collateralization upon settlement, the fact that that it would be entered into subsequent to December 31, 2000 was in fact a decision that the engagement team would have to assess with the Practice Director. We also discussed the practicality of Enron's position with Mike Odom, Practice Director, and Mike Lowther, Concurring Partner, who concurred with our conclusions that the client's position to view the assets of each entity on an aggregate basis in assessing credit capacity was acceptable given the latitude in SFAS 114.