

Watkins, Sherron

From: Watkins, Sherron
Sent: Tuesday, October 30, 2001 4:45 PM
To: Tilney, Elizabeth
Cc: Olson, Cindy
Subject: PR for Enron

Beth,

Attached is the handout I gave Ken Lay today in our very brief meeting; I think I left you a voice mail on this.

Ken thinks it would be a good idea for me to work for you in our PR and IR efforts re: our current crisis. Beth I think you know my involvement from Cindy, and that I haven't really had a real job since my first meeting with Ken re: these matters in late August. I can jump on this asap.

The viewpoint is that I can effectively play devil's advocate on the accounting issues and be sure we anticipate the tough questions and have answers. My personal opinion is that it's very hard to know who in the organization is giving us good answers and who's covering their prior work.

The attached outlines my viewpoint on the fact that I think we need to come clean and restate; Ken and I did not get much chance to discuss this; I'm tentatively on his schedule Wed afternoon. I'd sure like to meet with you on this. I have one meeting on Wed that I can change. Please call. Thanks.



Disclosure steps to
rebuild in...

Sherron S. Watkins
Vice President, Enron Corp.
713-345-8799 office
713-416-0620 cell

Private Placement Opp

- 1. SIT Capital/Wood
- 2. CIT " / " *Equity*
- 3. SEZ
- 4. Capital Mkts

SW(HSE&EC)0023

Don't get SEZ 3rd!

Disclosure steps to rebuild investor confidence:

1. Lay to be open about his involvement or more importantly, his lack thereof:
 - a. As CEO, he relied on his COO, Skilling, as well as CFO, Fastow and CAO, Causey, to manage the details. Of note: CFO and CAO are Skilling's picks from his rise to the COO spot in late 1996.

[It's fairly normal for a CEO to leave the accounting details and finance details to the COO, CFO and CAO]
 - b. Lay to admit that he trusted the wrong people.
2. Lay to admit that as soon as Skilling resigned employees reported to him their opinions as to the inappropriate LJM transactions.
 - a. Lay appropriately took the matter seriously and he began an investigation; however:
 - b. Mistake #2: He relied on V&E and Arthur Andersen to opine on their own work. They advised him to unwind Raptor, but that the accounting was appropriate when recorded in 2000.

Joe Dilg's Oct 16th comment to me when I said that Lay should probably come clean and admit problems and restate 2000, in order to preserve his legacy and possibly the company's was the following:

"Are you suggesting that Ken Lay should ignore the advise of his counsel and auditors concerning this matter?"
3. Lay to state that once the 3rd Quarter write downs and reversals were disclosed and investors raised concerns and it became apparent that Enron could not easily resolve the issues by making more detail disclosures, he realized that the advise from V&E and AA&Co was wrong, it was motivated by self preservation.
 - a. First, the LJM Raptor transactions were highly irregular and Enron is restating 2000 financials.
 - b. Second, he's firing Arthur Andersen & Co and V&E
 - c. Third, he's committed to staying at Enron and returning the company to its former glory.

NOTE: After restatement, the good news is that our core trading business is solid with strong numbers to report; the bad news: EBS was losing big

money in 2000, the big losses didn't start in 2001, and EES did not start making a profit in 2000.

4. Lay to meet with top SEC officials. This is a problem we must all address and fix for corporate America as a whole. Ken Lay and his board were duped by a COO who wanted the targets met no matter what the consequences, a CFO motivated by personal greed and 2 of the most respected firms, AA&Co and V&E, who had both grown too wealthy off Enron's yearly business and no longer performed their roles as Ken Lay, the Board and just about anybody on the street would expect as a minimum standard for CPA's and attorneys.
 - a. This is devastating to many – investors, the energy trading sector, the banking sector, the Houston economy – Enron could work with the SEC to develop a plan to address this calmly.
 - b. Ken Lay and Enron need to support one of the SEC's long term objectives of requiring that the Big 5 accounting firms rotate off their large clients on a regular basis as short as 3 years.

My conclusions if Ken Lay takes these steps:

1. The bad news: This is horrific. Plaintiff attorneys will be celebrating. The trouble facing the company will be obvious to all.
2. The good news: the wild speculations will slow down, if not cease. Nobody wants Ken Lay's head. He's very well respected in business and the community. The culprits are Skilling, Fastow, Glisan and Causey as well as Arthur Andersen and V&E. The energy trading sector is scared to death that Enron won't make it – there will not be a cry for Enron's collective head.

Likely Enron outcome:

The stock price will drop further

Hard to take over – it's people and trading business (ie, not contractual, not asset based)

Does Enron need to find a Warren Buffet type equity investor?

Can we build a ring around the trading business? How long will that take?

Will a restatement announcement hurt liquidity any more than our current situation?

My conclusions if we don't come clean and restate:

All these bad things will happen to us anyway, it's just that Ken Lay will be more implicated in this than is deserved and he won't get the chance to restore the company to its former stature.

*Public Investor opinion
Crest
Tried in the 7
& we would succeed*