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Inquiry Now Examining Whether Enron's Assets Were Inflated

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Broadening the inquiry into [Enron's](#) collapse, federal investigators who have been examining the esoteric details of off-the-books partnership schemes are now looking at such basics as whether the company misled investors about the value of hard assets like pipelines and power plants, according to people involved in the case.

The new line of inquiry represents a focus on the sort of run-of-the-mill accounting issues that have been raised in numerous corporate fraud cases. Under examination, these people said, is whether Enron carried assets on its books for billions of dollars more than their actual worth.

One person involved in the case described this avenue of investigation as an effort by federal officials to determine whether Enron had "a [WorldCom](#) problem." Prosecutors have charged executives of WorldCom, the telecommunications giant that joined Enron in bankruptcy court earlier this year, with shifting expenses around on its books in an effort to mislead investors about the company's financial health.

A year after Enron's collapse, investigators are engaged in what has become a virtual post mortem of the company's business dealings and its possible transgressions of criminal law. Investigators are examining accusations of self-dealing and accounting fraud, securities fraud involving the company's broadband unit, energy market abuses and insider trading.

The investigation is now reaching what people involved in the case describe as an important turning point. In the next few weeks, they said, federal prosecutors plan to bring what is known as a superseding indictment against Andrew S. Fastow, the company's former chief financial officer, who was charged earlier this year in a 78-count indictment.

The superseding indictment will add charges, name new defendants, or both, according to these people. Prosecutors are expected to settle on a course of action soon, they said.

The investigation's new direction, if it proves fruitful, could offer prosecutors not only a case that is easier for a jury to understand, but also another means for pursuing evidence of possible criminal activities up the management

ranks at Enron.

In indicting Mr. Fastow, prosecutors outlined the role they believe was played by the company's former chief accounting officer, Richard A. Causey, in improper activities involving one off-the-books partnership. Any evidence that they now develop of improper accounting decisions might allow prosecutors to exert greater pressure on Mr. Causey to strike a deal.

But people involved in the case said Mr. Causey had not signaled a willingness to plead guilty to any charges. Reid Weingarten, a lawyer for Mr. Causey, declined to comment.

In the year since Enron's collapse, investigators have centered their attention on four areas: accounting and partnership issues like those involving Mr. Fastow; Enron's energy trading activities; possible insider trading by Enron's former chairman and chief executive, Kenneth L. Lay; and possible misrepresentations of the financial prospects of Enron's broadband division.

The first area has already resulted in two guilty pleas, as well as the filing of charges against Mr. Fastow. The trading investigation, involving charges that the company manipulated the California energy market during the state's power crisis, has also resulted in a guilty plea, from a former top trader.

The investigation of Mr. Lay, on the other hand, has run into complications that may make it difficult to bring charges, people involved in the case said.

Mr. Lay's lawyers have told the government that his stock sales were forced by the falling price of Enron shares he used to secure loans, leading to demands from financial institutions that he post more collateral. And because Mr. Lay sold his shares back to Enron, rather than into the open market, it becomes harder for prosecutors to demonstrate that he possessed information that the company lacked — a crucial element of insider trading. No final decision has been reached, however, on whether charges will be brought, according to the people involved in the case.

Investigators examining Enron's broadband division, touted by the company from 1999 to 2001 as being core to the company's future growth, have been moving aggressively.

In recent weeks, agents of the Federal Bureau of Investigation arrived unannounced at the homes of some broadband executives, confronting them with what the agents said was potential evidence of fraud.

Some former executives have begun cooperating with the inquiry and have testified before a grand jury, people involved said. They include Lawrence M. Lawyer, a former finance executive who pleaded guilty to tax violations, and Timothy N. Belden, a former trader who pleaded guilty to conspiring to manipulate the California energy market.

The broadband investigation began as an examination of a transaction known as Grayhawk. That deal allowed Enron to profit by taking a position in its own stock before the announcement of a big purchase of [Sun Microsystems](#) computers intended to form the backbone of the broadband unit's expansion.

Now, people involved in the case say, the investigation has broadened to look at whether Grayhawk was part of a wider effort to drive up Enron's stock price by issuing misleading statements about the broadband division's performance.

In particular, prosecutors are said to be examining statements made at meetings with Wall Street analysts in 2000 and 2001 about the prospects and performance of the division. In addition, they are looking at whether the division

failed to promptly recognize reversals of income that had been booked on the basis of projections that proved to be inaccurate.

The simultaneous investigation into whether Enron was knowingly carrying assets on its books at inflated values developed as a result of actions taken by the new managers installed at the company after it filed for bankruptcy protection.

Last April, the new management filed a statement with the bankruptcy court saying that, by its estimates, the value of the assets on Enron's balance sheet would have to be written down by about \$14 billion.

Much of the reduction was the result of assets losing value in the wake of the bankruptcy filing, the new management team said. But the company's statement said there were also potential problems with "valuations of several assets the historical carrying value of which current management believes may have been overstated due to possible accounting errors or irregularities."

It did not identify those assets, but witnesses have told government investigators that primarily three Enron holdings are involved.

The largest of these assets, according to people involved in the case, is Enron's Houston Pipeline, which moves energy products throughout Texas.

The pipeline is worth about \$800 million, according to former executives, but was carried on Enron's books at a value of more than \$4 billion — a sum unchanged since Enron was created through the purchase of Houston Natural Gas by InterNorth, another energy company.

In that acquisition, InterNorth paid several billion dollars more than the total book value of Houston Natural Gas and chose to write up the value of the gas company's assets, a so-called fair value adjustment under accounting rules.

At the time, the former executives said, Enron's accountants argued that Houston Pipeline would be extremely valuable in the future, when it could be used as a hub in a nationwide pipeline system.

But, as the years passed, Enron sold parts of Houston Pipeline. Since no acquirer was willing to pay the value that had been assigned to the system, accounting rules normally would have required Enron to record a loss on those sales. To avoid that outcome, Enron shifted billions of the fair value adjustment from the pipeline itself onto a storage area associated with it.

Though the assumptions that had allowed Enron to inflate the pipeline system's value were ultimately undermined, the company never restated the value of the assets, people who have examined the company's financial records said. The exaggerated value represented several billion dollars worth of the \$14 billion write-down that Enron's new management said would be appropriate.

At least two smaller assets — a cogeneration plant and a deep-water drilling project — were also carried at values that the new management deemed inappropriate, according to people involved in the case. The drilling project, known as Mariner, was 97 percent owned by Enron. People involved in the investigation said that the new management said its value should have been written down by \$300 million to \$400 million.

Ultimately, people involved in the case said, investigators are trying to determine several things — foremost whether the new management's assessments are correct. Investigators are questioning witnesses to learn whether Enron's prior management knowingly carried the assets at inflated values for the purpose of avoiding the negative

impact of a write-down.