

Fastow, Andrew

From: Frevert, Mark
Sent: Friday, October 05, 2001 1:58 PM
To: Fastow, Andrew; Whalley, Greg
Subject: FW: To the Board of Directors
Importance: High

F.Y.I., Mark

-----Original Message-----

From: Koenig, Mark
Sent: 04 October 2001 13:32
To: Frevert, Mark
Subject: FW: To the Board of Directors
Importance: High

-----Original Message-----

From: Olson, Cindy
Sent: Thursday, October 04, 2001 10:21 AM
To: Koenig, Mark
Subject: FW: To the Board of Directors
Importance: High

Mark here it is.....I will forward the voice mail in a minute.

-----Original Message-----

From: margaret ceconi [mailto:mceconi@houston.rr.com]
Sent: Wednesday, August 29, 2001 9:51 AM
To: Lay, Kenneth
Cc: Carter, Rebecca; colson@enron.com
Subject: To the Board of Directors
Importance: High

Please deliver to:

To the Board of Directors,

One can only surmise that the removal of Jeff Skilling was an action taken by the board to correct the wrong doings of the various management teams at Enron. However, based on my experience at this company, I'm sure the board has only scratched the surface of the impending problems that plague Enron at the moment. (i.e., EES's management's incapability's of strategic planning, hiding losses/SEC violations, fraudulent recruiting practices, lack of product, etc).

I was recently layed off as a result of another one of Enron's infamous restructurings. As a shareholder I feel it is my responsibility to bring to the Board's attention the various ongoing that I observed during my short tenure (9 months) with the company.

EES Management

Upon joining the company, the first week there was a reorganization, I got a new boss. Over the past 9 months there have been 5 major restructurings. Management's reason was that Enron is flexible and changes to meet the needs of the marketplace. After the first management team was ousted (Harold Buchanan, Lou Pai, Tom White), Dave Delaney came along, he started making changes, putting his fingerprints on everything. However it became obvious that EES had been doing deals for 2 years and was losing money on almost all the deals they had booked.(JC Penny being a \$60MM loss alone, then Safeway, Albertson's, GAP,

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etc.). Some customers threatened to sue if EES didn't close the deal with a loss (Simon Properties - \$8MM loss day one) So restructurings began.....first to go was the compensation plan. Overnight it was taken away, and the new plan was 100% subjective, with a cap. The former plan was no cap with the potential to make over \$1MM based on a formula on mark. When existing managers raised concerns about the plan being the main recruiting tool to bring people on board and that it was wrong to change it, Delaney's comments were, trust me, you'll get paid. His attitude sounded like "Let them eat cake". After Delaney's team came on board, he immediately started bringing in his own people. They decided to change the pricing curves, basis went away, and essentially EES had no product offerings. Deals I had priced with a \$15MM mark went down to a \$2MM mark. Giving the customer no incentive to do the deal. EES was also having trouble delivering on the O&M side as well. Overnight the product offerings evaporated. The only product left is for the hotel and mall customers. Except that Starwood is also mad since EES has not invested the \$45MM in equipment under the agreement. Enron was suppose to invest \$45MM over the first 3 years of the contract. The people who negotiated the contract FORGOT to put in, at Enron's discretion...it turns out that it doesn't make financial sense for Enron to put in the Equipment, but Starwood wants it. Now you will loose atleast \$45MM on the deal. The Crisis was set in motion. You should also check on the Safeway contract, Albertson's, IBM and the California contracts that are being renegotiated.... It will add up to over \$500MM that EES is loosing and trying to hide in Wholesale. Rumor on the 7th floor is that it is closer to \$1 Billion.....

This is when they decided to merge the EES risk group with Wholesale to hide the \$500MM in losses that EES was experiencing. But somehow EES, to everyone's amazement, reported earnings for the 2nd quarter. According to FAS 131 -Statement of Financial Accounting Standards (SFAS) #131, "Disclosures about Segments of an Enterprise and related Information". EES has knowingly misrepresented EES' earnings. This is common knowledge among all the EES employees, and is actually joked about. But it should be taken seriously. Did you notice the article in the Houston Business Journal today. The analyst are continuing to push this very issue very hard, because it does exist....Carol Coale with Prudential, and the Simmons International Analyst know what's going on, they just can't confirm it. YET Delaney has no respect from the EES team. He came in with arrogance and is not a leader. No one trusts him. This makes him ineffective.

EES only manages quarter to quarter. They are reactive, not proactive. They don't stick with a decision long enough to see if its going to work. That's because they are trying to cover up their dumb decisions (like Fast Track, the PMC, getting rid of AIP, the list goes on). The billing problems continue to cost EES approximately \$32MM per year. I even introduced the IT/billing group to a company that could solve alot of the billing problems, ECO Outlook. A company that Enron has an investment in, as well as you personally Mr. Lay.

There are numerous operational problems with all the accounts. EES is over seeing 31,000 facilities, and it's not going well.

Fraudulent Recruitment

I was heavily recruited by EES (Harold Buchanan, Troy Henry) from GE Capital. Although now in retrospect, I believe I was Fraudulently recruited.

Last summer I was contacted by a head-hunter (Jeff Smith, Leyendecker & Asso) regarding a job opportunity with Enron. I had been at GE for about 5 years and was very happy, and NOT looking for a job. I was Senior Vice President, region leader, and I was on the mentoring program. My mentor being in charge of Quality (Six-Sigma) for all of GE Capital, and have had continuous success in deal origination. (Resume attached)

This recruiter has tried to recruit me for several years, and the answer was always NO. But the opportunity presented by him for Enron was quite unique. EES was a new division and per Jeff Smith, was unlike any of the other divisions of Enron. They needed very seasoned, experience deal people that could come in and communicate with CEO's, CFO's and senior managers of prospects. They decided that the best candidates should have financial backgrounds in banking/finance with the ability to effectively sell EES's bundled products. EES had been struggling to close deals and the deal cycle was 12-18 months at best. They felt people with my background, even though we had NO commodity or energy experience, would speed up the process and increase deal flow. Additionally, in order to entice us to come over, the compensation plan was very lucrative. There was no limit on bonus and it was totally formulaic. I was told repeatedly that I could easily be making \$800K to over a \$1MM each year, as several of the existing staff had done that year. I confirmed with these employees what they made. There were about 15 of us recruited with the same background. And all of us were layed off in less than one year!!! Long-term planning?????

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During my interviews, I repeatedly voiced my concerns about Enron's reputation of starting businesses and then shutting them down and laying people off. I was told that EES was different, that EES dominated the market and had essentially no competition, and that the group had support from Senior management at the highest levels. EES was to be the next major star in Enron's world. Additionally, if there was a restructuring, someone with my skill base could easily be re-deployed, as Enron always gave everyone a change to re-deploy.

The other concerns that I brought up were regarding long-term strategy, competitive forces, life cycle of the product offerings, etc... I was very thorough in my due diligence. I was told all the right answers to appease my concerns. Harold assured me that this product had a life cycle of a minimum of 3-5 years. He also said the market would be strong for this product for several years. He could make these statements because Enron was the largest energy trader in the US. The margins were very strong and would stay strong, making everybody a lot of money. The competition didn't have the infrastructure, and Enron dominated the market. I still wasn't convinced and asked to keep interviewing with as many people in the group to hear their interpretations of the business. Everyone said the same thing.

I asked not to relocate right away since most of the Senior managers did not live in Houston and had been commuting for 2 years. Angela Schwarz, Michael Mann, Troy Henry, and about 7 other originators). Do you know how much money has been spent on letting these employees commute from New York, New Orleans, Detroit. Plus Enron puts them up in hotels/apartments at the Rice Hotel, and Four Seasons. It probably cost Enron \$40,000 per month for these people not to live in Houston. Where was their commitment to Enron to move to Houston???

I was told I had to move, to show "my commitment to Enron". So I sell my house in Dallas, and move to Houston, uprooting my whole life. So I just moved in April, and have not even been reimbursed for all of my moving expenses yet. So basically I made career decisions based on your management's team ability to predict and manage a business. So after getting laid off, I asked to counter offer for only an additional 4 months of severance and have medical coverage through the end of the year. (This is market for the salary and position I held.) I had informed my manager that I had medical problems and would be missing some work.

Oh by the way, Delaney had the coffee machines taken off the floors because it was too expensive. Maybe if you got rid of the company jets you could afford coffee, but then how would Mark Frevert get to the Virgin Islands for his vacation, or Cindy and your wife get back from Aspen in March from their vacation. The cost of the company jets is \$6,000.00 per hour. That would buy a lot of coffee. These are the types of things that wear on employee morale.

Cindy Olson was gracious enough to ask Valeria Hope to investigate the situation. However, Valeria didn't even talk to my managers. It was all lip service. Now Valeria Hope tells me that my counter offer to Enron, is not being allowed, even though she admitted that she discovered that I had been heavily recruited, but because management couldn't predict what happened they felt they didn't owe me anything else. So your team that recruits me says they control and dominate the market and the product has a life cycle of 3-5 years, now Delaney says he couldn't predict it. Well I guess I wonder who is telling the truth. Was I lied to at the beginning or at the end???? Once again, EES management doesn't take responsibility for screwing people over, and could care less how they impact people's lives and careers. How do you feel about this. How would you feel if this happened to you?

In addition to myself, several other people have been treated the same way: Jeff Baker, Nate Ellis, Stan Dowell, Mark Peterson, Joel Lowrey, Chuck Randall (age 56), Kevin Kovak, Ken Koye, none were offered Redeployment. All having financial backgrounds, and over 40. Chuck Randall who is 56 is being asked to sign a non-compete yet not being paid for that timeframe. The consulting firm Spherion that was hired to assist us on outplacement actually contacted several employees or their wives before they were laid off. Nice surprise!! Some people found out they had been laid off when they came to the office and their badges didn't work (Lety Smith). Yet everyone in the office was told while they were on vacation. This layoff was handled in the most unprofessional way. There is also another 8 people that were laid off that were over 40 years old and are being replaced by younger cheaper people. New employees (cheaper, younger) are being interviewed and hired as we speak.

Additionally Jan Avery (52) was laid off after 7 years, EES would not even extend her medical coverage. She

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contracted TB on an assignment for EES in Nicaragua. She also was not allowed to be redeployed.

Oh, and your PRC process rated everybody a 5, which prohibited redeployment. Troy Henry, my former manager sat in on my PRC and said I had a wonderful PRC and he couldn't believe I was getting layed off. Chuck Randall closed the Sysco deal 2 weeks before the layoff, and he was rated a 5. I thought the goal of the job was to close deals. Now they are laying him off and not willing to pay him his commission. That hardly seems fair.

Additionally, we were replaced with Broadband employees that do not have any experience, and David Cook was promoted to manager. He negotiated the Blockbuster agreement, which failed and cost Enron alot of money. Troy Henry should have been promoted to this position since he had been very successful for the past 2 1/2 years. But he is black, and so he didn't get promoted so David Cox could be brought in to save his job from Broadband. He is touted as being a Skilling boy! Laurie Evans, our admin, who has been at Enron for 12 1/2 years also got layed off. She had an excellent review for the past several years, but was layed off so David could bring in his 2 secretaries from Board Band who had been with the company less than several years. The old adage comes into play. It's who you know.... Laurie should have never been let go. Her own managers, Troy Henry and Michael Mann were never consulted. They didn't know until after she was layed off.. What was funny, was that HR didn't know she had a medical leave of absence coming up when they layed her off. It is amazing these mistakes happen. Now HR is bending over backwards to her because they screwed up.....

Other Issues

I have always heard how Enron strives to be like GE. You, Jeff Skilling and alot of the senior managers quote and reflect on GE and Jack Welch, and send copies of his memos around. Enron will never be able achieve the success of GE because the company doesn't have the skill base or accountability that GE demands. You don't understand the culture that GE has developed. You see, GE trains it managers, employees in strategic thinking, leadership, and accountability. When someone at GE makes a bad decision that costs the company money, or significantly impacts employees, they get "shot"!! Their gone. It forces managers to make the right decisions the first time, to think things through, and to have skin in the game. GE managers always consider the consequences of making a bad decision, because it will cost them personally. At EES and Enron, you get promoted or transferred and let the employees pay the price. No Accountability for senior managers!!!!

There are so many other issues, that I don't have the time to finish telling you. Obviously the board has it's hands full at the moment. You have India, and the explosion that happened in England. Portland is loosing money. Some would say the house of cards are falling.....

You are potentially facing Shareholder lawsuits, Employee lawsuits...Heat from the Analysts and newspapers. The market has lost all confidence, and its obvious why,

You, the board have a big task at hand. You have to decide the moral, or ethical things to do, to right the wrongs of your various management teams. I wish you luck.

Having worked at Heller when Norm Blake was there, he can tell you how important it is to have the employees respect and have them buy into what management needs to do to fix the problem. The employees in EES don't respect the management team. And based on all the early departures this year of senior management that has cashed out and left the spoils for the employees, you have a very tough job ahead.

But you first must investigate all these going on's to make sure you know what is going on. Chances are that management will not be forth coming of all the problem's, so I wish you luck. But all of the problems I have mentioned, they are very much common knowledge to hundreds of EES employees, past and present. Check out the 7th floor. Delaney never goes down there, maybe you will find the answers, or talk to all the employees you have layed off recently. They are very talkative at the moment.

Good luck.....

If you want to know more, feel free to call me 713-385-1177

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