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Enron Chairman Urged Employees to Buy Stock

Probe: Comments came just weeks before the company filed the worst results in its history.

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Enron Chairman Kenneth L. Lay exhorted employees in September to buy more Enron shares and reassured them that the company's upcoming quarterly financial report was "looking great" only weeks before the energy trader disclosed the worst results in its history and a billion-dollar write-down that destroyed its public credibility.

"Talk up the stock and talk positively about Enron to your family and friends," Lay told employees via an electronic forum Sept. 26 with Enron offices around the world. A transcript of the forum was obtained Friday by The Times. "The company is fundamentally sound. At current stock prices . . . this seems to be an incredibly cheap stock."

Lay's comments came at a time when Enron employees still would have been able to sell shares held in their retirement accounts, a window that closed Oct. 26 when the company imposed a so-called lockdown on such trades. The lockdown, which ended Nov. 14, resulted in huge losses for many employee shareholders.

Enron shares, already sharply down from their peak of $90 in August 2000, fell precipitously between the day of the e-mail forum and the company's **Chapter 11** bankruptcy filing Dec. 2. They closed Sept. 26 at $25.15. One month later, they were worth $15.40, and a month after that, $4.01. The shares closed Friday at 51.5 cents in over-the-counter trading.

Lay's statements, which came at an internal company meeting, could expose him to legal liability for misleading investors. His projections of strong financial results came four days before the end of the third quarter, which turned out to be its worst ever.

Less than three weeks later, the company disclosed that it would take $1 billion in charges for underperforming businesses and write down $1.2 billion in shareholder equity to reflect improper accounting.

Lay's lawyer, Earl Silbert, did not return calls for comment.

In the employee forum, Lay also claimed to have bought more Enron stock himself "over the last couple of months"--an assertion that, though marginally true, appears at least to have been misleading. An analysis of Lay's publicly disclosed transactions performed by Thomson Financial/Lancer Analytics for The Times indicates that he was a net seller of Enron shares through 2000 and the first half of 2001, earning about $146 million through options trades.

He appears to be a net purchaser of shares in July and August, but because the transactions were stock-option exercises, he acquired the shares at a steep discount--a factor that he did not disclose to the employees and that sharply limited his financial risk.

Lay made several other statements during the e-mail forum that appear to conflict with what is otherwise known about conditions at the company at the time.

He assured employees, for example, that the company's intricate financing vehicles, which already had come under public criticism, had been approved by "all of our internal officers" and by auditors at Andersen, the company's outside auditing firm.

In fact, Lay already had met with Enron Vice President Sherron S. Watkins, who expressed deep reservations about the propriety of those vehicles. Enron had even commissioned a special investigation into her concerns by Houston law firm Vinson & Elkins.

Nevertheless, Lay insisted that he and his fellow board members were "convinced by all of our internal officers as well as our external auditor and counsel that they were legal and totally appropriate."

Lay's comments appear in a company transcript of the Sept. 26 electronic "town meeting," in which employees were invited to post questions for reply by Lay. The full transcript, which confirms recollections of the exchange by Clayton Vernon quoted Thursday by The Times, was made available Friday by Eli Gottesdiener, Vernon's attorney. Its accuracy was confirmed by an Enron spokesman.

Gottesdiener also is suing Enron on behalf of about 15,000 current and former employees who were prevented from selling Enron shares in their 401(k) retirement plans because of an administrative "lockdown" late last year. During the lockdown, which extended from mid-October through mid-November, Enron shares lost two-thirds of their value.

"Obviously he has a lot of explaining to do," Gottesdiener said of Lay on Friday.

The workers were likely to have been paying special attention to Lay's statements because the company had been struggling through an unusually difficult period.

Accustomed to being glorified on Wall Street as an exemplar of the "new economy," Enron had faced persistent accusations during the summer that it was relying on elaborate financial maneuvers to mask failures and record positive results.

"What will happen in 10 years' time, when all the current MTM tricks come home to roost?" one employee asks Lay, referring to "mark to market" strategies aimed at valuing corporate assets at speculative prices. Lay assured the questioner that the strategy would not affect Enron's income growth.

Employees also were concerned about the unexpected Aug. 14 resignation of Enron Chief Executive Jeffrey K. Skilling, who had been regarded as the architect of its financial success.

Overhanging everything, however, was the steep fall in the stock, in which workers were heavily invested through their retirement plans. Executives had been large-scale sellers of Enron from 1999 through 2001, provoking one employee to ask Lay why top management was not being encouraged "with muscle" to buy shares.

"I'm sure you can understand that many of our senior management, as well as many of our employees, have been badly damaged financially by the drop in Enron's stock price," he replied.

Lay did spend about $3.6 million to acquire about 168,000 Enron shares in July and August, according to public filings analyzed by Thomson Financial. These involved the exercise of options that allowed him to buy shares at as much as a 43% discount from open-market prices. It is possible Lay exercised the options with the intent of selling the shares, but he has not yet reported to the Securities and Exchange Commission if and when he disposed of them.

Some reports have suggested that he exercised some of the options to repay a loan from the company.

Any stock purchases by Lay would have been unusual among Enron officers and directors. Since fall 1992, according to Michael Painchaud of Market Profile Theorems, a Seattle firm that analyzes trades by corporate insiders, sales by Enron executives outstripped purchases by a ratio of 74 to 1. That is in contrast to the situation at most public companies, at which purchases outnumber sales by an average ratio of 2.27 to 1.

In the nine-year period, there were only 18 stock purchases by Enron executives, of which four were represented by Lay's purchases in July and August.

Painchaud said that only 2.5% of U.S. public companies have as concentrated insider selling as Enron, and that so much of it came in 2001 "was highly unusual even by the unusual standards of this company." What is clear, Painchaud said, is that sales of stock by Enron insiders rose dramatically last year, even for a company where so much stock had previously been sold.

Just as explosive as Lay's stock-buying exhortations may have been his endorsement of the company's financing techniques, which have drawn intense scrutiny in Washington because of evidence that they concealed the company's huge liabilities.

Not only were the transactions approved both "internally and externally," Lay said, "I or the board also apply the concept of what appears to be right, using a great deal of experience and common sense." The result, he said, is "an abundance of safeguards that what is done is totally appropriate and acceptable."

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