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ONE HUNDRED SEVENTH CONGRESS

# Congress of the United States

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March 14, 2002

Mr. Joseph J. Grano, Jr.  
Chairman and Chief Executive Officer  
UBS PaineWebber Inc.  
1285 Avenue of the Americas  
New York, NY 10019

Dear Mr. Grano:

Last week, I wrote to UBS PaineWebber's Houston office regarding allegations that PaineWebber financial advisors might not have given unbiased advice to Enron employees in the exercise of their stock options. Since then, I have received additional information about these allegations.

As I understand it, Chung Wu, a financial advisor working in PaineWebber's Houston office, was fired on August 21, 2001, because he sent an e-mail to current and former Enron employees advising them to sell stock they held in Enron. I have recently received a copy of Mr. Wu's e-mail, as well as a follow-up e-mail that PaineWebber's branch manager sent to Mr. Wu's clients (copies of both are attached).

Mr. Wu's e-mail was sent on August 21, 2001. It states in the subject line that "[m]ost recent 10-Q report indicates liquidity problems and decline in trading margin." Mr. Wu explains:

Financial situation is deteriorating in Enron . . . I would advise you to take some money off the table even at this point. For those who still has problems separating themselves from the stocks or vested options, please think about selling "Call" against the long positions or selling "Uncovered Call" against the vested options with the consideration of having sufficient assets to satisfy the maintenance requirement. Time is value and waiting to make a decision would cost you a fortune. For a capital asset investment we always should know the price we would sell at.

Later that day, Patrick M. Mendenhall, the manager of the Houston branch office, sent an e-mail to Mr. Wu's clients stating the following:

Mr. Joseph J. Grano, Jr.  
March 14, 2002  
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I have just learned that former UBS PaineWebber Financial Advisor, Chung Wu, sent an e-mail dated August 21, 2001, to certain Enron employees and former Enron employees concerning Enron. Foremost, I wish to apologize for Mr. Wu's statements. To the fullest extent possible, on behalf of UBS PaineWebber, I hereby retract Mr. Wu's statements. Please be assured that the e-mail was not approved by UBS PaineWebber management and was sent in violation of UBS PaineWebber policies. Mr. Wu's statements are contrary to UBS PaineWebber's current recommendation concerning Enron stock. Specifically, UBS PaineWebber analyst Ron Barone has a strong buy recommendation on the stock. Attached for your reference is a recent copy of our latest Research Note from August 17, 2001. Again, I sincerely apologize for Mr. Wu's actions and any inconvenience it has caused.

On the day that Mr. Wu sent his e-mail, Enron's stock closed at \$36.88 per share. Today, of course, it is virtually worthless.

Furthermore, I am aware of two other e-mails that Mr. Wu sent to dozens of Enron clients on August 15, 2001, and August 17, 2001 (copies of both are attached). These two e-mails did not contain advice to sell Enron stock. Although PaineWebber apparently did not authorize the transmittal of these two e-mails, Mr. Wu was not sanctioned for sending them. He was fired only after his August 21 e-mail advising Enron employees to sell Enron stock because the "[f]inancial situation is deteriorating in Enron."

The two August 21 e-mails raise serious questions about the conduct of PaineWebber. Mr. Wu's advice was unquestionably right and not just in hindsight. It is a widely accepted principle that individual investors should diversify their holdings. By suggesting that Enron employees reduce their holdings of Enron stock, Mr. Wu was clearly giving these employees sound financial advice. As he correctly predicted, not following his advice "would cost you a fortune." I do not understand how a PaineWebber manager could justify telling Enron employees to ignore Mr. Wu's advice. PaineWebber's response to Mr. Wu's e-mail appears to be a breach of PaineWebber's fiduciary duty to its clients.

In my March 8 letter to PaineWebber (a copy is attached), I noted that PaineWebber had a close business relationship with Enron. All Enron employees who chose to exercise company stock options were required to make their transactions through the Houston office of PaineWebber. Moreover, PaineWebber served as an underwriter for the initial public offerings for Azurix and New Power, two companies spun off from Enron.<sup>1</sup> In my letter, I asked whether the close relationship between PaineWebber and Enron influenced the advice that PaineWebber

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<sup>1</sup>SEC Form S-1/A for New Power Holdings, Inc. (Aug. 25, 2000); SEC Form S-1/A for Azurix Corp. (May 5, 1999).

Mr. Joseph J. Grano, Jr.

March 14, 2002

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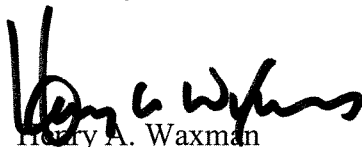
financial advisors gave their clients. Specifically, I asked whether PaineWebber financial advisors were instructed not to encourage Enron employees to exercise Enron stock options. I also asked whether PaineWebber financial advisors were instructed to encourage clients to purchase stock in companies, such as Azurix and NewPower, for which PaineWebber had underwritten the initial public offering.

I now request that UBS PaineWebber respond to these additional questions:

- (1) Did UBS PaineWebber financial advisors discourage Enron employees from diversifying their assets? If so, why?
- (2) Was Mr. Wu fired because he advised clients to sell Enron stock or because he did not have authorization to e-mail the advice to a number of clients? If Mr. Wu was fired for the latter reason, why did you notify his clients that you were “retract[ing]” his advice?
- (3) Did any Enron employee directly or indirectly instruct, advise, or suggest to UBS PaineWebber that Mr. Wu should be fired because of his August 21, 2001, e-mail? If so, please provide the name(s) of the Enron employee(s) and copies of any correspondence, e-mails, memoranda, or documents between the Enron employee(s) and UBS PaineWebber.
- (4) In 2000 and 2001, were UBS PaineWebber financial advisors permitted to give financial advice contrary to published PaineWebber analyst recommendations? If not, were all financial advisors who provided such contrary advice terminated from their positions?
- (5) Did UBS PaineWebber modify or rescind its August 17, 2001, “strong buy” recommendation of Enron stock? If so, when was this recommendation modified or rescinded, and was this change communicated to Enron clients?

I hope you will provide the information I am seeking by the close of business on March 22, 2002.

Sincerely,



Henry A. Waxman  
Ranking Minority Member

Enclosures

(August 15, 2001 e-mail)

>Dear Clients,

>

>Morgan Stanley, Goldman, Merrill were all selling ( blocks ) this morning  
>and they are pretty much done except Goldman.

>UBS, Prudential, Gruntel and small investors are buying.

>

>Being so close to Enron, we should all know those so called "Analysts" are  
>way off the mark of giving Mr. Skilling such high marks. Internally, I  
>think

>the company is ready for lesser degree of aggressive and chaotic changes.

>Mr. Lay is going to bring

>some normalcy back to Enron. Look at Kinder Morgan ( KMI ), they took over  
>KN Energy and they fix the company the

>old fashion way. Their stock price has gone from \$13 ( 7/2/99 ) to current  
>price of \$53.46. Crosstimber ( XTO ), another

>good example. Just food for thought.

>

>

> <<...OLE\_Obj...>>

>Chung Wu

>Financial Advisor

>Retirement Planning Consultant

>Toll Free # : 800-553-3119 x 284

>Office # : 713-654-0284

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>

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(August 17, 2001 e-mail)

>

>Dear Client,

>

>For your weekend thinking !!!

>

>I heard from one of you :

>

>" Skilling was a big loss but his smart mouth was moving faster than his  
>very smart mind. He is burned out and has more money than patience.

>Unfortunately, despite Lay's assertions of depth, no one internally can  
>step

>into Skilling's shoes. Frevert... good guy but no executive

>presence...none. Fastow... same issue, but with less depth. Causey...

>another nice guy, but give me a break, he's an accountant. And Kean, he's

>articulate and aggressive but he's a regulatory attorney not a businessman

>or trader. Lay needs to look outside but should consider top talent that

>left Enron years ago. And I don't mean Rice or Baxter. If I were

>retained

>to do the search, I'd start with:

>

> 1) Rich Kinder: Wall Street's darling. He wanted the job  
>five

>years ago but Lay wouldn't let go so Rich left and started Kinder Morgan.

>Now he's wealthier than Lay. Bringing Rich back would be a home run....

>it

>would take Enron buying KM for a bundle but it would be worth it. Kinder

>is

>a heavyweight that would add 20% to ENE stock on day one.

>

> 2) Ron Burns: lost the political war and presidential post  
>to

>Skilling when Kinder left, and became CEO of Union Pacific Railroad...

>ushered out in a year because he was too progressive. Became President of

>Energy but resigned when he realized what a mess it was and the chairman

>was

>a dinosaur who wouldn't let go. Ron is still loved by all who knew him at

>Enron. He's the second best choice to Kinder but he's pretty happy as a

>private investor in Omaha working on his golf game and getting ready for

>the

>Senior tour.

>

> 3) Scott Gebhardt: Left Enron as VP in 1996 to start PG&E  
>Energy Services, which he built into the only real contender to Enron in

>the

>retail energy arena. Quit as CEO a year ago when company was sold to

>Enron

>and Chevron. Former GE exec who was well respected within Enron ranks but

>rankled some officers in seeking to change Enron culture. Knows CA market

>and deregulation better than anyone, but probably wouldn't move back to

>Houston.

>

> 4) Tom King: Left Enron to join Kinder at KM... left KM to  
>become head of PG&E's pipeline business in 1997... now regional president

>with focus on power generation. Considered #2 guy in PG&E (on the

>unregulated side). Strong leader but probably too young to step into

>Skilling's shoes... could be groomed over a few years under Lay to succeed

>in the job. Probably recruitable given PG&E's current condition.

>

> Those are my picks... anyone out there has better suggestions? "

>  
>Interesting, huh ?  
>I love choice #1. Huge pipeline network + huge trading network ??? Any  
>input  
>???

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>  
> <<...OLE\_Obj...>>  
>Chung Wu  
>Financial Advisor  
>Retirement Planning Consultant  
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Subj: Most recent 10-Q report indicates liquidity problems and decline in trading margin.

Date: 8/21/01 1:21:38 AM Eastern Daylight Time  
From: chung.wu@ubspainewebber.com (Wu, Chung)

File: Enron-industrialPEcompar8-20-01.xls (18432 bytes) DL Time  
(TCP/IP): <  
1 minute

Dear Clients,

Financial situation is deteriorating in Enron and price drops another \$7.00 from last P/E report while most of the others stay the same or improve. Detail analysis on 10-Q will be ready after 8/29/01 and will be sent out only on a requested basis. I would advise you to take some money off the table even at this point. For those who still has problems separating themselves from the stocks or vested options, please think about selling "Call" against the long positions or selling "Uncovered Call" against the vested options with the consideration of having sufficient assets to satisfy the maintenance requirement.

Time is value and waiting to make a decision would cost you a fortune. For a capital asset investment we always should know the price we would sell at. Please let me how can I help you to execute your financial plan.

<<Enron-industrial PE compar8-20-01.xls>>

Subj: Re: Recent E-Mail Concerning Enron  
Date: 8/21/01 7:23:56 PM Eastern Daylight Time  
From: patrick.mendenhall@ubspainewebber.com (Mendenhall, Patrick M.)

File: PA07556020010817D01.pdf (19308 bytes) DL Time (TCP/IP): < 1 minute

I have just learned that former UBS PaineWebber Financial Advisor, Chung Wu, sent an e-mail dated August 21, 2001, to certain Enron employees and former Enron employees concerning Enron. Foremost, I wish to apologize for Mr. Wu's statements. To the fullest extent possible, on behalf of UBS PaineWebber, I hereby retract Mr. Wu's statements.

Please be assured that the e-mail was not approved by UBS PaineWebber management and was sent in violation of UBS PaineWebber policies. Mr. Wu's statements are contrary to UBS PaineWebber's current recommendation concerning Enron stock. Specifically, UBS PaineWebber analyst Ron Barone has a strong buy recommendation on the stock. Attached for your reference is a recent copy of our latest Research Note from August 17, 2001.

<<PA07556020010817D01.pdf>>

Again, I sincerely apologize for Mr. Wu's actions and any inconvenience it has caused.

Very truly yours,

Patrick M. Mendenhall  
Senior Vice President  
Branch Manager  
UBS PaineWebber Inc.  
1111 Bagby, Suite 5100  
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