III. OTHER COMPENSATION-RELATED ISSUES

A. General Overview of Compensation

In general

Enron had a pay for performance compensation philosophy. Employees who performed well were compensated well. The amount of compensation that Enron paid to employees, especially executives, increased significantly over the years immediately preceding the bankruptcy. The amounts of compensation paid in 2000, the year immediately preceding the bankruptcy, are extraordinary.

Tax return data for Enron Corp. and its subsidiaries shows how compensation of officers, salaries and wages, and employee benefit program expenses increased. Table 10, below, shows the deduction taken by Enron Corp. and its subsidiaries for such expenses on its Federal income tax returns for 1998, 1999, and 2000.[1616] Enron's total compensation deduction dramatically increased from 1998 to 2000. The increase in compensation expense was, in part, due to the substantial increase in Enron's deduction attributable to stock options.[1617]

The deduction for compensation of officers increased exponentially. The compensation of officers doubled from 1998 to 1999 and tripled from 1999 to 2000. As shown in Table 10, in 2000 the deduction for compensation of officers was almost twice the deduction for salaries and wages.[1618]

[1616] The deductions for 1998 and 2000 are from the originally-filed returns. The deduction from 1999 is from Enron's amended return. The Joint Committee staff is not aware of amended returns for 1998 or 2000.

[1617] Upon exercise of a nonqualified stock option, the difference between the fair market value of the stock and the option price is generally includible in the gross income of the employee. This amount is also deductible as a business expense by the employer.

[1618] It is unclear how many employees were considered officers for purposes of the compensation deduction.

Table 10.–Enron Compensation Deductions for 1998, 1999, and 2000[1619]

	1998	1999, as amended	2000
Compensation of officers[1620]	$149,901,000	$313,312,000	$952,492,000
Salaries and wages[1621]	$499,746,000	$702,725,000	$557,550,000
Pension, profit-sharing, etc., plans[1622]	$628,000	$834,000	$20,000
Employee benefit program[1623]	$344,676,000	$569,278,000	$1,456,796,000
Total[1624]	$994,951,000	$1,586,149,000	$2,966,858,000

As discussed below in further detail, executives of Enron were extremely highly compensated. Table 11, below, shows information compiled by the IRS, which is based on information provided by Enron, on compensation of the top-200 highly compensated employees for 1998 through 2000.[1625] Compensation for the top-200 increased over recent years, particularly in the area of stock options.

Appendix D includes a list of compensation paid to the top-200 highly compensated employees for 1998 through 2001, which was provided by Enron. As in many instances, the data provided by Enron to the IRS and to the Joint Committee staff does not reconcile.

[1619] Amounts are rounded.

[1620] Includes deductible officers' compensation. Instructions for Forms 1120 (U.S. Corporation Income Tax Return) and 1120-A (U.S. Corporation Short Form Income Tax Return).

[1621] Includes salaries and wages paid for the tax year, reduced by certain employment credits. *Id.*

[1622] Includes deduction for contributions to qualified pension, profit-sharing, or other funded deferred compensation plans. *Id.*

[1623] Includes contributions to employee benefit programs not claimed elsewhere on the return (e.g., insurance, health and welfare programs) that are not an incidental part of a pension, profit-sharing, etc., plan deducted in the previous line. *Id.*

[1624] This is not a line item on the tax return, but was computed for purposes of this table.

[1625] The compensation of the top-200 does not reconcile with the deduction for the officers as shown in Table 10, as the group of employees included in each category is different. For example, an employee could be one of the top-200 highly compensated employees, but not be an officer for purposes of the compensation deduction. Additionally, the compensation of the top-200 also includes nondeductible compensation.

Table 11.–Compensation Paid to the Top-200 Highly Compensated Employees for 1998-2000[1626]

Year	Bonus	Stock options	Restricted stock	Wages	Total
1998	$41,193,000	$61,978,000	$23,966,000	$66,143,000	$193,281,000
1999	$51,195,000	$244,579,000	$21,943,000	$84,145,000	$401,863,000
2000	$56,606,000	$1,063,537,000	$131,701,000	$172,597,000	$1,424,442,000

Enron used a market pricing approach to compensation. Enron frequently used outside consultants, principally Towers Perrin, to determine compensation practices in the market place. The role of outside consultants is discussed below. Total compensation was determined based on job level, job type, individual performance, and company performance. Total compensation targets were established using external benchmarking practices. The components of compensation generally included base pay, bonus, special programs, and long-term incentive compensation. These components are discussed below in further detail.

Enron used a variety of forms of compensation in recent years, including cash, stock, stock options, restricted stock, phantom stock, performance units, and participation interests. Enron also offered employees standard benefits such as participation in retirement plans (as previously discussed) and health and life insurance. Executives were also offered special compensation arrangements, including nonqualified deferred compensation, employee loans, and split-dollar life insurance.

Enron used stock-based compensation as a principle form of compensation. As discussed below in further detail, Enron compensated executives through stock options, restricted stock and phantom stock. All-employee stock option grants were also periodically made. Enron did not grant qualified stock options (i.e., incentive stock options or options under employee stock purchase plans). Stock appreciation rights were granted in the past, but were not granted in recent years.

As shown in Table 12, below, tax return information demonstrates that Enron's stock option deduction dramatically increased over recent years.[1627] The deduction in 2000 was more than 1,000 percent greater than the deduction taken just two years prior.

[1626] The information provided by the IRS includes some inconsistencies. In reproducing the summary data, the Joint Committee staff attempted to reconcile inconsistencies and include the data that appears to be accurate. Amounts are approximates.

[1627] Information from Schedule M1. See Table 11, below, for summary information from the IRS stating that stock option income resulting from the exercises of nonstatutory stock options for the top-200 most highly compensated employees was $62 million for 1998, $244.6 million for 1999, and $1,063.5 million for 2000.

Table 12.--Enron Stock Option Deductions for 1998, 1999, and 2000[1628]

1998	1999	2000
$125,343,000	$585,000 (as filed) $367,798,000 (as amended)	$1,549,748,000

Enron's revised compensation system

Enron's compensation system was revised in the late 1990's.[1629] Prior to 1999, each operating company had its own base pay, annual incentive, long-term incentive, and employment contract arrangements. It was seen as beneficial for Enron for there to be more fungibility between the various operating companies and business units. The new structure was implemented to create one centralized compensation structure for all business units so that employees could move easily between the business units. The new compensation structure was designed with the intention to decrease competition within the various business units for employees resulting from differing compensation structures and plans.

The new compensation structure consisted of standardized base salary, bonus, and long-term incentive. Suggested compensation ranges for each executive by job type and performance rating were developed. In connection with the new structure, Enron developed standardized performance measures and ratings of individual executive performance across business units. The new compensation structure also included buyouts of certain business units' equity plans. Buyouts generally were done in order to move executives out of the older business unit plans and into centralized Enron plans and programs.

Enron had an incentive structure in place for middle and upper management. The revised compensation structure brought a long-term incentive plan that was used throughout the entire company. Before implementation of the new process, business units had their own version of long-term incentives. For example, the international group used the Project Participation Plan, while Enron Capital & Trade Corp. and Enron Energy Services, LLC, each used their own phantom equity plans.

In connection with the new compensation structure, the Compensation Committee also approved the creation and delegation of authority to an administrative committee consisting of

[1628] Amounts are rounded.

[1629] The possibility of changing Enron's compensation structure was first presented at the May 3, 1999, meeting of the Compensation Committee. The changes were again presented by Mr. Skilling at the June 28, 1999, Compensation Committee meeting and were approved by the Compensation Committee on August 9, 1999. The status of the program was reviewed by the Compensation Committee throughout 1999. The Compensation Committee minutes show that the status of the program was reviewed at the October 11, 1999, and November 16, 1999, Compensation Committee meetings.

Mr. Skilling and Mr. Lay, [1630] to make grants under the long-term incentive program, except for grants to Section 16 officers.[1631]

The new compensation structure was intended to result in uniform compensation packages.[1632] Nevertheless, after the implementation of the new compensation structure, individualized compensation arrangements for executives did exist. For example, the minutes to the Compensation Committee meeting of February 14, 2000, show that an officer of recently reorganized Enron Broadband Services was to receive short-term stock options as compensation in lieu of salary and bonus. As discussed below, one executive was compensated with a fractional interest in an airplane. Despite these individualized arrangements, the new compensation structure did result in a more uniform compensation system.

The new compensation system introduced the new performance evaluation process (referred to as "PEP") for employees, which was a web-based performance evaluation system.[1633] The new performance evaluation process introduced the performance review committee ("PRC") process throughout Enron. Before it was implemented on a company-wide basis, the performance review committee process was used by Enron Capital & Trade Resources. Subject to a few exceptions, the performance review committee process was generally used for all Enron employees.[1634]

At the initial stage of the performance review process, employees were able to choose individuals who were familiar with their work to be reviewers of their performance, subject to the approval of their supervisors. Feedback forms would be completed on-line by the selected reviewers. Performance criteria included business skills, innovation/entrepreneurship, communication/vision and values, team work/interpersonal, leadership, analytical/technical, and

[1630] In August 2001, the Compensation Committee approved changing the administrative committee to be composed of Mr. Lay and one member of the Compensation Committee.

[1631] Throughout this document, "Section 16 officers" refers to individuals subject to the requirements of section 16 of the Securities Exchange Act of 1934. These requirements include disclosure requirements and restrictions on short-swing profits.

[1632] *See* Attachments to the February 9, 1998, Compensation Committee meeting which outline the executive compensation structures used by the various operating companies.

[1633] Joint Committee staff discussed the performance review process in an interview with Mr. Skilling, who was responsible for establishing the process on a company-wide basis.

[1634] In an interview with Joint Committee staff, Mr. Skilling said that the performance review committee process was not used for non-executives of the pipeline organization. Enron documents state that the following job groups were not required to participate in a formal performance review committee meeting, but would be reviewed at the business unit's discretion. This included junior specialists, specialists, senior specialists, and non-exempt positions. PEP Performance Management HR Guide Year End 2001. ECu000077031. Documents for the 2001 Midyear review state that all active exempt employees are rated in a performance review committee meeting. ECu000077115.

professional and career development.[1635] Performance would be rated in one of the following categories: highly effective, effective, acceptable, and ineffective.[1636] It appears that before 2001, the performance ratings were superior, excellent, strong, satisfactory, needs improvement, and issues.[1637] Supervisors would develop a preliminary rating for their employees based on the reviewers' feedback, which would be used by the performance review committee. Employees were allowed to submit self-assessments to be considered in a performance review committee meeting.[1638]

After the preliminary review was complete, a performance review committee would meet to evaluate individual employee performance. According to Mr. Skilling, there were approximately 30 performance review committees throughout Enron.[1639] Each employee was ranked from one to five, with a ranking of five being the lowest.[1640] According to Mr. Skilling, there was a target distribution of how many employees should fall within each category. Enron documents for the 2001 review state that there was no preferred distribution for performance review committee meetings, but that each unit was required to submit their top 10 percent and bottom 10 percent of employees.[1641] Earlier dated documents state that there was a preferred distribution.[1642]

According to Enron documents, the purpose of the performance review committee meeting was to identify the top 10 percent and bottom 10 percent of performers of each job level based on the intrinsic skills, competencies and potential of employees relative to their peers.[1643] According to documents provided by Enron, the placement of each employee would provide a guide for compensation decisions for year-end bonuses, but the purpose was not to determine compensation, but to determine employee performance and potential.[1644]

1635 PEP Process Guide 2001. ECu000077160.

1636 PEP Performance Management HR Guide, Year End 2001. ECu000077031.

1637 ECu000077017; ECu000077063.

1638 PEP Performance Management HR Guide, Year End 2001. ECu000077031.

1639 Enron documents show that there would be no more than 30 meetings in total. ECu000077162.

1640 PEP Performance Management Midyear 2001 HR Guide. ECu000077129.

1641 PEP Performance Management Midyear 2001 HR Guide. ECu000077031.

1642 PEP Performance Management Midyear 2001 HR Guide. ECu000077130.

1643 PEP Performance Management HR Guide, Year End 2001. ECu000077032.

1644 PEP Performance Management HR Guide, Year End 2001. ECu000077032.

According to Mr. Skilling, after employees were ranked into the five categories, matrixes were developed. The theory was that all employees in a certain category at a particular job level should be compensated similarly, subject to some modification. According to Mr. Skilling, employees with a ranking of category five were encouraged to "look elsewhere."[1645] Enron documents state that there was no prescribed action for employees in the bottom 10 percent, but that managers would identify which employees need to be part of a performance improvement plan.[1646] According to Mr. Skilling, this group was the only group of Enron employees who did not receive annual bonuses. As part of the revised compensation structure, all other employees received annual bonuses. According to Enron documents, typically promotion candidates typically would come from the top 10 percent, but discretion was given to promote candidates outside of the top 10 percent.

The performance review committees met twice per year, once in June or July and once in January. The January review determined compensation. According to Mr. Skilling, the mid-year review allowed employees to know how they were ranked so that they would have time to improve before the January review. After the completion of the performance review committee process, employees would receive one-to-one feedback from their supervisors. There have been media reports that some employees viewed the performance review committee process as harsh or unfair. One former Enron executive interviewed by the Joint Committee staff indicated that the process may have created tension among employees.

Enron's Compensation Committee

In general

The Compensation Committee of the Board of Directors[1647] (the "Compensation Committee") was responsible for developing the Enron executive compensation philosophy.[1648] The Compensation Committee's focus was stated to be on ensuring that there is a strong link between the success of the shareholder and the rewards of the executive.[1649] According to interviews with Compensation Committee members, the charge of the Committee was to make sure that the executive officers of Enron were adequately compensated in a way to increase shareholder wealth. The Compensation Committee believed in "pay for performance." The

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1645 The media has reported that employees in the lowest ranking group were fired. Enron executives interviewed by Joint Committee staff stated that employees in category five were not fired, but were advised of the ranking they received and may have been encouraged to leave.

1646 PEP Performance Management HR Guide, Year End 2001. Ecu000077032.

1647 In some years, the Committee was named the Compensation and Management Development Committee.

1648 2001 Enron Corp. Proxy Statement.

1649 2001 Enron Corp. Proxy Statement.

Compensation Committee also believed that a great deal of executive compensation should be at risk; if shareholders did not profit, executives would not profit.

As stated in the 2001 proxy, the responsibility of the Compensation Committee "is to establish Enron's compensation strategy and ensure that the senior executives of Enron and its wholly-owned subsidiaries are compensated effectively in a manner consistent with the stated compensation strategy of Enron, internal equity considerations, competitive practice and the requirements of appropriate regulatory bodies."[1650] In the proxies, the Compensation Committee stated its mission as follows:

> The basic philosophy behind executive compensation at Enron is to reward executive performance that creates long-term shareholder value. This pay-for-performance tenet is embedded in each aspect of an executive's total compensation value. Additionally, the philosophy is designed to promote teamwork by tying a significant portion of compensation to business unit and Enron performance. Base salaries, annual incentive awards and long-term incentive awards are reviewed periodically to ensure consistency with Enron's total compensation philosophy.[1651]

Compensation Committee charter

The Board of Directors established the Compensation Committee with authority, responsibility, and specific duties as described in the Compensation Committee charter.[1652] The charter provided that the Committee is to consist of directors who are independent of management and free from any relationship that, in the opinion of the Board of Directors, as evidenced by its election of the Committee members, would interfere with the exercise of independent judgment as a Committee member. Under the charter, the Compensation Committee's basic responsibility is "to assure that the senior executives of Enron and its wholly-owned affiliates are compensated effectively in a manner consistent with the stated compensation strategy of Enron, internal equity considerations, competitive practice, and the requirements of the appropriate regulatory bodies. The charter provided that the Committee is to communicate to shareholders Enron's policies and the reasoning behind such policies as required by the Securities and Exchange Commission."[1653]

The charter dated 1998 provides that the Committee was also responsible, in connection with the Chief Executive Officer, for management development and succession planning for key

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[1650] 2001 Enron Corp. Proxy Statement.

[1651] 2000 Enron Corp. Proxy Statement; 2001 Enron Corp. Proxy Statement.

[1652] On February 9, 1998, the charter was approved to the Board by the Compensation Committee. In response to Joint Committee staff requests for the most recent Compensation Committee charter, Enron provided a copy of the Compensation Committee charter from October 4, 1994. The 1994 and 1998 charters are almost identical.

[1653] Enron Corp. Compensation Committee Charter. EC 002634700 - EC 002634702.

top level management positions. The charter lists other responsibilities of the Compensation Committee, including reviewing Enron's stated compensation strategy, reviewing and determining Chief Executive Officer and senior management compensation, and assuring that Enron's executive incentive compensation program is administered consistent with Enron's compensation strategy. Under the charter, the Compensation Committee was also responsible for approving all new equity-related incentive plans for senior management, approving annual retainer, meeting fees and stock compensation for the Board of Directors, approving executive salary range structures, reviewing Enron's employee benefit programs and approving all changes, hiring executive compensation experts to assist the Committee with its reviews, and such other duties and responsibilities as may be assigned to the Committee from time to time.

The charter provided that the Committee would meet as often as necessary to carry out its responsibilities. Meetings could be called by the Chairman of the Committee and/or management of Enron. All meetings of the Committee were required to be held pursuant to the bylaws of Enron with regard to notice and waiver, and written minutes of each meeting were required to be filed with Enron records. According to the charter, reports of the meetings of the Compensation Committee were required to be made to the Board of Directors at its next regularly scheduled meeting following the Committee meeting accompanied by any recommendation to the Board of Directors approved by the Committee.

Activities of the Compensation Committee

The Compensation Committee made decisions on a wide variety of compensation issues. While the Compensation Committee was principally involved with executive compensation, the duties of the Compensation Committee were not limited to executive compensation. The Compensation Committee approved all qualified retirement plan documents and amendments. They also approved medical and dental plans, severance pay plans, and flexible compensation plans. The Compensation Committee also approved all stock plans, bonus plans, and deferral plans and approved grants of stock options and other equity compensation. The Compensation Committee was also responsible for authorizing bonus pools and often approved accelerated vesting of options and other equity-based compensation. Selected employment agreements were approved by the Compensation Committee.

While the Compensation Committee had responsibility for a wide range of issues, they were not deeply involved in most issues. Members of the Compensation Committee interviewed by Joint Committee staff were not fully aware of all of the issues for which they were responsible and often made decisions. For example, even though changes to the nonqualified deferred compensation plans were approved by the Compensation Committee, one former member of the Compensation Committee interviewed by Joint Committee staff did not know whether Enron offered nonqualified deferred compensation. Even though reflected in the minutes, one former member of the Compensation Committee interviewed by Joint Committee staff could not recall whether the Committee approved qualified retirement plans issues, while another Committee member did not know what a qualified retirement plan was. The Compensation Committee did not scrutinize proposed arrangements, but basically approved whatever compensation arrangements were presented to them by management.

According to interviews with former Compensation Committee members, the Compensation Committee reviewed the compensation of the 30 to 45 senior positions annually. There was special concentration on the Chief Executive Officer and Chief Operating Officer and any other position in the Office of the Chairman. Most meetings of the Compensation Committee included an executive session in which the salaries of the top executives were discussed. Generally, the executive sessions were not recorded in the meeting minutes. The attachments to the minutes show that during the executive sessions, the Committee periodically reviewed executive committee compensation summary charts.[1654] These charts summarized the compensation of the top executives and included information on employment end date, years of service, age, base salary, cash bonus, stock owned, long-term value realized, vested and unvested options, restricted stock, performance units, outstanding long-term value, and five-year projection of outstanding long-term values.

In each annual proxy, the Compensation Committee issued a report regarding executive compensation. The report outlined the responsibility of the Committee and its basic philosophy. The report did not change much, if at all, from one year to the next.

In recent years, the Compensation Committee was composed of a Chairman and three or four members of the Board. According to the Chairman of the Committee during the period reviewed by the Joint Committee staff, the members of the Committee were selected by a nominating committee as the members who were most independent; and then members would be elected by the full Board.[1655] The Compensation Committee met at least once before each Board meeting and also held telephone meetings when issues arose. The Committee formally met ten times in 2000. Until the restructuring following the bankruptcy filing, the members of the Committee were Charles A. LeMaistre, Norman Blake, Jr., John H. Duncan, Robert K. Jaedicke and Frank Savage.[1656] The Board members have been replaced in connection with reorganization of Enron.

<u>Role of outside consultants</u>

The Compensation Committee relied on outside consultants in making a variety of decisions. The annual proxy statements described the Compensation Committee's reliance on outside consultants. According to the 2001 proxy, all decisions regarding executive compensation were made based upon performance, measured against preestablished objectives and competitive practice, as determined by utilizing multiple public and private compensation surveys. The proxy stated that Enron utilized the services of Towers Perrin to conduct an

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[1654] In older years, the charts were labeled "Executive Compensation Value."

[1655] Interview with Dr. LeMaistre.

[1656] Messrs. Blake and Jaedicke were appointed to the Compensation Committee in 1996, replacing Robert A. Belfer and Joe E. Foy. *See* Enron Corp. 1996 and 1997 Proxy Statements. Mr. Savage is first listed as being on the Compensation Committee in the 2000 proxy statement.

executive compensation study covering executives in the top corporate and business unit positions.[1657] Additional studies performed by Towers Perrin are discussed below.

The 2001 proxy states that competitive compensation rates are developed using published and private compensation survey sources for companies of comparable size and, as appropriate, in comparable industries. According to the proxy, data from the sources represent similar positions in general industry and industry specific companies as appropriate.

Towers Perrin advised the Compensation Committee that "under most circumstances, Compensation Committee actions are governed by the Business Judgment Rule. Under this rule, Compensation Committee (and full Board) decisions are not to be second-guessed if good processes have been used in making decisions, even if the impact of the decisions turn out to be unfavorable. A helpful condition for demonstrating sound business judgment is the use of reputable professional experts (such as compensation consultants in the case of making compensation decisions)."[1658]

The minutes of the Compensation Committee meeting on April 30, 2001, discuss the consulting services provided to Enron and the Compensation Committee by Towers Perrin. The services included: (1) providing analysis and recommendation with respect to base, bonus, and long-term compensation for the Office of the Chairman and the Board of Directors; (2) providing updates and opinions relative to trends in executive compensation; (3) reviewing, validating, and recommending executive compensation program design alternatives; (4) providing consultation with respect to governmental regulations and shareholder perspectives on certain issues; (5) reviewing and validating management's executive job pricing analysis and pay target recommendations; (6) providing Black-Scholes stock option valuations on request; and (7) conducting consultations and special studies as requested by management and/or the Compensation Committee.[1659]

Enron frequently obtained analysis from consultants, particularly Towers Perrin, to ensure that the executive compensation program was within its stated philosophy and goals. Towers Perrin periodically issued opinion letters to Enron regarding their compensation programs in general and on specific compensation issues. For example, in December 2001, the Compensation Committee received an opinion letter from Towers Perrin regarding the

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[1657] The compensation studies were said to evaluate total direct compensation, defined as base salary plus most recent actual annual incentive earned plus the estimated annualized present value of long-term incentive grants.

[1658] Letter from Towers Perrin to Dr. Charles LeMaistre dated November 14, 2001. EC2 000028647. This letter is included in Appendix D. Towers Perrin also advised that once a company is in a merger or other similar situation, a higher standard of decision-making could apply.

[1659] Minutes of the meeting of the Compensation Committee, at 4 (April 30, 2001). EC 000102176.

competitiveness of the executive compensation programs at Enron.[1660] Additionally, Towers Perrin issued a letter to Enron dated November 14, 2001, addressing potential strategies Enron might want to consider in dealing with 2001 bonus allocations and possible ways to retain key employees during the period before the anticipated merger with Dynegy was expected to be completed.[1661] The letter outlined how Enron's Compensation Committee was impacted by the announced merger and provided suggested compensation decision parameters.

General compensation studies were frequently performed. For example, a comparative analysis of Enron's executive compensation levels was conducted in November 2000.[1662] In January 2001, the Compensation Committee approved the performance of a study by Towers Perrin to analyze the relationship between pay and performance.[1663] Towers Perrin presented to the Compensation Committee that they concluded that the basic structure of the program was consistent with Enron's stated philosophy and that the program was appropriately tied to performance. Towers Perrin recommended that Enron not make any broad-based programmatic changes to its executive pay programs since pay-for-performance systems work when pay rises and falls according to the gains realized by shareholders.

While Towers Perrin concluded that the basic structure of the program was consistent with Enron's philosophy, the findings of the study show that pay elements were higher than the stated philosophy.[1664] The study looked at the specific compensation of approximately 60 executives. The results of the study showed that the base compensation, base plus bonus, long-term incentives, and total compensation for many executives were considerably above the stated target. The finding showed that for base salaries, Enron was 91 percent of market median.[1665] For total cash, Enron was 140 percent of market 75th percentile.[1666] For long-term incentives, Enron was 97 percent of market 75th percentile,[1667] and for total direct pay was 113 percent of

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[1660] The letter provided an overview of Enron's executive compensation programs and is included in Appendix D. EC2 00028641 - EC2 000028645.

[1661] Letter from Towers Perrin to Dr. Charles LeMaistre dated November 14, 2001. EC2 000028647. This letter is included in Appendix D.

[1662] The results indicated Enron's 2000 actual total direct compensation to be at the 75th percentile of the market, which met Enron's stated philosophy relative to pay and performance.

[1663] The findings of the study, dated April 20, 2001, were presented to the Compensation Committee on May 1, 2001. EC 002634703 - EC 002634756. The findings of the study, as presented to the Compensation Committee, are included in Appendix D.

[1664] *Id.* at EC 002634712.

[1665] *Id.*

[1666] *Id.*

[1667] *Id.*

market 75th percentile.[1668] Still, Towers Perrin concluded that the program was consistent with Enron's philosophy.

Towers Perrin also provided opinions on individual compensation arrangements. At the request of Enron, Towers Perrin prepared a letter to document the results of marketplace compensation analysis for the top two executives at Enron (Mr. Lay and Mr. Skilling) dated November 16, 2000.[1669] On January 18, 2001, Towers Perrin prepared a letter for Enron providing alternative compensation arrangements for Mr. Lay, given his shift in responsibilities to Executive Chairman of the Board, with Mr. Skilling becoming CEO of Enron.[1670]

From Joint Committee staff interviews with many former members of the Compensation Committee, it appears that many members made decisions relying on the opinions of consultants without fully understanding the underlying issue. For example, former Compensation Committee members interviewed by Joint Committee staff could not explain why Enron purchased two annuities from Mr. Lay and his wife in 2001, but knew that Towers Perrin issued an opinion providing justification for the transaction.

Employment agreements

Several employees had employment agreements with Enron. There were no set rules for determining which employees entered into employment agreements, but generally agreements were executed for top executives and traders. Employment agreements were often used in the commercial areas, or other areas in which skills were in high demand. In many of these cases Enron wanted to have a contract with noncompetition clauses. Employment agreements were generally used for members of the management committee, managing directors and some vice presidents. Documents provided by Enron show that as of February 9, 1998, there were 425 employment contracts in place throughout the various business units and affiliated companies. Enron documents show that as of April 30, 2001, 225 executives, not including traders, below the Vice President level had employment agreements with Enron.[1671]

Employment agreements were individually negotiated, but generally included certain standard terms. Agreements generally included an appendix listing the employee's base salary, bonus and long-term incentive and generally included a signing bonus. Employment agreements were often renegotiated before expiration. Terms were typically two to three years. Some contacts included noncompete provisions. Selected employment agreements were approved by the Compensation Committee. The Compensation Committee generally approved the agreements for the top executives only.

[1668] *Id.*

[1669] Letter from Towers Perrin to Pam Butler dated November 16, 2000. EC 000102297 - EC 000102306. The letter is included in Appendix D.

[1670] Letter from Towers Perrin to Dr. Charles LeMaistre dated January 18, 2001. EC 000102234 - EC 000102238. The letter is included in Appendix D.

[1671] EC 000102476.