Second Year
Report To The President
Corporate Fraud Task Force

SECOND YEAR REPORT TO THE PRESIDENT

CORPORATE FRAUD TASK FORCE

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Letter of Introduction

James B. Comey, Chairman
The President's Corporate Fraud Task Force

Two years ago, President Bush gave us a charge. In establishing his Corporate Fraud Task Force, the President called on us to clean up corruption in the board room, restore investor confidence in our financial markets, and to send a loud and clear message that corporate wrongdoing will not be tolerated. Numerous high-profile acts of deception in corporate America had shaken the public's trust in corporations, the financial markets, and the economy. A few dishonest individuals hurt the reputations of many honest companies and executives. They hurt workers who committed their lives to building the companies that hired them. They hurt investors and retirees who placed their faith in the promise of growth and integrity.

On this second year anniversary of the President's Corporate Fraud Task Force, I write to tell you that we have met the President's charge – we are cleaning up corporate board rooms, we are sending the loud message that corporate wrongdoing will not be tolerated, and importantly, the confidence of the American public in the integrity of our financial markets is returning – perhaps, it has returned.

I send this report not only to outline the accomplishments of the Task Force during its second year, but also to demonstrate how we have met the President's charge. Let me take a moment to briefly outline the Herculean work done by members of the Task Force on the criminal and civil enforcement fronts.

On the criminal front, since the inception of the Task Force through May 31st of this year, Justice Department prosecutors, working hand-in-hand with regulatory Task Force members, and investigators from the Federal Bureau of Investigation, the Internal Revenue Service's Criminal Investigation division, and the U.S. Postal Inspection Service, have:

(1) Obtained over 500 corporate fraud convictions or guilty pleas – up from 250 at this time last year;

(2) Charged over 900 defendants and over 60 corporate CEOs and presidents with some type of corporate fraud crime in connection with over 400 charged cases.

In the Enron matter alone, hard working members of the Enron Task Force secured charges against 31 Enron defendants, including 21 former Enron executives. We also seized more than $161 million for the benefit of victims of the frauds at Enron.

On the civil front, the SEC continued to aggressively combat financial fraud. Since July 1, 2003, the SEC filed 614 civil enforcement actions, 143 of which involved financial fraud and issuer reporting actions. The Commodity Futures Trading Commission instituted 68 enforcement actions since July 1, 2003 – a 17% increase over the prior year. FERC's numerous investigations into the manipulation of the energy markets, including anomalous bidding practices, physical withholding of capacity, gaming practices, and violations of standards of conduct resulted in settlements valued at more than $500 million. The Department of Labor's Employee Benefits Security Administration continued to aggressively protect employee benefit plans from the effects of corporate fraud, as we saw in the Global Crossing, WorldCom, ULLICO, and Rite Aid cases. Finally, the Department of Housing and Urban Development's Office of Federal Housing Enterprise Oversight brought civil actions against Freddie Mac executives and negotiated with Freddie Mac a record civil money penalty for a safety and soundness violation – $125 million.

Although we are pleased with the work we have done thus far, make no mistake: the work of the President's Corporate Fraud Task Force continues.

In closing, I want to remind you that the vast majority of American business leaders are responsible, honest men and women. A few bad actors have tainted the reputations of many honest business people and companies. Assuring the highest level of integrity of American businesses, however, cannot be accomplished by the government alone. I applaud the efforts of many in corporate America to set the highest ethical standards and foster healthy corporate cultures, where the investing public and the law are respected. I hope those efforts continue and bring us ever closer to our ultimate goal of restoring full confidence in America's marketplace.

James B. Comey
Chairman, President's Corporate Fraud
Task Force
Deputy Attorney General
United States Department of Justice
July 20, 2004

Chapter 1

Overview of the Corporate Fraud Task Force

Introduction

President George W. Bush created the Corporate Fraud Task Force by Executive Order 13271 on July 9, 2002. Since its creation, the Task Force has coordinated and overseen all corporate fraud matters under investigation by the Department of Justice and enhanced inter-agency coordination of regulatory and criminal investigations. In his executive order, the President specifically authorized the Task Force to:

(a) provide direction for the investigation and prosecution of cases of securities fraud, accounting fraud, mail and wire fraud, money laundering, tax fraud based on such predicate offenses, and other related financial crimes committed by commercial entities and directors, officers, professional advisers, and employees thereof when such cases are determined by the Deputy Attorney General to be significant;

(b) provide recommendations to the Attorney General for allocation and reallocation of resources of the Department of Justice for investigation and prosecution of significant financial crimes, recovery of proceeds from such crimes to the extent permitted by law, and other matters determined by the Task Force from time to time to be of the highest priority in the investigation and prosecution of such crimes; and

(c) make recommendations to the President, through the Attorney General, from time to time for:

(i) action to enhance cooperation among departments, agencies, and entities of the Federal Government in the investigation and prosecution of significant financial crimes;

(ii) action to enhance cooperation among Federal, State, and local authorities responsible for the investigation and prosecution of significant financial crimes;

(iii) changes in rules, regulations, or policy to improve the effective investigation and prosecution of significant financial crimes; and

(iv) recommendations to Congress regarding such measures as the President may judge necessary and expedient relating to significant financial crimes, or the investigation or prosecution thereof.

The Corporate Fraud Task Force, chaired by Deputy Attorney General James B. Comey, is comprised of a Department of Justice group that focuses on enhancing the criminal enforcement activities within the Justice Department, and an inter-agency group that focuses on maximizing cooperation and joint regulatory and enforcement efforts throughout the federal law enforcement community. The Department of Justice group is comprised of:

- The Deputy Attorney General
- The Assistant Attorney General of the Criminal Division
- The Assistant Attorney General of the Tax Division
- The Director of the Federal Bureau of Investigation (FBI)
- The United States Attorney for the Southern District of New York
- The United States Attorney for the Eastern District of New York
- The United States Attorney for the Northern District of Illinois
- The United States Attorney for the Eastern District of Pennsylvania
- The United States Attorney for the Central District of California

- The United States Attorney for the Northern District of California
- The United States Attorney for the Southern District of Texas

The inter-agency group is comprised of all members of the Department of Justice group and:

- The Secretary of the Treasury
- The Secretary of Labor
- The Chairman of the Securities and Exchange Commission (SEC)
- The Chairman of the Commodity Futures Trading Commission (CFTC)
- The Chairman of the Federal Energy Regulatory Commission (FERC)
- The Chairman of the Federal Communications Commission (FCC)
- The Director of the Office of Federal Housing Enterprise Oversight (OFHEO)
- The Chief Postal Inspector of the United States Postal Inspection Service (Postal Inspection Service)

Since the initiation of the Task Force on July 9, 2002, the Task Force has met in Washington, D.C. on seven occasions – July 12, 2002, July 29, 2002, November 13, 2002, April 2, 2003, May 28, 2003, November 5, 2003, and March 23, 2004. Task Force members and their representatives also attended the National Corporate Fraud Conference held in Washington, D.C., on September 26-27, 2002. At this conference, President Bush, Attorney General John Ashcroft, then Deputy Attorney General Larry Thompson and then Securities and Exchange Commission Chairman Harvey Pitt addressed representatives from all members of the Task Force, in addition to nearly every United States Attorney.

Task Force member representatives meet informally almost daily to coordinate actions on specific investigations and prosecutions, and to coordinate policies which apply to corporate fraud investigations and prosecutions as a whole. Much of this coordination is handled by the office of the Task Force's Chair, Deputy Attorney General Comey. The Task Force Chair also works to ensure corporate fraud investigations are properly staffed and that they are progressing with the requisite promptness and thoroughness.

Background

President Bush's Ten-Point Plan

On March 7, 2002, President Bush announced his "Ten-Point Plan to Improve Corporate Responsibility and Protect America's Shareholders," based on three core principles: information accuracy and accessibility, management accountability, and auditor independence. The ten points contained in the plan were:

1. Each investor should have quarterly access to the information needed to judge a firm's financial performance, condition, and risks.

2. Each investor should have prompt access to critical information.

3. Chief Executive Officers (CEOs) should personally vouch for the veracity, timeliness, and fairness of their companies' public disclosures, including their financial statements.

4. CEOs or other officers should not be allowed to profit from erroneous financial statements.

5. CEOs or other officers who clearly abuse their power should lose their right to serve in any corporate leadership positions.

6. Corporate leaders should be required to tell the public promptly whenever they buy or sell company stock for personal gain.

7. Investors should have complete confidence in the independence and integrity of companies' auditors.

8. An independent regulatory board should ensure that the accounting profession is held to the highest ethical standards.

9. The authors of accounting standards must be responsive to the needs of investors.

10. Firms' accounting systems should be compared with best practices, not simply against minimum standards.

Following the President's proposals, the SEC took decisive action to implement the "Ten-Point Plan" to improve the quality of corporate disclosure and the accountability of executives and auditors. The SEC proposed rules and adopted policies consistent with all ten of the President's reforms.

The President's Call To Congress and the Sarbanes-Oxley Act of 2002

On July 9, 2002, President Bush called on Congress to give the Administration new powers to enforce corporate responsibility and to improve oversight of corporate America, including:

- Tough new penalties for mail and wire fraud.
- Strengthened laws to crack down on obstruction of justice.
- New authority for the SEC to freeze improper payments to corporate executives when a company is under investigation.

Congress answered the President's call by passing the Sarbanes-Oxley Act of 2002, the most far-reaching reform of American business practices in sixty years. The legislation, signed by the President on July 30, 2002, included action on all of the President's proposals, and gave important new tools to prosecutors and regulators to improve corporate responsibility and protect America's shareholders and workers. Among other reforms, the legislation:

- Created a new accounting oversight board to police the practices of the accounting profession.
- Strengthened auditor independence rules.
- Increased the accountability of officers and directors.
- Enhanced the timeliness and quality of financial reports of public companies.
- Barred insiders from selling stock during blackout periods when workers are unable to change their 401(k) plans.
- Created a new securities fraud provision with a 25-year maximum term of imprisonment.
- Directed the Sentencing Commission to review sentencing in white collar crime, obstruction of justice, securities, accounting, and pension fraud cases.
- Required CEOs and Chief Financial Officers (CFOs) to personally certify that financial reports submitted to the SEC fully comply with the securities laws and fairly present, in all material respects, the financial condition of the company.
- Made it a crime to willfully certify any such financial report knowing the same to be false or non-compliant, punishable by up to 20-years in prison.
- Criminalized the alteration or falsification of any document with the intent to obstruct the investigation of any matter within the

jurisdiction of a United States department or agency.

- Criminalized retaliatory conduct directed at corporate whistleblowers and others.
- Required that audit papers be retained for five years and criminalized the failure to maintain such records.

Chapter 2

Fact Sheet on the Second Year Anniversary of President Bush's Corporate Fraud Task Force

FOR IMMEDIATE RELEASE
TUESDAY, JULY 20, 2004

CORPORATE FRAUD TASK FORCE
(202) 514-2007

FACT SHEET
SECOND YEAR ANNIVERSARY OF PRESIDENT BUSH'S CORPORATE FRAUD TASK FORCE

President Bush's Leadership in Restoring Confidence to the Marketplace

"[I]t is time to reaffirm the basic principles and rules that make capitalism work – truthful books and honest people, and well-enforced laws against fraud and corruption."
– President George W. Bush, announcing the Task Force's formation on July 9, 2002

"The President's Corporate Fraud Task Force ... can, however, do one thing, and that is what we are here today to do: to restore public confidence in our financial markets and in our criminal justice system – to make people know we will continue to work like crazy until we have brought all corporate crooks to justice." *– Deputy Attorney General James B. Comey, announcing charges from the Enron investigation on July 8, 2004*

The Task Force's Second-Year Anniversary. During its second year, the President's Corporate Fraud Task Force improved on its strong first year record in combating corporate fraud and punishing corporate wrongdoers. Not only did Task Force members equal their efforts and accomplishments from the year prior, in many instances, they far surpassed them. On the criminal enforcement front, federal prosecutors began to try a number of high profile cases resulting in important convictions in the Adelphia, Craig Consumer Electronics, Dynegy, Martha Stewart, Frank Quattrone, Unify, Graham-Field Health Products, and U.S. Technologies matters. On the civil enforcement front, the SEC obtained a $2.25 billion penalty, the largest in SEC history, against WorldCom, and settled significant financial fraud, reporting, and disclosure cases with companies including Gemstar-TV Guide International, Lucent Technologies Inc., and Vivendi Universal, S.A. The SEC also brought and settled significant cases against mutual funds and their executives, financial services providers, and brokers for alleged fraudulent conduct relating to market timing and late trading in fund shares, including settlements with Alliance Capital Management L.P. and Massachusetts Financial Services Co.

President Bush created the Corporate Fraud Task Force by Executive Order No. 13271 on July 9, 2002. It is chaired by Deputy Attorney General James B. Comey and includes senior Department of Justice officials, the heads of the Departments of Treasury and Labor, and the heads of the Securities and Exchange Commission, Commodity Futures Trading Commission, Federal Energy Regulatory Commission, Federal Communications Commission, Office of Federal Housing Enterprise Oversight, and United States Postal Inspection Service.

Through fair, swift and decisive actions, the Task Force continues to remove suspicion, doubt, and uncertainty that pervaded the marketplace only two years ago. Investor confidence is returning and the public is recognizing that the vast majority of corporate leaders are honest and ethical stewards of their shareholders and employees. The Task Force's actions are successfully working to:

- Restore confidence to the marketplace;
- Provide fair and accurate information to the investing public;
- Reward shareholder and employee trust; and
- Protect jobs and savings of hard-working Americans.

Prosecuting Corporate Fraud Criminally. Justice Department prosecutors throughout the country, working hand in hand with regulatory Task Force members and investigators from the Federal Bureau of Investigation, Internal Revenue Service's Criminal Investigation division, and U.S. Postal Inspection Service, have responded to President Bush's call to get tough on corporate crime. Since the inception of the Task Force through May 31, 2004, prosecutors and investigators had:

- Obtained over 500 corporate fraud convictions or guilty pleas;

- Charged over 900 defendants and over 60 corporate CEOs and presidents with some type of corporate fraud crime in connection with over 400 filed cases; and

- Obtained charges against 31 Enron defendants, including 21 former Enron executives, obtained the convictions of 11 Enron defendants including its former CFO and treasurer, and seized over $161 million for the benefit of victims of the frauds at Enron.

Aggressively Pursuing Civil and Regulatory Enforcement Actions. During the Task Force's second year, civil and regulatory Task Force members, often in actions parallel to criminal actions, and in coordination with criminal investigators and prosecutors, actively pursued enforcement actions to protect investors and consumers from corporate fraud.

Securities and Exchange Commission: During fiscal year 2003 (October 1, 2002-September 30, 2003), the SEC filed 199 financial fraud and reporting cases. From October 1, 2003 through June 21, 2004, the SEC filed 350 enforcement actions, 72 of which involved financial fraud or reporting. Thirty-two companies have been suspended from trading, and the SEC has sought asset freezes against individuals and companies in 36 cases. In addition, the SEC has sought to bar 110 corporate executives and directors from again serving in publicly traded companies. The SEC has used its new enforcement authority under the Sarbanes-Oxley Act, which the President signed into law on July 30, 2002, to it's fullest extent in seeking to improve corporate responsibility and protect America's shareholders and workers, including using the "Fair Funds" provision in many recent settlements. The SEC has collected over $432 million to be returned to victims of the Enron fraud, pursuant to this authority.

Last fall, when a number of disturbing scandals involving mutual funds came to light, the SEC responded. During fiscal year 2003 through the present, the SEC filed 41 mutual fund-related enforcement actions and obtained orders for close to one billion dollars in penalties and disgorgements related to mutual funds, all of which will be returned to investors. Moreover, the SEC has proposed some 15 new mutual fund reforms, all in response to these mutual fund scandals.

Commodity Futures Trading Commission: From July 1, 2003 to June 30, 2004, the CFTC instituted 68 enforcement actions – a 17% increase over the prior year – against 193 defendants. It obtained permanent injunctions against 58 defendants and restraining orders to freeze assets and preserve books and records against 77 defendants. It also obtained cease and desist orders against 51 respondents in administrative proceedings. The CFTC secured nearly $315 million in civil monetary penalties, an increase of nearly 137% from the prior year, and over $67 million in restitution and disgorgement. It obtained trading prohibitions against 18 individuals during this time.

Much of the CFTC's enforcement activity over the last year centered around the energy markets. The CFTC focused on the widespread practice by energy companies – most of them public entities – of falsely reporting the prices and quantities of natural gas or electricity transactions to reporting services, often to influence the prices reported by these services and to consequently benefit energy derivative positions held by these companies.

Federal Energy Regulatory Commission: FERC's numerous investigations into the manipulation of energy markets, including anomalous bidding practices, physical withholding of capacity, gaming practices, and violations of standards of conduct resulted in settlements valued at in excess of $500 million. Energy companies entering into settlements with FERC included Reliant Energy Services, Duke Energy and Trading, Williams Power Company, Dynegy, Inc., Portland General Electric, El Paso Electric, Avista Corporation, Cleco Corp., Nicor Gas, National Fuel Gas Company, and Center Point Gas Transmission Company. FERC still has underway several proceedings in which it is pursuing refunds of up to $3 billion for sales in California, as well as additional disgorgement of profits from sellers who are found to have violated FERC tariffs.

Employee Security Benefits Security Administration (Department of Labor): EBSA continues to aggressively protect employee benefit plans from the effects of corporate fraud. Since the inception of corporate fraud as an investigative priority, EBSA has identified 44 civil investigations as having potential corporate fraud issues including investigations into Global Crossing, WorldCom, and ULLICO. In May 2004, EBSA announced the filing of settlements (which must be approved by the court) to restore at least $66.5 million to the Enron savings and employee stock ownership plans and to restrict the ability of named corporate officers, directors, and administrative committee members from future service as ERISA fiduciaries. In July 2004, EBSA entered into settlement agreements with five former officers and directors of Global Crossing significantly restricting their ability to serve as fiduciaries of ERISA plans for a period of five years without the Department's approval. EBSA also secured $25 million for the plan from Gary Winnick, the former chairman of Global Crossing's Board of Directors and was instrumental in facilitating the recovery of an additional $54 million for the plan through the private class action settlement, bringing the total recovery for workers and retirees to $79 million. In September 2003, EBSA obtained a consent decree against former Rite Aid CFO and plan trustee, Franklyn M. Bergonzi. The court's order permanently barred Bergonzi from representing any employee benefit plan in any capacity.

Office of Federal Housing Enterprise Oversight (Department of Housing and Urban Development): OFHEO brought civil actions against Freddie Mac executives for, among other things, their failure to maintain adequate internal controls and negotiated with Freddie Mac a record civil money penalty for a safety and soundness violation – $125 million – as well as entering into a consent order that required the Board and senior management to address corporate governance and culture at Freddie Mac. OFHEO continues its oversight of Freddie Mac while currently conducting a review of accounting and controls at Fannie Mae.

Restoring Investor Confidence. The Task Force's swift, fair and decisive actions are helping to restore confidence to the marketplace. CEOs and other executives who fudged the numbers and deceived their investors and workers are being held accountable. The actions of the Task Force are helping to demonstrate something equally important to the American people: the vast majority of corporate leaders are honest and ethical who work hard to earn the trust of their shareholders and employees.

Chapter 3

Corporate Fraud Task Force Member Contributions

Criminal Enforcement

Summary of Accomplishments

Justice Department prosecutors, working with the FBI, Postal Inspection Service, Internal Revenue Service - Criminal Investigations (IRS-CI) and other Task Force members, have obtained more than 500 corporate fraud convictions[1] during the Task Force's two years of existence.[2] By comparison, as of September 2002's National Corporate Fraud Conference, discussed below, only 46 convictions had been reported. By way of further comparison, at the writing of last year's First Year Report, the Task Force reported that over 250 convictions were obtained. On May 31, 2004, corporate fraud charges were pending against over 900 defendants and over 60 corporate CEOs and presidents, in connection with over 400 filed cases. In the Enron matter alone, prosecutors had obtained charges against 31 Enron defendants, including 21 former Enron executives, obtained the convictions of 11 Enron defendants including its former CFO and treasurer, and seized over $161 million for the benefit of victims of the frauds at Enron.

Significant Criminal Actions

Set forth below are a number of the significant cases that were prosecuted criminally during the second year of the Task Force. It bears noting that while these cases are identified by the particular U.S. Attorney's Office or division of the Justice Department that prosecuted the case, such prosecutions would not have been possible without the outstanding investigative efforts of the FBI, Postal Inspection Service, and IRS-CI, in coordination with other civil and regulatory Task Force members.

Cases Prosecuted by DOJ's Criminal Division

Enterasys

Three former Enterasys Network Systems, Inc. officers were charged in the District of New Hampshire with conspiracy, securities fraud, wire fraud, and mail fraud stemming from a revenue recognition scheme that involved altering and backdating contracts, entering into secret side deals, and making false representations in filings to the SEC, company press releases, and to the company's

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1 Though the term "corporate fraud" is subject to different interpretations, it has been defined internally within the Department of Justice to include the following conduct:

> **(1) Falsification of corporate financial information** (including, for example, false/fraudulent accounting entries, bogus trades and other transactions designed to artificially inflate revenue, fraudulently overstating assets, earnings and profits or understating/concealing liabilities and losses, and false transactions designed to evade regulatory oversight);
>
> **(2) Self-dealing by corporate insiders** (including, for example, insider trading, kickbacks, misuse of corporate property for personal gain, and individual tax violations related to any such self-dealing);
>
> **(3) Fraud in connection with an otherwise legitimately-operated mutual or hedge fund** (including, for example, late trading, certain market-timing schemes, falsification of net asset values, and other fraudulent or abusive trading practices by, within, or involving a mutual or hedge fund); and
>
> **(4) Obstruction of justice, perjury, witness tampering, or other obstructive behavior relating to categories (1) - (3) above.**

2 This number includes convictions and guilty pleas during the period from the inception of the Task Force on July 9, 2002 through May 31, 2004.

outside auditors. Two other former executives of Enterasys have pleaded guilty to related charges. This matter was the result of the cooperative efforts of the Criminal Division's Fraud Section, the United States Attorney's Office for the District of New Hampshire, and the Postal Inspection Service, in close coordination with the SEC.

HealthSouth

The former CEO and Chairman of the Board of HealthSouth was charged in an 85-count indictment in the Northern District Alabama with conspiracy, mail and wire fraud, securities fraud, false statements, willfully filing a false certification of financial records with the SEC, and money laundering. The Indictment also seeks forfeiture of more than $278.7 million in property derived from the illegal proceeds traceable to the alleged offenses. This matter is pending trial. Seventeen (17) former officers of HealthSouth have pleaded guilty to felony charges in connection with the scheme to artificially inflate HealthSouth's publicly reported earnings and the value of its assets and to falsify reports of HealthSouth's financial condition. The success of the investigation is attributed to the close cooperation of the United States Attorney's Office for the Northern District of Alabama, the Fraud and Asset Forfeiture and Money Laundering Sections of the Criminal Division, the Postal Inspection Service, the FBI, and IRS-CI.

PurchasePro.com

Two senior executives of PurchasePro.com, a defunct, publicly traded company headquartered in Las Vegas, Nevada, pleaded guilty in the Eastern District of Virginia to conspiracy to commit wire fraud stemming from a scheme to inflate the company's sales revenue and to impeding and obstructing a federal criminal investigation. PurchasePro was engaged in the sale of computer software, including a so-called business-to-business marketplace license. This license allowed small and large businesses to buy and sell products on the Internet, to participate directly in PurchasePro's own web-site based marketplace, and to create their own branded marketplace using PurchasePro's software. The investigation of this matter continues; its success to date results from the close working relationship between the Criminal Division's Fraud Section, the United States Attorney's Office for the Eastern District of Virginia, and the FBI.

Just For Feet

Guilty pleas to felony charges were obtained in the Northern District of Alabama from three former executives of Just For Feet, Inc. (JFF), a publicly traded corporation, which was headquartered in Shelby County, Alabama, and which filed for bankruptcy in 1999, and from four former executives of JFF's vendors of athletic footware and apparel. The JFF executives pleaded guilty to charges ranging from conspiracy to commit wire and securities fraud, submitting false statements to JFF's auditors and making false statements to federal agents. The vendor defendants had been charged with conspiracy to submit false statements to JFF's auditors and causing false entries to be made in JFF's books and records. The false financial information submitted to JFF's auditors was included in the company's annual financial reports for public filing with the SEC. As a result, JFF's earnings, as stated in its annual audited financial statements and SEC filings, were overstated by $13.6 million, thereby defrauding the shareholders of JFF. The case is the result of collaborative efforts by the Fraud Section, the United States Attorney's Office for the Northern District of Alabama, and the FBI.

Cases Prosecuted By DOJ's Enron Task Force

Since its inception, the Enron Task Force ("ETF"), which is overseen and supervised by the Justice Department's Criminal Division, has brought criminal charges against 31 defendants, including 21 former Enron employees, including the former Chairman of the Board, two former CEOs, the former Chief Financial Officer, a former Treasurer, three former CEOs of prominent business units within Enron, and a former corporate secretary. Eleven of those defendants have pleaded guilty or been found guilty after trial. With the assistance of the Criminal Division's Asset Forfeiture and Money Laundering Section, the Enron Task Force has seized over $161 million in ill-gotten proceeds of crimes. Some of the ETF's principal work includes:

<u>Jeffrey Skilling, Kenneth Lay, and Richard Causey</u>

Charges were brought in January and February 2004 against Enron's former CEO Jeffrey Skilling and former Chief Accounting Officer Richard Causey. In July 2004, former Chairman of the Board and CEO Kenneth Lay was charged in a superseding indictment. The defendants are charged with engaging in a wide-ranging scheme to deceive the investing public, including Enron's shareholders, the SEC, and others about the true performance of Enron's businesses. According to the Indictment, the defendants manipulated Enron's publicly reported financial results and made false and misleading public statements and representations about Enron's financial performance and results. The defendants are alleged to have used secret oral side-deals, back-dated documents, disguised debt, material omissions, and outright false statements to further the scheme. The charges include conspiracy to commit securities fraud and wire fraud, securities fraud, wire fraud, money laundering, insider trading, and bank fraud. The indictment also seeks forfeiture, and over $50 million in proceeds have been frozen for that purpose.

<u>Andrew Fastow, Leah Fastow, and Ben Glisan</u>

Former CFO Andrew Fastow pleaded guilty in January 2004 to criminal activity stemming from various self-dealing schemes and to manipulation of Enron's financial transactions to create a false appearance of business success. Fastow will serve at least 10 years in custody as part of his cooperation agreement with the government. Former Treasurer Ben F. Glisan, Jr., pleaded guilty in September 2003 to manipulating Enron's financial statements through several illegal financial vehicles, and is currently serving a five-year term of incarceration.

Lea Fastow, Andrew Fastow's wife and a former Assistant Treasurer at Enron, was charged with participating in a tax scheme with her husband. She pleaded guilty in January 2004 to a tax misdemeanor and was sentenced to a year in jail, which she is currently serving.

<u>Enron Broadband Services</u>

Seven former executives of Enron's failed Internet division, Enron Broadband Services (EBS), are charged with conspiracy to commit securities and wire fraud, insider trading and money laundering. The indictment charges the defendants with a long-running scheme to defraud the investing public by portraying EBS as a resoundingly successful business through a series of false public statements and press releases about the products, services and business performance of EBS. As alleged in the Indictment, the defendants falsely portrayed

EBS as a commercial and business success and claimed that EBS had developed a revolutionary network control software. In fact, as alleged in the Indictment, EBS' business never moved beyond the development stage. EBS failed to generate significant recurring revenue and experienced losses that far exceeded publicly disclosed targets. The case is scheduled for trial in October 2004.

U.S. v. Bayly, et al.

Two former Enron and four Merrill Lynch executives, including Merrill Lynch's head of Global Investment Financing, are charged with parking Enron assets with Merrill Lynch in a year-end 1999 deal in order to inflate falsely Enron's earnings. The defendants are charged with, among other things, conspiracy to commit wire fraud, wire fraud, making false statements, perjury and obstruction of justice. The case is scheduled for trial in August 2004.

Merrill Lynch & Co. and Canadian Imperial Bank of Commerce

In addition to bringing the obstruction case against the accounting firm of Arthur Andersen, the ETF has also entered into deferred prosecution agreements with two major financial institutions – Merrill Lynch & Co. Inc. and Canadian Imperial Bank of Commerce – which aided and abetted the fraud at Enron. Those agreements imposed a sweeping array of innovative institutional reforms that have served as a model for corporate agreements throughout the Justice Department. The agreements include the appointment of and oversight by Justice Department-approved corporate monitors to assure compliance with the reforms mandated under the agreements.

Cases Prosecuted By DOJ's Tax Division

Brett Tollman

In a case involving massive corporate self-dealing, an executive in a private company that owned and managed more than 50 Days Inn hotels was sentenced in the Southern District of New York on March 12, 2004 to 33 months in prison and fined more than $75,000. Mr. Tollman and his parents were charged with a tax-evasion scheme in which tens of millions of dollars in unreported income was channeled through secret offshore bank accounts. The defendant pleaded guilty in September 2003 to two tax fraud charges, involving tax losses totaling more than $3.5 million. His parents remain fugitives. Four other defendants, including a lawyer and two accountants, were convicted in January 2003 for taking part in a related scheme.

Hawaiian Isles Enterprises

On March 31, 2004, Nathan Suzuki, a member of the State of Hawaii House of Representatives at the time of his indictment in June 2002, pleaded guilty to participating in a conspiracy to defraud the United States by impeding the IRS during the years 1993 through 2000 while he served as comptroller of Hawaiian Isles Enterprises, Inc. (HIE), a company owned by previously convicted co-conspirator Michael H. Boulware. HIE and its related entities generated gross sales of roughly $80 million yearly and were engaged in the sales of tobacco, coffee, and vending machine products throughout the State of Hawaii. Mr. Suzuki helped create offshore corporations and bank accounts in the Kingdom of Tonga and the Hong Kong Special Administrative Region (HKSAR) to obstruct a criminal investigation then being conducted by the IRS-CI. He also helped Mr. Boulware fraudulently transfer and conceal in HKSAR accounts approximately $3 million belonging to HIE.

Stanley Joseph

In another self-dealing case, Stanley Joseph, an accountant, was sentenced to 27 months in prison on March 18, 2004 in the Southern District of New York after pleading guilty to conspiracy to file fraudulent tax returns and evade the payment of taxes totaling at least $1.4 million. Joseph was involved with a co-defendant operator of four medical diagnostic facilities in the New York City area who caused the medical diagnostic facilities to pay approximately $11.8 million in fraudulent billings and purported "management fees" to sham entities controlled by himself. The co-defendant pleaded guilty in July 2000 to conspiring to evade $3.2 million in taxes and file false tax returns and was sentenced to 37 months in prison.

Purchase Plus

On March 10, 2004, after a three-week trial in the Southern District of Ohio, Everett Eugene Arnold was found guilty of two counts of filing false income tax returns for failing to report almost $4 million in income from Purchase Plus, a company he promoted as a purchasing club. Members, who paid a $400 fee for discounts on phone cards, travel services and other products, were promised commissions of up to $11,000 for recruiting others. Mr. Arnold sold Purchase Plus in April 2000, and it closed five months later, resulting in losses to investors of more than $100 million. Mr. Arnold awaits sentencing.

Strategic Technologies

On May 11, 2004, Marc Cooper, the president of Strategic Technologies, Inc., pleaded guilty in the District of New Jersey to mail fraud and income tax evasion charges for embezzling more than $80 million from the company and its customers. The business audited and paid freight bills incurred by its customers for services rendered by various carriers. Mr. Cooper used the embezzled monies for personal luxuries, including chartering private jets for family vacations, paying for relatives' travel on the Concorde, expensive sports-related activities and memorabilia, and purchasing a 7 percent interest in the New Jersey Devils professional hockey team. Robin Nesti, who was Cooper's office manager and admitted to embezzling $1.2 million, pleaded guilty to aiding and abetting the mail fraud and to tax evasion. Mr. Cooper's sentencing is scheduled for September 9, 2004; Mr. Nesti's sentencing is scheduled for September 8, 2004.

Cases Prosecuted By Task Force United States Attorney's Offices

U.S. Attorney's Office for the Central District of California

Credit Lyonnais

The French financial institution Credit Lyonnais, a former corporate subsidiary, a major French insurance company, and several French corporate executives pleaded guilty to criminal charges that they made false statements to U.S. banking regulators. The false statements concealed the illegal acquisition of assets that belonged to a California insurance company. In addition to these pleas, the individuals and entities in this case paid over $770 million to resolve the case. Over $500 million from the settlement will be used to compensate policyholders from the defunct California insurance company. Four other foreign individuals have been indicted and are fugitives. This case was the result of a joint investigation with the FBI and the Federal Reserve.

NewCom

The former CEO and Executive Vice President of NewCom, Inc., a defunct computer parts manufacturer in California, pleaded guilty to numerous criminal charges on the eve of trial. The executives admitted that they conspired to file inflated quarterly reports with the SEC, faked millions of dollars of product sales, and created bogus accounting records. They also pleaded guilty to defrauding NewCom as part of a wire fraud scheme, and subsequently laundering the proceeds of their fraud. This case was investigated by the FBI and IRS, in close coordination with the SEC's Washington, D.C. office.

Craig Consumer Electronics

The CEO of Craig Consumer Electronics, a personal electronics manufacturer, was convicted after a ten-week trial. The jury convicted the CEO of improperly recording transactions to inflate the company's revenue in its periodic filings with the SEC in order to borrow money from lenders. Craig's former CFO previously pleaded guilty to charges related to this scheme. This case was investigated by the FBI and IRS, in close coordination with the SEC.

Financial Advisory Consultants

The fund manager of Financial Advisory Consultants (FAC) of Orange County, California, was indicted for mail fraud, wire fraud, and money laundering arising out his misappropriation of over $100 million from more than 3,000 investors. FAC held itself out as a mutual fund with over $800 million in managed assets. The Indictment was returned only a few weeks after FAC's offices were searched pursuant to a search warrant. After fleeing from California, the fund manager was arrested in a hotel in Texas with a map of Mexico and cash in his possession. The matter, which is pending trial, stemmed from close coordination and cooperation between the FBI and the SEC.

Manhattan Bagel

The former chairman of Manhattan Bagel, a publicly-traded restaurant and bakery chain, and the president of a subsidiary company pleaded guilty to conspiring to inflate the revenue of the subsidiary as part of a corporate merger. These defendants also pleaded guilty to obstructing an SEC investigation by assaulting and threatening witnesses. In addition, the chairman pleaded guilty to defrauding investors in separate initial public offerings, tax fraud, and money laundering. The district court sentenced the bagel company's chairman to 90 months in prison. The investigation was conducted by the FBI-CI, Postal Inspection Service, and IRS-CI, in close coordination with the SEC.

L90

The former CFO of L90, a publicly traded internet advertising company, pleaded guilty to conspiring to commit securities fraud. The CFO admitted that the company created a series of fraudulent transactions designed to inflate L90's publicly reported revenues. L90's CEO and two other executives previously pleaded guilty. This case was the result of an investigation by the FBI and the SEC in Los Angeles.

Genesis Intermedia

The former president of RBF International, a stock lending "finders" firm, pleaded guilty to conspiring to commit securities fraud and wire fraud and to a substantive wire fraud count. The conspiracy involved fraudulently manipulating the price of stock in Genesis Intermedia, Inc., a Nasdaq-traded company, and using the artificially inflated stock as collateral to obtain loans from various securities broker-dealers. The conspiracy netted defendant and his co-conspirators over $130 million; caused the bankruptcy of two brokerage houses, Native Nations Securities, Inc., and MJK Clearing Inc; and resulted in the largest bailout of a brokerage firm in the history of the Securities Investor Protection Corporation. The ongoing investigation in this case is being conducted by the FBI and the SEC.

U.S. Attorney's Office for the Northern District of California

McKessonHBOC

In March 2004, a former McKesson CFO was charged with conspiracy, securities fraud, and making false statements to auditors. Six other former executives of McKessonHBOC were previously charged for their roles in a wide-ranging accounting fraud scheme, including a CFO and two Senior Vice Presidents, all three of whom pleaded guilty and are cooperating with the investigation. Three defendants charged in June 2003, including the Chairman of the McKessonHBOC Board of Directors, the general counsel to McKessonHBOC's Information Technology Business, and the President of McKessonHBOC's Information Technology Business await trial. McKesson, the 22nd largest corporation in the United States, acquired HBOC in January 1999. The scheme to defraud began at HBOC in early 1998 and continued through the first combined quarter following the merger. When the fraud was disclosed, McKessonHBOC lost $9 billion in shareholder value. The U.S. Attorney's Office and the FBI have closely coordinated the investigation with the SEC, which has brought parallel civil charges.

Enron

The manager of Enron's real-time electricity traders was charged with wire fraud and conspiracy, and his trial is scheduled for October 2004. This manager is the third Enron energy trading executive charged with fraud in connection with Enron's criminal manipulation of the California energy markets. Previously, Enron's vice president in charge of all energy trading, pleaded guilty to conspiracy to commit wire fraud and agreed to cooperate with the investigation. The manager of Enron's short-term electricity traders, also pleaded guilty to conspiracy and making false statements to the FBI during its investigation.

Informix

Following a parallel investigation conducted by the U.S. Attorney's Office in San Francisco and the SEC in Washington, D.C., the former CEO, President, and Chairman of Informix Corp. was indicted in November 2002 for criminal and civil securities and wire fraud violations. In December 2003, he pleaded guilty to filing a false registration statement with the SEC. The U.S. Attorney's Office is working closely with the SEC on this case.

Network Associates

On June 10, 2004, the former CFO of Network Associates, a Santa Clara, California software company, was indicted on 20 counts of conspiracy and securities fraud for his involvement in causing the company to make millions of dollars in payments to distributors falsely disguised as discounts, rebates, and marketing fees, all in order to convince the distributors to hold excess inventory, not return unsold products, and purchase more products than the distributors could actually sell to customers during a given quarter. Previously, in June 2003, the former acting CFO and controller of Network Associates pleaded guilty to securities fraud and was simultaneously sued civilly and agreed to cooperate in the ongoing, parallel DOJ/SEC investigations into widespread accounting fraud at Network Associates between 1998 and 2000. No trial date has been set in the case. The U.S. Attorney's Office is working closely with the SEC on this case.

<u>Ernst & Young/Thomas Trauger</u>

A former Ernst & Young partner was indicted by a federal grand jury on October 14, 2003, for conspiracy to obstruct the examination of a financial institution, obstruction of the examination of a financial institution, and falsification of records in a federal investigation. The defendant was the engagement partner for NextCard, Inc., a publically traded internet bank. The indictment alleges that the defendant altered and deleted portions of the Ernst & Young working papers for the 2000 and 2001 NextCard audit and then produced the altered version of the working papers to the Office of the Comptroller of the Currency. The defendant's trial date is set for September 27, 2004. A senior manager on the NextCard engagement previously pleaded guilty to one count of obstruction, and agreed to cooperate with the government. Another member of the audit team previously pleaded guilty to providing false statements to the FBI during the investigation of this case.

<u>Unify Corporation</u>

On November 20, 2003, a jury convicted Gholamreza Mikailli (also known as Reza Mikailli), the former President and CEO of Unify Corporation, on ten counts of securities fraud following a ten-week trial. Unify was a publicly traded software company based in San Jose, California. Mikailli was indicted in May 2002, for his role in Unify's overstatement of revenue from April 1999 until June 2000. His sentencing is pending.

<u>U.S. Wireless</u>

The former General Counsel of U.S. Wireless Corporation pleaded guilty in December 2003 to money laundering and conspiracy. He admitted embezzling over $10 million in U.S. Wireless stock through forged contracts and offshore accounts. The General Counsel is cooperating against the former CEO, who remains in Israel. The government is seeking his extradition. The company went bankrupt in 2001.

<u>Reliant Corporation</u>

As the result of an investigation, by the FBI, DOJ's Antitrust Division, and the U.S. Attorney's Office, in close coordination with the CFTC, a federal grand jury returned a six-count indictment on April 8, 2004 against Houston-based energy company Reliant Energy Services, Inc., and four of its officers. The defendants were charged with conspiracy to commit wire fraud and commodities manipulation, wire fraud, and manipulation and attempted manipulation of the price of a commodity in interstate commerce, for their involvement in the manipulation of the California energy markets. The Indictment alleges that the defendants devised a scheme to defraud the California electricity market and its participants, and to manipulate and attempt to manipulate upwards the price of electricity in California by shutting off the majority of the company's power generation plants, intentionally creating the appearance of an electricity shortage, and that the defendants disseminated false and misleading information to the market that wrongly attributed the shutdowns to environmental limitations and maintenance problems. The Indictment alleges that once the defendants achieved the artificial inflation of prices, Reliant Energy Services proceeded to turn certain of the company's plants back on in order to sell its power to California's grid manager, the ISO, for as much as $750 per megawatt hour (the federally-imposed price cap at the time).

U.S. Attorney's Office for the Northern District of Illinois

Mercury Finance Company

The former Treasurer of Mercury Finance Company pleaded guilty to wire fraud and bank fraud in connection with his participation with other former officers of the company in an extensive accounting fraud scheme at the company. The scheme included fraudulently inflating income and receivables while under-reporting loan delinquencies for this subprime loan company. Before the fraud was discovered, the company's stock was traded on the New York Stock Exchange at approximately $15 per share. After the fraud was discovered, the company's stock fell to about $2 per share, causing a market capitalization loss of over $2 billion. The Treasurer is scheduled to be sentenced on July 21, 2004. This case is the result of the joint efforts of the U.S. Attorney's Office and FBI, in close coordination with the SEC.

Anicom

The former Chairman of Anicom, Inc., which was a national distributor of wire and cable products, was indicted for his role in a massive accounting fraud scheme. The scheme involved fraudulently inflating revenues, net income, and earnings, and fraudulently understating expenses, in part by creating more than $24 million in fictitious sales. The overall market capitalization loss from the scheme exceeded $80 million. Five other defendants have pleaded guilty to engaging in the scheme to defraud. The former Chairman and CFO are scheduled to go to trial on October 4, 2004. This case is the result of the joint efforts of the U.S. Attorney's Office and FBI, in close collaboration with the SEC.

Nicor Energy

Three former executives of defunct Nicor Energy L.L.C. and an outside lawyer for the retail energy marketing company, established as a joint venture by Nicor Inc. and Dynegy Inc., were indicted for engaging in an accounting fraud scheme designed to defraud Nicor Energy out of $400,000 in bonuses and other compensation. They attempted to accomplish this, according to the Indictment, by fraudulently inflating revenues and understating expenses to make the company appear more profitable than it actually was. The three executives have pleaded guilty to engaging in the fraud. No date has been set for the trial of the outside lawyer. The case resulted from the joint efforts of the U.S. Attorney's Office and FBI, in close coordination with the SEC.

U.S. Attorney's Office for the Eastern District of New York

Symbol Technologies

In June 2004, seven former senior executives of Symbol Technologies, Inc., one of the world's leading manufacturers and distributors of wireless and mobile computing and bar code reading devices, were indicted for securities fraud and other crimes arising out of their participation in a $200 million accounting fraud scheme. Among those indicted were Symbol's former CEO, CFO, and Senior Vice Presidents of Finance, Operations, and Worldwide Sales, all of whom were charged for their participation in a long-running scheme to misrepresent Symbol's revenues, expenses, and earnings through the use of bogus transactions and fraudulent accounting entries in order to meet projected quarterly revenues and earnings. The Indictment also alleges that an eighth defendant, Symbol's former General Counsel, orchestrated a scheme by which he and other senior executives fraudulently exploited the company's stock option plans to enrich themselves and illegally minimize their tax obligations.

In June 2004, Symbol signed a written agreement in which it accepted responsibility for the fraudulent conduct of its former executives, adopted significant corporate reforms, agreed to continue its cooperation with the government's ongoing investigation of the fraud, and agreed to pay $139 million to compensate victims of the fraud and to help fund the Postal Inspection Service's Consumer Fraud Fund. The charges in June followed the earlier guilty pleas of Symbol's former Chief Accounting Officer and its former Vice President of Worldwide Sales and Finance.

<u>Computer Associates International</u>

In January and April 2004, four former senior executives of Computer Associates International, Inc. (CA), the world's fourth largest computer software company, including CA's former CFO, Vice President of Financial Reporting, Vice President of Sales Accounting, and Senior Vice President of Global Sales Organization, pleaded guilty to securities fraud and obstruction of justice charges. The securities fraud pleas were based on the defendants' roles in a long-running, company-wide scheme to backdate and forge licensing agreements in order to allow the company to meet or exceed its quarterly earnings projections during multiple fiscal quarters. The obstruction of justice pleas arose out of the defendants' lying to government investigators and concealing evidence of the securities fraud. Also in April 2004, CA issued a $2.2 billion restatement of earnings based on the results of an internal investigation which confirmed the existence of the accounting fraud.

<u>Allou Healthcare</u>

In June 2004, numerous top officers of Allou Healthcare, Inc., a publicly-traded company which was a major distributor of pharmaceutical and health products, were charged with participating in a wide-ranging conspiracy to defraud Allou's creditors and investors of approximately $200 million. The defendants, which included Allou's Chairman and CEO, were charged with recording hundreds of millions of dollars of bogus sales and inventory purchases in Allou's books in order to fraudulently inflate the amounts it could borrow under its line of credit with a syndicate of banks, and to manipulate its quarterly and annual earnings reported to the SEC and investors. The Indictment also alleges that, in order to conceal their massive fraud, Allou's Chairman, its CEO, and several co-defendants were involved in a September 2002 arson at Allou's major warehouse, which destroyed a reported $80 million of goods. When fire officials determined the fire was deliberately set, thus jeopardizing Allou's ability to collect on its insurance claim, the defendants allegedly sought to bribe a New York City Fire Marshal to change the Fire Department's conclusion that the warehouse fire was an arson.

<u>Graham-Field Health Products</u>

In June 2004, the former CEO of Graham-Field Health Products, a publicly-traded manufacturer and distributor of health care products, was convicted after a jury trial of securities fraud and conspiracy to commit securities fraud in connection with his falsification of the company's earnings statement and SEC filings for the third fiscal quarter of 1997. The fraud involved fabricating documents which purported to show marketing fees and rebate credits owed to Graham-Field in the amount of $1.1 million. In addition, an independent businessman not employed by Graham-Field pleaded guilty to conspiracy to commit securities fraud for his role in the creation of the documents, and he testified against the CEO at trial. Sentencing is scheduled for October 1, 2004.

<u>American Tissue Corporation</u>

In May 2004, a superseding indictment was filed charging the former CEO of American Tissue Corporation, a manufacturer of paper products, with obstruction of justice, conspiracy to commit perjury, and interstate transportation of stolen property. The defendant was originally charged in March 2003 with bank fraud and conspiracy to commit bank and securities fraud. The new charges relate to the CEO's alleged fraudulent attempt to obtain several million dollars worth of equipment from the now bankrupt American Tissue Corporation by submitting fabricated documents to a bankruptcy court in Delaware, and his continuing possession and transportation of paper manufacturing equipment he obtained by fraud while still CEO of American Tissue.

U.S. Attorney's Office for the Southern District of New York

<u>WorldCom</u>

The former CEO of WorldCom, Inc. was charged with conspiracy, securities fraud, and making false filings with the SEC, arising from his participation in a scheme to disguise WorldCom's true financial condition through artificial manipulation of its revenues and expenses. Trial of the former CEO is scheduled for November 8, 2004. In addition, WorldCom's former CFO became the fifth former WorldCom executive to plead guilty to conspiracy and securities fraud charges as a result of his participation in the same accounting fraud scheme. The former CFO agreed to divestiture for purposes of restitution of his $15 million Florida home. The matter is being handled by the U.S. Attorney's Office and FBI, in close coordination with the SEC.

<u>Frank Quattrone</u>

Frank Quattrone, the former Managing Director and Head of the Global Technology Group at Credit Suisse First Boston Corp., a global investment banking firm, was convicted of obstruction of justice, obstruction of agency proceedings, and witness tampering following a one-month jury trial. The charges arose from the defendant's efforts to obstruct grand jury and SEC investigations into Credit Suisse's practices in allocating shares of initial public offering securities. Sentencing is scheduled for September 8, 2004. The matter is being handled by the U.S. Attorney's Office and FBI, in coordination with the SEC.

Martha Stewart

Martha Stewart, the former CEO of Martha Stewart Living Omnimedia, a NYSE-traded media company, was convicted of conspiracy, obstruction of justice, and false statement charges, following a six-week jury trial and sentenced to five months in prison and five months home confinement. The charges arose from Stewart's efforts to obstruct federal investigations into her trading in the securities of ImClone Systems, Inc., on the eve of that company's announcement of extremely negative news. The matter is being handled by the U.S. Attorney's Office and the FBI, with assistance from the SEC.

C. Gregory Earls

C. Gregory Earls, the former CEO of U.S. Technologies, Inc., a NASDAQ-traded internet company, was convicted of securities fraud, wire fraud, and mail fraud charges, following a six-week jury trial. The charges arose from Earls' misappropriation of funds he raised through a company he created exclusively for the purpose of investing in U.S. Technologies stock. Although he raised over $20 million from dozens of investors, the defendant diverted approximately $13.8 million for his own use. Sentencing is scheduled for August 3, 2004. The matter is being handled by the U.S. Attorney's Office and Postal Inspection Service, in coordination with the SEC.

Adelphia

Following a four-month trial, the former CEO and CFO of Adelphia Communications Corp., were convicted of conspiracy, securities fraud, false filings, and bank fraud, arising from their participation in a highly complex financial statement fraud and embezzlement scheme that defrauded Adelphia's shareholders and creditors out of billions of dollars. The trial was among the longest and most complex securities fraud cases ever presented to a jury. The case was handled by the U.S. Attorney's Office and Postal Inspection Service, in close coordination with the SEC.

U.S. Attorney's Office for the Eastern District of Pennsylvania

Independence Blue Cross

In a significant case of corporate self dealing, the former Director of Real Estate and Development for Independence Blue Cross pleaded guilty and was sentenced to 54 months in prison, $4 million in forfeiture and $14.1 million in restitution in a multi-year scheme to embezzle over $14 million from the company through inflated and fictitious invoices from third party vendors and nonexistent companies. Two co-conspirators pleaded guilty and two other co-conspirators were convicted after trial and sentenced to 97 months imprisonment, $9 million in restitution and $2 million in forfeiture. The case was investigated by the FBI.

Integrated Foods Technologies

A former director of Integrated Foods Technologies pleaded guilty to securities offering fraud in the sale of stock to investors. Investors were misled about the existence of foreign contracts, registration of the securities, and the imminence of a public offering. Trial for the firm's CEO in the $50 million fraud is scheduled for October 2004. The case was investigated by the FBI.

Dantone, Inc.

After being convicted at trial, Dantone, Inc. was sentenced to forfeiture of $418,000, restitution of $408,000, and a fine of $800,000 in a scheme involving falsification of corporate records in the sale of auctioned automobiles. The General Manager and Operations Manager of the auction were also convicted and sentenced to 42 months and 36 months imprisonment, respectively. The case was investigated by the FBI.

Ambassador Eyewear

The CEO and CFO of Ambassador Eyewear were indicted in a scheme to falsify corporate records to claim fictitious sales and inflate profits reported to banks, investors, and the SEC. Banks lost $14 million and investors in the newly public company lost millions more when Ambassador collapsed. This matter is pending trial and was investigated by the FBI in coordination with the SEC, which also brought civil charges.

U.S. Attorney's Office for the Southern District of Texas

Duke Energy

On April 21, 2004, two former Duke Energy vice-presidents and a former Duke Energy trader were indicted. The 18-count Indictment charges the defendants with racketeering, wire fraud, mail fraud, falsification of corporate books and records, and money laundering. The Indictment alleges the defendants schemed to manipulate the books and records of Duke Energy's Houston trading subsidiary, Duke Energy North America, in order to create the appearance of profitable trading activity which generated substantial bonuses for themselves. A trial date has not been scheduled. The investigation was conducted by the Postal Inspection Service and FBI, in coordination with the SEC and CFTC.

Dynegy

Following a trial and guilty verdict, on March 25, 2004, Dynegy's former Senior Director of Tax Planning/International Tax and Vice President of Finance was sentenced to more than 24 years for his role in a corporate fraud scheme. The defendant was convicted of conspiracy, securities fraud, mail fraud, and wire fraud for a scheme to borrow $300 million from various lending institutions while publicly misrepresenting the proceeds of those loans as revenue from operations rather than debt. The plan, called "Project Alpha," involved a complex series of gas sales that were to take place over a 60-month period between Dynegy and a specially-created third company called "ABG Gas." It was also part of the conspiracy to prevent disclosure of those side agreements to their auditors, the SEC, the shareholders and the investing public. When the fraud was publically disclosed, Dynegy's stock fell 52 percent in two days.

Dynegy's former Vice President of Tax and a member of its Risk Control Group and Deal Structure Groups, previously pleaded guilty on August 5, 2003. Both admitted to having intentionally concealed improper accounting practices from Dynegy's auditors, the SEC, rating agencies, lenders, market and securities analysts, and the investing public. Their sentencings are set for August 19, 2004. The investigation was conducted by the FBI and the Postal Inspection Service. The SEC conducted a parallel investigation.

El Paso Corporation

On December 11, 2003, a natural gas trader and former Vice President of El Paso Corporation pleaded guilty to false reporting. The defendant admitted that in November

2001, he ordered a false trade report used to calculate the "index" price of natural gas to be sent via e-mail. He fabricated the list of 48 trades and caused El Paso to report the trades to Inside FERC Gas Market Report for use in calculating the December 2001 price index for natural gas. The defendant is scheduled to be sentenced on October 8, 2004. The investigation was conducted by the FBI and Postal Inspection Service, in coordination with the CFTC.

Civil Enforcement

United States Department of Labor

The Employee Benefit Security Administration ("EBSA") of the Department of Labor continues to protect employee benefit plans aggressively from the effects of corporate fraud. Since inception of corporate fraud as an investigative priority in November 2001, EBSA has identified 44 civil investigations as having potential corporate fraud issues. EBSA is also cooperating with other federal enforcement agencies including the Justice Department, FBI, SEC, and IRS-CI.

Significant Cases

Enron

In May 2004, EBSA announced the filing of settlements (which must be approved by the court) to restore at least $66.5 million to the Enron 401(k) and employee stock ownership plans. EBSA opened its investigation of Enron's employee benefits plans on November 16, 2001, based on information reported in the media concerning financial difficulties of the company. As a result of EBSA's intervention, State Street was previously appointed to be the independent fiduciary for the Enron ESOP, Savings Plan and Cash Balance Plan.

On June 26, 2003, EBSA filed a lawsuit against Enron, Kenneth Lay, Jeffrey Skilling, Enron's former Board of Directors, and the Administrative Committee of the ESOP and Savings Plans in the U.S. District Court for the Southern District of Texas. The lawsuit was consolidated with other ERISA actions already consolidated in *Tittle v. Enron*. The crux of the case is that the plans' fiduciaries never seriously considered the prudence of the plans' investment in stock or took any action to protect the plans' participants from tremendous losses despite numerous warning signs, many of them well-publicized. On May 20, 2004, a Houston federal district judge approved three consent decrees with all members of Enron's former outside board of directors, as well as all the members of the ESOP and Savings Plans' administrative committee that were named in the lawsuit. EBSA continues to pursue its lawsuit against Kenneth Lay, Jeffrey Skilling, and Enron, the only remaining defendants in the lawsuit.

Rite Aid

EBSA obtained a consent decree in U. S. District Court for the Middle District of Pennsylvania on September 3, 2003, against Franklyn M. Bergonzi, Rite Aid Corporation's former Executive Vice-President, Chief Financial Officer and a former plan trustee to Rite Aid employee benefit plans. Mr. Bergonzi exercised discretionary authority or discretionary control respecting management of the Rite Aid Corporation Employee Investment Opportunity 401(k) Plan. Rite Aid's financial statements in 1997, 1998, and 1999, contained misstatements that resulted in Rite Aid stock trading at artificially inflated prices. During 1997, 1998, and 1999, the plan purchased Rite Aid stock and Mr. Bergonzi knew or should have known that the plan was overpaying for the Rite Aid stock. Mr. Bergonzi did not make any effort to protect the plan and allowed it to buy stock at prices significantly higher than its actual value. The plan suffered significant losses when the price of Rite Aid stock plummeted after the public learned in late 1999 that Rite Aid's prior financial statements needed to be restated.

The court's order permanently enjoined Bergonzi from serving as an administrator, fiduciary, officer, trustee, custodian, counsel, agent, employee, or representative in any capacity to any employee benefit plan; as a consultant or advisor to any employee benefit plan; or in any capacity that involves decision-making authority or custody or control of the moneys, funds, assets, or property of any employee benefit plan; and permanently enjoined Mr. Bergonzi from violating Title I of ERISA.

<u>Global Crossing</u>

In July 2004, EBSA entered into settlement agreements with five former officers and directors of Global Crossing significantly restricting their ability to serve as fiduciaries of ERISA plans for a period of five years without Department of Labor approval. EBSA also secured $25 million for the plan from Gary Winnick, Global Crossing's former Chairman, and was instrumental in facilitating the recovery of an additional $54 million for the plan through the private class action settlement, bringing the total recovery for workers and retirees to $79 million. Prior to the settlements, EBSA's investigation focused on allegations that Global Crossing artificially inflated its revenues by engaging in swap transactions (quid pro quo capacity exchanges). The investigation also focused on whether the company misstated its true financial condition to plan participants through the company's filings with the SEC and information provided to the investing public.

<u>Amicus Briefs Filed By EBSA</u>

EBSA filed amicus briefs in *Tittle v. Enron*, in the Southern District of Texas on August 30, 2002, *In re Williams ERISA Litigation*, in the Northern District of Oklahoma on August 20, 2003, *In re WorldCom*, in the Southern District of New York on January 16, 2004, and in *Agway v. Magnuson*, in the Northern District of New York on June 18, 2004. All four cases involved allegations of misrepresentations in relation to the decline in company stock and resulting losses to the company-sponsored 401(k) plans and/or ESOPs.

Office of Federal Housing Enterprise Oversight

Since joining the President's Corporate Fraud Task Force in July 2003, the Office of Federal Housing Enterprise Oversight (OFHEO) has sought to avoid rather than merely remediate corporate fraud through its efforts to address corporate activities that do not meet safety and soundness standards. During the second year of the President's Corporate Fraud Task Force, OFHEO has been active in meeting its regulatory responsibilities for oversight of Fannie Mae and Freddie Mac ("the Enterprises").

In 2003, OFHEO took a number of actions aimed at deterring conduct that could lead to fraud. In particular, OFHEO brought civil actions against Freddie Mac executives for failures to maintain adequate internal controls, negotiated a record civil money penalty, and entered into a consent order that required the Board and senior management to address corporate governance and culture at Freddie Mac. OFHEO continues its oversight of Freddie Mac while currently conducting a review of accounting and controls at Fannie Mae.

In particular, OFHEO took the following actions aimed at avoiding or reducing the likelihood of corporate fraud:

- Promulgated a rule on corporate governance to assure that Fannie Mae and Freddie Mac boards are attentive to their duties, including oversight of legal compliance by the enterprises.

- Proposed a rule further elaborating on the corporate governance responsibilities of officers and directors at the enterprises, including proposals for (1) mandatory officer and director training on legal responsibilities on an annual basis, (2) enhanced rules providing for director independence, (3) executive compensation standards to be tied not only revenue production, but to law and regulatory compliance and operational stability, (4) mandatory review and updating of conflict of interest standards, and requiring audit partner and audit firm rotation.

- Undertook an investigation of Freddie Mac accounting and internal controls that led to the largest civil money penalty for a safety and soundness violation by a financial regulator – $125 million – and to a consent order that required major changes to board and officer operational and cultural actions. OFHEO also initiated actions against certain former officers of the company.

- The Freddie Mac consent order required (1) creation of the positions of chief risk officer and chief compliance officer, (2) enhanced funding for accounting function, (3) improved systems to provide information required by government regulators, (4) review of corporate codes of conduct and bylaws, (5) improvements in board access to information, and (6) major review of internal controls. The Board and senior management must review annually the legal, regulatory and compliance obligations place upon them and the company.

- Initiated actions against former officers to limit compensation and other benefits after their separation from Freddie Mac. This was based on an explicit policy of not permitting corporate executives to benefit from unsafe and unsound conduct, particularly where such behavior led to millions of dollars in harm to the corporation and an ongoing threat of civil litigation and criminal actions.

- Initiated a review of Fannie Mae accounting and internal controls that is currently underway.

- Created a new Office of Compliance and Office of Chief Accountant to reinforce OFHEO's supervisory and examination functions with "audit-like" resources, while at the same time doubling the size of the examination staff over a multi-year time frame.

- Enhanced the focus of all OFHEO examination and oversight groups on accounting, corporate governance, and internal controls, including maintenance of effective "Chinese walls" to segregate and limit access to information and to assure effective internal security systems.

Securities and Exchange Commission

The SEC oversees the conduct of all of the key participants in the securities markets, including public companies, stock exchanges, broker-dealers, investment advisers, mutual funds, and public utility holding companies. Since last year's report, the SEC has continued to aggressively combat financial fraud. The SEC has brought significant actions against companies that have committed accounting fraud, as well as the firms and individuals that helped them do so. The SEC recently obtained significant penalties in financial fraud and reporting cases, including the largest civil penalty imposed in SEC history – a $2.25 billion penalty against WorldCom in July 2003, and has continued to vigorously pursue wrongdoers in connection with the Enron fraud. In October 2003, the SEC obtained federal court approval of the $1.4 billion landmark global research analyst settlement relating to alleged undue influence of investment banking interests on securities research at brokerage firms.

The SEC has used its new enforcement authority under the Sarbanes-Oxley Act of 2002 to the fullest extent of the law in seeking to improve corporate responsibility and protect America's shareholders and workers, including utilizing the "Fair Funds" provision under the Sarbanes-Oxley Act in many recent settlements. In the past year, the SEC has also brought and settled significant cases against mutual funds and their executives, financial services providers, and brokers for alleged fraudulent conduct relating to market timing and late trading in fund shares, and has settled several significant cases with broker-dealers that sell mutual fund shares. The SEC continues to coordinate efforts, and share its securities expertise and knowledge, with other Task Force members in a substantial number of cases.

Though the SEC has undertaken steps to protect our financial markets through its regulatory arm, this portion of the report focuses on the efforts of its enforcement arm. Here is a brief breakdown of its enforcement numbers:

- Total enforcement actions filed:
  - In FY 2004 through 6/30/04: 378
  - In FY 2003: 679
  - In FY 2002: 598
  - In FY 2001: 484
- Financial fraud and issuer reporting actions filed:
  - In FY 2004 through 6/30/04: 81
  - In FY 2003: 199
  - In FY 2002: 163
  - In FY 2001: 112
- Officer and director bars sought (in all categories of cases):
  - In FY 2004 through 6/30/04: 113
  - In FY 2003: 170
  - In FY 2002: 126
  - In FY 2001: 51
- Temporary restraining orders filed (in all categories of cases):
  - In FY 2004 through 6/30/04: 27
  - In FY 2003: 35
  - In FY 2002: 48
  - In FY 2001: 31

- Asset freezes sought (in all categories of cases):
  - In FY 2004 through 6/30/04: 36
  - In FY 2003: 39
  - In FY 2002: 63
  - In FY 2001: 43
- Trading suspensions ordered:
  - In FY 2004 through 6/30/04: 32
  - In FY 2003: 13
  - In FY 2002: 11
  - In FY 2001: 2
- Subpoena enforcement proceedings filed:
  - In FY 2004 through 6/30/04: 7
  - In FY 2003: 12
  - In FY 2002: 19
  - In FY 2001: 15

The Story Behind The Numbers:

Significant SEC Cases from July 1, 2003 through June 30, 2004

During the second year of the Task Force's existence, the SEC brought a number of significant actions involving corporate or accounting misconduct, including:

WorldCom: The SEC continued to pursue significant actions against WorldCom and its executives related to WorldCom's accounting fraud. In July 2003, the SEC obtained court approval of a $2.25 billion penalty, the largest in SEC history. The penalty was satisfied in May 2004 by the company's payment, post-bankruptcy, of $500 million in cash and ten million shares of common stock in the reorganized company (valued at $250 million under the Company's bankruptcy plan). The penalty will be distributed to victims of the company's fraud, pursuant to the SEC's authority under the Fair Funds provision of the Sarbanes-Oxley Act of 2002. In March 2004, the SEC brought its fifth civil enforcement action related to the WorldCom fraud, against Scott D. Sullivan, WorldCom's former Chief Financial Officer who, in connection with the same conduct, also pleaded guilty to criminal charges filed by the U.S. Attorney's Office for the Southern District of New York. The SEC entered into a settlement with Mr. Sullivan, which included, among other things, the entry of a court order permanently enjoining Mr. Sullivan from violating numerous provisions of the federal securities laws and permanently barring Mr. Sullivan from serving as an officer or director of a public company, an administrative order barring Mr. Sullivan from appearing or practicing before the Commission as an accountant, and potential monetary relief in the civil action.

AIG: In September 2003, the SEC entered into a settlement with American International Group, Inc. (AIG) in connection with an alleged accounting fraud committed at Brightpoint, Inc. The fraud charges against AIG were based on AIG's alleged role in fashioning and selling a purported "insurance" product that Brightpoint used to report false and misleading financial information to the public. In settling the SEC's charges, AIG agreed to pay a $10 million penalty, disgorge the $100,000 fee it charged Brightpoint for putting the "insurance" product together, as well as other relief. The SEC also brought charges in connection with the accounting fraud against Brightpoint; Philip Bounsall, Brightpoint's former chief financial officer; John Delaney, Brightpoint's former chief accounting officer; Timothy Harcharik, Brightpoint's former director of risk; and Louis Lucullo, an AIG assistant vice president, all of which were settled except for the action against Mr. Harcharik. In connection with these settlements, among other relief, Brightpoint, Mr. Delaney, and Mr. Bounsall agreed to pay civil penalties of $450,000, $100,000, and $45,000, respectively.

Analyst Research Global Settlement: In October 2003, the SEC obtained federal court approval of the $1.4 billion landmark global research analyst settlement with ten of the nation's top investment banking firms and two individuals relating to alleged undue influence of investment banking interests on securities research at brokerage firms. Under the terms of the Final Judgments and Orders approved by the court, the ten firms and two individuals paid a total of $894 million in penalties and disgorgement, consisting of $397 million in disgorgement and $497 million in penalties. Half of the $775 million payment by the firms (other than Merrill Lynch, which paid $100 million in connection with a prior settlement with the states) was paid in resolution of actions brought by the SEC, NYSE, and NASD and was put into distribution funds to benefit customers of those firms. The firms were also required to make additional payments and undertake reforms to their research practices.

Morgan Stanley: In November 2003, the SEC entered into a settlement with Morgan Stanley DW Inc. in connection with the company's alleged failure to provide its mutual fund customers with information about a Morgan Stanley program in which a select group of mutual fund complexes paid Morgan Stanley substantial fees for preferred marketing of their funds, and incentives to Morgan Stanley registered representatives and branch managers to sell shares of those funds. The SEC also alleged that Morgan Stanley failed to adequately disclose at the point of sale the higher fees associated with large purchases of Class B shares of certain of its proprietary mutual funds, and the incentives for Morgan Stanley's sales force to sell Class B shares of those funds. As part of the settlement, Morgan Stanley agreed to pay $50 million in disgorgement and penalties, which will be distributed to harmed customers.

Vivendi: In December 2003, the SEC entered into a settlement with Vivendi Universal, S.A., the company's former CEO, Jean-Marie Messier, and its former CFO, Guillaume Hannezo, relating to the company's alleged fraud between December 2000 and July 2002, which included the company's issuance of false press releases, improper adjustments to earnings, and failure to disclose future financial commitments. As part of the settlement, Vivendi agreed to pay a $50 million penalty, which will distributed to harmed investors; Mr. Messier agreed to relinquish a 21 million Euro severance package; and Messrs. Messier and Hannezo agreed to not serve as an officer or director of a public company for, respectively, 10 and 5 years.

Enron: During the past year, the SEC continued to pursue numerous actions relating to the Enron accounting fraud, including bringing significant actions against Enron's former officers and directors, and firms and individuals alleged to have aided and abetted, or caused, Enron's fraud. Since August 2002, the SEC has brought twelve separate Enron-related actions involving twenty-two individuals and four entities, including the SEC's groundbreaking actions against four counter-party financial institutions for aiding and abetting

Enron's fraud. All four of the institutions (Merrill Lynch & Co., Inc., Citigroup, Inc., J.P. Morgan Chase & Co., and Canadian Imperial Bank of Commerce) entered into settlements with the SEC and have paid a total of $396 million to be distributed to Enron fraud victims pursuant to the Fair Funds provision of the Sarbanes-Oxley Act of 2002. Eight of the individuals, including Enron's former Chief Financial Officer, Andrew S. Fastow, have entered into settlements with the SEC and collectively have paid an additional $36.4 million. The remaining individuals are litigating the SEC's allegations. Each of these actions had a parallel criminal component involving either the Justice Department's Enron Task Force or the Manhattan District Attorney.

Mutual Fund Breakpoint Actions: In February 2004, the SEC, in conjunction with NASD, announced enforcement and disciplinary actions against seven firms, including Wachovia Securities, LLC, UBS Financial Services, Inc., American Express Financial Advisors, Inc., Raymond James Financial Services, Inc., Legg Mason Wood Walker, Inc., Linsco/Private Ledger Corp., and H.D. Vest Investment Securities, Inc., for failure to deliver mutual fund breakpoint discounts during 2001 and 2002. Breakpoint discounts are volume discounts applicable to front-end sales charges on Class A mutual fund shares. The firms agreed to compensate customers for the overcharges, pay fines in an amount equal to their projected overcharges that total over $21 million, and undertake other corrective measures.

Lucent: In May 2004, the SEC entered into a settlement with Lucent Technologies, Inc. in connection with company's alleged $1.1 billion accounting fraud. The SEC alleged that Lucent fraudulently and improperly recognized approximately $1.148 billion of revenue and $470 million in pre-tax income during its fiscal year 2000. The SEC also charged nine current and former Lucent officers, executives and employees, three of whom settled with the SEC, and one former Winstar Communications Inc. officer, in connection with the alleged fraud. As part of the settlement, Lucent agreed to pay a $25 million penalty.

Gemstar: In June 2004, the SEC entered into a settlement with Gemstar-TV Guide International, Inc. in connection with charges that the company materially overstated its revenues by nearly $250 million in its financial statements from 1999 through 2002. Gemstar agreed to settle the case by, among other things, paying a $10 million civil penalty, which will be distributed to harmed shareholders pursuant to the SEC's authority under the Sarbanes-Oxley Act of 2002. The SEC also filed securities fraud charges against three former senior executives of the company, including members of Gemstar's board and the company's general counsel, for their roles in connection with the company's accounting fraud. These charges brought to five the number of former Gemstar executives sued by the SEC in connection with the company's financial fraud.

Market Timing and Late Trading Actions: In the past year, the SEC has brought and, in some cases, settled significant cases against 19 mutual funds and their executives, financial services providers, and brokers for alleged fraudulent conduct relating to market timing and late trading in fund shares, and selective disclosure of mutual fund portfolio information. In connection with these allegations, the SEC entered into a $250 million settlement with Alliance Capital Management L.P., a $225 million settlement with Massachusetts Financial Services Co. and two of its executives, as well as significant settlements with Strong Capital Management and its founder Richard Strong, Pilgrim Baxter & Associates, Putnam Investment

Management LLC, and Banc One Investment Advisors Corporation and one of its executives.

Commodity Futures Trading Commission

Summary

During the past twelve months, the Commodity Futures Trading Commission (CFTC), through its Division of Enforcement, continued to file enforcement actions and obtain monetary relief at a record pace. Among those actions have been a substantial number of actions against energy companies and their employees that contribute to the mission of the President's Corporate Fraud Task Force. Also contributing to that mission have been the CFTC's cooperative enforcement efforts, including assistance and training provided to other federal and state authorities, and the detail of staff to criminal authorities in South Florida and U.S. Attorneys pursuing energy-related investigations. Most notable among the CFTC's results for this second year of the Task Force have been its 137% increase in civil monetary penalties ordered (further enhancing that year's record increase of 400% in monetary awards over the prior year, which preceded the formation of the Task Force).

The CFTC has continued to actively investigate possible violations of the Commodity Exchange Act (the "Act") committed in the energy markets, relating to, among other things, false reporting, attempted manipulation, and "round-trip" trading by numerous other energy companies, including Enron and its affiliates. The investigations center on the widespread practice by energy companies – most of them public entities – of falsely reporting the prices and quantities of natural gas or electricity transactions to reporting services, often to influence the prices reported by these services and to consequently benefit energy derivative positions held by these companies. To date, the CFTC has filed 17 major enforcement actions against 23 companies and individuals as a result of its ongoing investigation of wrongdoing in the energy markets; fourteen of these actions were filed in the second year of the Task Force.

Thus far, the CFTC's energy actions have resulted in civil monetary penalties totaling over $215 million against 20 companies and individuals, among other sanctions. The CFTC has assisted the Justice Department in investigations, including detailing staff members to three different U.S. Attorneys Offices, leading to five indictments; and has presented energy and other training to fellow members of law enforcement.

Quantitative Review of the CFTC's Efforts

As noted above, for the time period from July 1, 2003, through June 30, 2004, the CFTC saw a dramatic increase in their enforcement efforts, to wit:

Enforcement actions: The CFTC instituted 68 enforcement actions — a 17% increase over the 58 actions filed in the same period last year.

Restraining/freeze orders: The CFTC obtained 17 restraining orders freezing assets and preserving books and records, the same number as the previous year.

Permanent Injunctions/Cease and Desist Orders: The CFTC obtained 58 permanent injunctions in civil actions, and 51 cease and desist orders in administrative proceedings.

Civil Monetary Penalties: The CFTC was awarded $314,870,392 in civil monetary penalties, an increase of nearly 137% over the prior twelve-month period (which itself was nearly a 400% increase over the prior twelve months). The breakdown, with the numbers for the prior twelve months in parentheses, is as follows:

In civil injunctive actions $152,956,392 ($ 99,164,153)
In administrative proceedings $161,914,000 ($ 34,536,000)
Total $314,870,392 ($133,700,153)

Restitution and Disgorgement Awarded: The CFTC obtained over $67 million in restitution and disgorgement ordered.

Industry registrants subjected to trading prohibitions: The CFTC obtained trading prohibitions against 18 individuals.

Significant Cases

Enron

On May 27, 2004, the U.S. District Court for the Southern District of Texas entered a consent order against Enron Corporation in an action filed by the CFTC against Enron and one of its former natural gas traders. The consent order provided for a permanent injunction and other equitable relief against Enron and a $35 million civil monetary penalty, which is subject to Enron's pending bankruptcy proceeding in U.S. Bankruptcy Court for the Southern District of New York.

In its complaint, the CFTC alleged that Enron and its former traders used Enron Online (EOL), a web-based electronic trading platform, to engage in a manipulative scheme by buying an extraordinarily large amount of Henry Hub (HH) natural gas next-day spot contracts in a short period of time, thereby causing artificial prices in the HH Spot Market and impacting the correlated NYMEX natural gas futures contract. The complaint also alleged that Enron operated EOL as an illegal futures exchange from September through December 2001 and offered an illegal agricultural futures contract on EOL.

Aquila Merchant Services

On January 28, 2004, the CFTC filed an administrative order simultaneously settling charges of attempted manipulation and false reporting against Aquila Merchant Services, Inc. The order stated that from at least January 1999 through May 2002, Aquila reported false natural gas trading information, including price and volume information to certain reporting firms in violation of the Act. The reporting firms use price and volume information in calculating published surveys or indexes of natural gas prices for various hubs throughout the United States. Aquila knowingly submitted false information to the reporting firms in an attempt to skew those indexes for its financial benefit. Aquila specifically intended to report false market information concerning, among other things, trade prices and volumes, in an attempt to manipulate the price of natural gas in interstate commerce. The order required Aquila to pay a civil penalty of $26.5 million, as well as to cease and desist from further violations of the Act.

Reliant Energy Services

On November 25, 2003, the CFTC filed an administrative order simultaneously settling charges of attempted manipulation, false reporting, and wash trading against Reliant Energy Services, Inc. The order stated that from at least February 1999 through May 2002, Reliant reported false and/or misleading information, including price and volume information, concerning natural gas cash transactions to certain reporting firms in an attempt to benefit Reliant. Reliant's conduct constituted an attempted manipulation under the Act, which, if successful, could have affected prices of NYMEX natural gas futures contracts. The Commission's order required Reliant to pay a civil monetary penalty of $18 million as well as to cease and desist from further violations of the Act, and to continue to cooperate with the CFTC.

American Electric Power and AEP Energy Services

On September 30, 2003, the CFTC filed a complaint in federal district court in Columbus, Ohio, charging American Electric Power Company, Inc. ("AEP") and its subsidiary AEP Energy Services, Inc. ("AEPES") with violations of federal law for false reporting and attempted manipulation of natural gas prices. The complaint charges that from at least November 2000 through October 2002, AEP and AEPES reported false natural gas trading information, including price and volume information, to certain energy index firms. The complaint further alleges that AEP and AEPES attempted to manipulate natural gas prices by knowingly delivering false or misleading or knowingly inaccurate trade prices and volumes. The CFTC is seeking various sanctions against AEP and AEPES, including permanent injunctive relief, monetary penalties, and other remedial and ancillary relief.

Duke Energy

On September 17, 2003, the CFTC filed an administrative order simultaneously settling charges of attempted manipulation and false reporting against Duke Energy Trading and Marketing, L.L.C. The order stated that from at least January 2000 through August 2002, Duke Energy reported false natural gas trading information, including price and volume information, to certain reporting firms in violation of the Act. The order finds that Duke Energy knowingly submitted false information to the reporting firms in an attempt to benefit Duke Energy 's trading positions. The order requires Duke Energy to pay a civil monetary penalty of $28 million as well as cease and desist from further violations of the Act.

WD Energy Services

On July 28, 2003 the CFTC filed and simultaneously settled an administrative action against WD Energy Services, Inc., the United States-based energy trading unit of EnCana Corporation. The settlement required WD Energy to pay a civil monetary fine of $20 million. The CFTC's administrative action stemmed from WD Energy's attempts from at least June 2000 through at least August 2001 to manipulate various natural gas price indices by reporting false trade information to certain natural gas trade publications in violation of the Act.

The Williams Companies and Williams Energy

On July 20, 2003, the CFTC filed an administrative order simultaneously settling charges of attempted manipulation and false reporting against The Williams Companies, Inc. and its subsidiary, Williams Energy Marketing and Trading. The order stated that from at least January 2000 through June 2002, the companies reported false natural gas trading information, including price and volume information, to certain reporting firms in violation of the Act. The order stated that Respondents knowingly submitted false information to the reporting firms in an attempt to skew those indexes for their own financial benefit. The CFTC order required Respondents to pay a civil penalty of $20 million, as well as to cease and desist from further violations of the Act and regulations.

Operation Wooden Nickel

The CFTC played a major collaborative role in the 18-month "Operation Wooden Nickel" undercover investigation into foreign currency, or "forex," fraud conducted by the U.S. Attorney's Office and FBI in the Southern District of New York. On November 19, 2003, criminal charges were filed against 47 defendants. At the same time, the CFTC filed six separate federal injunctive actions against 31 persons and entities. As part of the undercover operation, federal criminal agents infiltrated a forex boiler room in the World Financial Center allegedly operated by corrupt sellers of illegal forex futures contracts. The agents captured hundreds of hours of video and audio recordings of defendants allegedly scheming to deceive unsuspecting customers and steal millions of dollars. Operation Wooden Nickel is one of the largest undercover operations in which the CFTC has collaborated.

In its complaints, the CFTC charged the defendants with, among other things, fraudulent solicitation of customers to purchase illegal foreign currency contracts, acceptance of customer funds for the purchase and sale of those futures contracts, and subsequently misappropriating those funds by using them for personal expenses.

Federal Communications Commission

The Federal Communications Commission ("FCC") is committed to protecting against misconduct by common carriers, whether it be financial fraud or other misconduct that affects consumers or investors.

On the initiative of FCC Chairman Michael Powell, staff from the FCC and Justice Department drafted a Memorandum of Understanding to enhance coordination efforts between the two agencies on corporate fraud matters. Chairman Powell and then Assistant Attorney General for the Criminal Division, Michael Chertoff, signed the Memorandum in May 2003. This agreement continues to facilitate coordination between the agencies of fraud referrals to the Justice Department.

In September 2002, the FCC established the Federal-State Joint Conference on Accounting Issues ("Joint Conference"). The Joint Conference's purpose is to provide "for an ongoing dialogue between the FCC and the states in order to ensure that regulatory accounting data and related information filed by carriers are adequate, truthful, and thorough." The Joint Conference consists of two FCC Commissioners and five state utility commissioners.

The Joint Conference has met at least four times since its inception. At its September 2003 meeting, the Joint Conference began a dialogue with staff from the SEC on corporate accounting and responsibility issues. On October 9, 2003, the Joint Conference recommended to the FCC that it adopt a number of new accounting requirements for incumbent local exchange carriers.

In an order released June 24, 2004, the FCC adopted several of the accounting recommendations made to the agency by the Joint Conference. *In the Matter of Federal-State Joint Conference on Accounting Issues*, FCC 04-149, 2004 WL 1416512 (June 24, 2004).

Federal Energy Regulatory Commission

The Federal Energy Regulatory Commission's ("FERC") numerous investigations into the manipulation of energy markets, including anomalous bidding practices, physical withholding of capacity, gaming practices, and violations of standards of conduct, resulted in settlements over the last year valued in excess of $500 million. Energy companies entering into settlements with FERC included Reliant Energy Services, Duke Energy and Trading, Williams Power Company, Dynegy, Inc., Portland General Electric, El Paso Electric, Avista Corporation, Cleco Corp., Nicor Gas, National Fuel Gas Company, and Center Point Gas Transmission Company. FERC still has underway several proceedings in which it is pursuing refunds of up to $3 billion for sales in California, as well as additional disgorgement of profits from sellers who are found to have violated FERC tariffs.

Significant Cases – Anomalous Bidding and Physical Withholding of Capacity In California

Pursuant to a June 25, 2003 order, FERC directed its Office of Market Oversight and Investigations (OMOI) to investigate potential anomalous bidding behavior and practices in the California Power Exchange (Cal PX) and California Independent System Operator (Cal ISO) markets during the time period May 1, 2000 through October 1, 2000. Specifically, it instructed OMOI to determine whether any entities that bid above $250 per megawatt in the Cal PX and Cal ISO markets during May 1, 2000 through October 1, 2000 violated the Market Monitoring and Information Protocols (MMIP) of the Cal ISO and Cal PX tariffs. The background that led to the Order is set forth in chapter six of the March 26, 2003 *Staff Final Report in Fact-Finding Investigation of Potential Manipulation of Electric and Natural Prices* (Docket No. PA02-2-000).

Information discovered in Docket No. PA02-2-000 and allegations by various parties also suggested that some generators engaged in physical withholding of power from the Cal ISO or Cal PX. OMOI launched an investigation among generators in California during the period May 2000 to June 2001.

Settlements have been reached with several companies with respect to the investigations of anomalous bidding and physical withholding and are being negotiated with others. Settlements have been reached in the following instances:

<u>Reliant Energy Services</u>

On October 2, 2003, FERC issued its order approving the agreement between Reliant Energy Services and OMOI. In addition to resolving all outstanding issues in the anomalous bidding investigation and the physical withholding investigation, the agreement resolved all outstanding issues with respect to Reliant arising from the investigation in Docket No. PA02-2-000, including issues contained in the Final Report, and all issues in Docket No. EL03-59-000 (Show Cause Order relating to trades between BP Energy and Reliant). The primary terms of the agreement require Reliant to pay up to $50 million over three years; $15 million was paid at the time of settlement. In addition, Reliant must file monthly reports of all its sales into the Western markets with OMOI for 12 months and must retain all telephone conversation tapes for three years.

Duke Energy

On December 19, 2003, FERC issued its order approving the agreement between Duke Energy Trading and OMOI. The agreement required Duke to pay $2.5 million and resolved all issues relating to Duke in the anomalous bidding investigation, the physical withholding investigation, and any issues raised in the Final Report (PA02-2-000).

Williams Power

Williams Power Company entered into an agreement with the California investor-owned utilities in which it settled all claims, including the anomalous bidding investigation and the physical withholding investigation. In addition, the settlement includes the refund proceeding (EL00-95-000 and El00-95-000) in which FERC held that the prices for wholesale electricity in the Cal ISO and Cal PX from October 2, 2000 through June 20, 2001 were not just and reasonable. The total settlement is valued at more than $140 million, with $8 million allocated to resolve the anomalous bidding investigation. The offer of settlement and the settlement agreement was filed with FERC on April 27, 2004.

Dynegy

Dynegy, the California public utilities and state agencies, and OMOI reached a global settlement that, like the settlement with Williams, covers all claims including the anomalous bidding and physical withholding investigations and the refund proceeding. The offer of settlement was filed with the FERC seeking approval, on June 25, 2004. Under the terms of the settlement, Dynegy will forego certain receivables due it and pay additional cash, such that the settlement is valued at approximately $281 million plus interest.

Significant Cases – Gaming Activities in the California Energy Markets

FERC's investigation of gaming practices that manipulated energy markets has yielded an additional $26 million in payments. Settlements of three separate investigations involving Portland General Electric, El Paso Electric, and Avista Corporation resulted in $23.5 million in payments.

Other Significant Cases

Cleco

After substantial investigation, FERC approved a settlement in which Cleco Corp.and its affiliated electric wholesale generator were found to have engaged in anticompetitive practices favoring their affiliates. As part of the settlement, Cleco paid a civil penalty of $750,000, the first ever imposed for improper affiliate preferences by an electric wholesale generator. In addition, the settlement: (1) revoked market-based rate authority for the power marketer for a one-year period; (2) required Cleco to refund all improperly gained profits, approximately $2.1 million, to retail customers; and (3) subjected Cleco and its affiliates to a new stringent code of conduct and a stringent compliance plan for three years.

Nicor

Following investigation, FERC approved a settlement resolving several of Nicor Gas' contracts and negotiated rate contracts that did not have FERC authorization or improperly went beyond blanket certificate authorization. FERC required Nicor to refund to its customers approximately $2 million, plus a payment of $60,000 to cover the costs of the investigation, and to implement a compliance program.

National Fuel

A FERC investigation revealed that National Fuel Gas Company improperly shared certain information with its marketing affiliate and certain other customers and had failed to post certain required information on its Internet website. FERC approved a settlement that required National Fuel to comply with a strict compliance plan for three years and to pay $300,000 to cover the costs of the investigation.

CenterPoint

Following an investigation and audit, FERC approved a settlement with CenterPoint Gas Transmission Company regarding CenterPoint's failure to file with FERC and disclose to the public via its Internet website various information regarding certain negotiated rate agreements. Under the terms of the settlement, CenterPoint posted and/or filed all of the previously unreported terms and conditions in the negotiated rate contracts and made a $75,000 payment to cover the costs of the investigation.

FERC Corporate Fraud-Related Rulemakings

Electric and Natural Gas Behavior Rules

On November 17, 2003, FERC amended all electric market-based rate tariffs and authorizations to expressly prohibit a number of market behaviors. These behaviors involve (1) electric generating unit operation; (2) actions that are without legitimate business purpose and that are intended to or foreseeably could manipulate market prices, conditions or rules; (3) communications to FERC, market monitors, and others; (4) reporting transaction data to publishers of indices; (5) record retention; and (6) applicable codes of conduct and standards of conduct. On November 17, 2003, FERC also amended the blanket certificates for natural gas sales to prohibit actions that are without legitimate business purpose and that manipulate or attempt to manipulate market conditions, and to require sellers to adhere to a code of conduct addressing, among other things, reporting transaction data to publishers of indices and record retention.

Electric Market-Based Rates

On April 14, 2004, FERC adopted a new generation market power test to be used in the interim to determine whether sellers should be granted authority to make sales at market based rates. On April 14, 2004, FERC also initiated a proceeding to evaluate its current analysis for evaluating requests for market-based rate authority, to ensure that market-based rates remain just and reasonable under the Federal Power Act.

Improved Financial Reporting

On February 11, 2004, FERC issued a final rule amending its financial reporting requirements to provide new, quarterly financial reporting by FERC-jurisdictional entities, providing more timely and transparent financial information by, among other things, requiring the reporting of the economic effects of significant transactions and events.