

## II. HISTORY OF THE COMPANY

### A. Background

Enron Corp. is a Houston-based energy and commodities trading holding company currently under Federal bankruptcy reorganization protection.<sup>49</sup> Through approximately 3,500 domestic and foreign subsidiaries and affiliates, Enron conducted business in diverse markets and industries, including wholesale merchant and commodity market businesses, the

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<sup>49</sup> Enron Corp., an Oregon corporation, and thirteen of its affiliates filed voluntary petitions for Chapter 11 bankruptcy reorganization protection on December 2, 2001, in the United States Bankruptcy Court, Southern District of New York. Simultaneously with the filings, the companies collectively filed a motion requesting entry of an order jointly administering and consolidating for administrative purposes only these Chapter 11 cases. Additional affiliated entities were consolidated with the proceeding subsequent to the original filings.

As of February 8, 2003, Enron reported that the following 79 Enron companies have filed voluntary petitions for Chapter 11 reorganization: Artemis Associates, LLC; BAM Leasing Company; Clinton Energy Management Services, Inc.; EBF LLC; Calypso Pipeline, LLC; EES Service Holdings, Inc.; EESO Merchant Investments, Inc.; EFS Construction Management Services, Inc.; ENA Asset Holdings, L.P.; ENA Upstream Company LLC; Enron Broadband Services, Inc.; Enron Broadband Services, L.P.; Enron Capital & Trade Resources International Corp.; Enron Communications Leasing Corp.; Enron Corp.; Enron Energy Information Solutions, Inc.; Enron Energy Marketing Corp.; Enron Energy Services Inc.; Enron Energy Services L.L.C.; Enron Energy Services North America, Inc.; Enron Energy Services Operations, Inc.; Enron Engineering & Construction Company; Enron Engineering & Operational Services Company; Enron Expat Services, Inc.; Enron Federal Solutions, Inc.; Enron Freight Markets Corp.; Enron Fuels International, Inc.; Enron Gas Liquids, Inc.; Enron Global LNG LLC; Enron Global Markets LLC; Enron India Holdings Ltd.; Enron Industrial Markets LLC; Enron International Fuel Management Company; Enron Liquid Fuels, Inc.; Enron LNG Marketing LLC; Enron LNG Shipping Company; Enron Management, Inc.; Enron Mauritius Company; Enron Metals & Commodity Corp.; Enron Methanol Company; Enron Natural Gas Marketing Corp.; Enron Net Works L.L.C.; Enron North America Corp.; Enron Power & Industrial Construction Company; Enron Power Marketing, Inc.; Enron Processing Properties, Inc.; Enron Property & Services Corp.; Enron Reserve Acquisition Corp.; Enron Transportation Services Company; Enron Ventures Corp.; Enron Wind Constructors Corp.; Enron Wind Corp.; Enron Wind Development LLC; Enron Wind Energy Systems Corp.; Enron Wind Maintenance Corp.; Enron Wind Systems, Inc.; E Power Holdings Corp.; EREC Subsidiary I, LLC; EREC Subsidiary II, LLC; EREC Subsidiary III, LLC; EREC Subsidiary IV, LLC; EREC Subsidiary V, LLC; Garden State Paper Company, LLC; Intratex Gas Company; LINGTEC Constructors, L.P.; National Energy Production Corporation; NEPCO Power Procurement Company; NEPCO Services International, Inc.; Offshore Power Production CV; Operation Energy Corp.; PBOG Corp.; Palm Beach Development Company, L.L.C.; San Juan Gas Company, Inc.; Smith Street Land Company; Tenant Services, Inc.; The New Energy Trading Company; Zond Minnesota Construction Company LLC; Zond Pacific, LLC; and ZWHC LLC.

management of retail customer (end-use) energy services, the operation of gas transmission systems, and the management of energy-related assets and broadband services.

Enron's roots can be traced to a domestic natural gas pipeline company formed in 1930. For the next 30 years, the company remained a domestic natural gas pipeline company. In the 1960s, Enron began a series of changes that diversified the company into other energy markets. Major expansion of the company's operations occurred in the late 1980s and early 1990s as the company moved from being a domestic company to a global provider of energy products. In the mid and late 1990s, further expansion of Enron's activities continued, including a shift from a company based in physical energy assets to a provider of broader services, such as risk management, communications, and financial services.

By the time it filed for bankruptcy protection, Enron had been transformed from a domestic natural gas pipeline company into a global provider and trader of: (1) energy resources and commodities (including electricity, crude oil, physical natural gas, liquefied natural gas, wind power, and air emissions credits); (2) financial and risk management services (including hedging, weather, energy price, and foreign exchange risk management); and (3) electronic commerce (including trading in bandwidth capacity, operating a global Internet-based transaction system for trading in wholesale and retail energy and other commodities, and providing movies and other entertainment on demand). Enron also expanded into non-energy resource businesses such as global metals trading and water resources. Much of Enron's business strategy attempted to take advantage of market opportunities in increasingly deregulated energy markets, including natural gas and electricity, or in lesser regulated markets, such as energy commodities trading and electronic commerce.

Enron has been recognized as a leading innovator<sup>50</sup> and employer.<sup>51</sup> Enron's market capitalization reportedly increased from approximately \$2 billion in the mid-1980s to

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<sup>50</sup> Enron was named the "Most Innovative Company in America" for six consecutive years by Fortune magazine, and also ranked among the top five companies in Fortune's categories of quality of management, quality of products and services, and employee talent in the 2001 rankings. Press Release, Enron Corp., Enron Named Most Innovative for Sixth Year (February 6, 2001), at <http://www.enron.com/corp/pressroom/releases/2001/ene/15-MostInnovative-02-06-01-LTR.html> (last visited January 22, 2003).

<sup>51</sup> At the time it filed for bankruptcy, Enron employed approximately 25,000 employees worldwide. Affidavit of Jeffrey McMahon Pursuant to Local Bankruptcy Rule 1007-2 at 5, In re Enron Corp., et. al., Debtors (No. 01-16034 (Docket Entry No. 3)), available at <http://www.elaw4enron.com/default.asp> (last visited January 27, 2003). Enron was named to Fortune magazine's list of "100 Best Companies to Work For in America" for 1998 (73<sup>rd</sup>), 1999 (24<sup>th</sup>), and 2000 (22<sup>nd</sup>). Press Release, Enron Corp., Enron Named #22 of "100 Best Companies to Work for in America" (December 18, 2000), at <http://www.enron.com/corp/pressroom/releases/2000/ene/111-FortuneBestCo.html> (last visited January 22, 2003); Press Release, Enron Corp., Enron Named One of "100 Best Companies to Work for in America" (December 21, 1999), at <http://www.enron.com/corp/pressroom/releases/1999/ene/fortune.html> (last visited January 22, 2003).

approximately \$70 billion in early 2001.<sup>52</sup> Enron reported consolidated revenues of \$101 billion for 2000, and ranked seventh on the Fortune 500 list of the country's largest companies for 2001.<sup>53</sup> As of December 31, 2000, the company had approximately 58,920 shareholders of record with respect to its outstanding shares of common stock.<sup>54</sup> Enron's bankruptcy filing was the largest corporate bankruptcy in U.S. history prior to the July 21, 2002, filing by Worldcom, Inc.<sup>55</sup>

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<sup>52</sup> Enron reported in 2001 that during the 15-year period that Mr. Kenneth L. Lay was Chief Executive Officer of the company (1986 to 2001), its market capitalization increased from \$2 billion to \$70 billion. Press Release, Enron Corp., Enron Announces Skilling Resignation; Lay Assumes President and CEO Duties (August 14, 2001), at <http://enron.com/corp/pressroom/releases/2001/ene/58-ENE-SkillingResignation-08-14-01-LTR.html> (last visited January 22, 2003).

<sup>53</sup> <http://www.fortune.com/fortune/fortune500> (last visited January 22, 2003). Enron moved up to fifth place on the Fortune 500 list for 2002, and was sixth on Fortune's 2002 Global 500, which lists the world's largest corporations. *Id.*

<sup>54</sup> Affidavit of Jeffrey McMahon Pursuant to Local Bankruptcy Rule 1007-2 at 6, In re Enron Corp., et. al., Debtors (No. 01-16034 (Docket Entry No. 3)), at <http://www.elaw4cnron.com/default.asp> (last visited January 27, 2003).

<sup>55</sup> [http://www.bankruptcydata.com/Research/15\\_Largest.htm](http://www.bankruptcydata.com/Research/15_Largest.htm) (last visited January 22, 2003).