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FEDERAL JURY CONVICTS ENRON BROADBAND EXECUTIVE KEVIN HOWARD ON CONSPIRACY, WIRE FRAUD, AND FALSE RECORDS CHARGES

Co-Defendant Michael Krautz Acquitted on Same Charges

WASHINGTON, D.C. – A federal jury in Houston today convicted former Enron executive Kevin Howard on charges of conspiracy, wire fraud and falsification of books and records in connection with the manufacturing of \$111 million in fraudulent revenue for Enron in the last quarter of 2000 and the first quarter of 2001. The jury, sitting before U.S. District Judge Vanessa D. Gilmore, returned its verdict after four-and-a-half days of deliberation.

Howard, 43, the former Chief Financial Officer for Enron's telecommunications division, Enron Broadband Services (EBS), was convicted on all five counts against him: three counts of wire fraud, two counts of falsification of books and records and conspiracy to falsify books and records. Michael Krautz, 37, a co-defendant and the former Senior Director of Transaction Reporting for EBS, was found not guilty of the same five counts. Judge Gilmore scheduled Howard's sentencing for Sept. 11, 2006 at 9:30 a.m.

Evidence presented during 13 days of trial testimony proved Howard deliberately circumvented applicable accounting requirements and misled Arthur Andersen accountants in order to allow Enron to fraudulently record \$111 million in revenue in 2000 and 2001. The revenue represented the proceeds of "Project Braveheart," which involved Enron's purported sale of a portion of the future revenue stream that supposedly would have been generated over the life of Enron's contract with Blockbuster, Inc., the retail video store chain. In fact, the proof at trial established that the Blockbuster deal generated virtually no revenue for Enron and was canceled in March 2001.

The transaction at issue was based on a 20-year exclusive contract signed by EBS and Blockbuster, in April 2000 to stream video films directly to customers' homes. This service was known as "video on demand," or "VOD." EBS's plan was to begin testing the VOD service by Dec. 15, 2000, but the service was not expected to produce any profits until many years later.

In the fall of 2000, Howard and others created a structured finance transaction, known internally at EBS by the code-name "Braveheart," designed to allow Enron to immediately recognize anticipated future earnings from the Blockbuster deal. As part of this transaction, Howard and others created a joint venture to implement the Blockbuster contract with two investors – nCube, Inc., a small video technology company, and Thunderbird, an investment fund controlled by Enron. Howard and others then sold a portion of the joint venture, along with its anticipated future revenue stream from the Blockbuster contract, to the Canadian Imperial Bank of Commerce (CIBC). Through this transaction, Enron was able to record revenues of \$53 million in the fourth quarter of 2000 and \$58 million in the first quarter of 2001. These

represented the vast majority of EBS's reported revenues for both periods. In fact, the Blockbuster contract generated no revenue for EBS and was terminated on March 9, 2001.

In order for EBS to recognize this revenue, EBS could not control the joint venture and had to attract at-risk investments from nCube and Thunderbird. In fact, Howard and other Enron employees secretly guaranteed nCube that it would receive its investment back in full and profit from the deal regardless of its success. These promises were deliberately omitted from transaction documents and were not reported to Arthur Andersen. Howard and others hid additional material facts about the transaction from Arthur Andersen, including EBS's control of the joint venture and the fact that Enron faced imminent cancellation of the Blockbuster contract in December 2000.

At sentencing, Howard faces penalties of five years in prison on the conspiracy charge and each of the three wire fraud counts and 10 years on the falsification of books and records counts.

The case was tried by Van Vincent, Special Assistant U.S. Attorney assigned to the Enron Task Force, and Jonathan Lopez, Trial Attorney with Department of Justice's Criminal Fraud Division. The investigation into Enron's collapse is being conducted by the Enron Task Force, a team of federal prosecutors supervised by the Justice Department's Criminal Division and Special Agents from the FBI and IRS Criminal Investigation. The Task Force also has coordinated with and received considerable assistance from the U.S. Securities and Exchange Commission. The Enron Task Force is part of President Bush's Corporate Fraud Task Force, created in July 2002 to investigate allegations of fraud and corruption at U.S. corporations.

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