

EXECUTIVE SUMMARY

A. General Overview of the Investigation

1. Scope of Report

In February 2002, at the direction of Senator Max Baucus and Senator Charles E. Grassley of the Senate Committee on Finance (“Senate Finance Committee”), the staff of the Joint Committee on Taxation (“Joint Committee staff”) began its review of Enron Corporation and related entities (“Enron”).² The review focused on two principal areas: (1) Enron’s use of tax shelter arrangements, off-shore entities, and special purpose entities, and (2) the compensation arrangements of Enron employees, including tax-qualified retirement plans, nonqualified deferred compensation arrangements, and other arrangements, in order to analyze the factors that may have contributed to the loss of benefits and the extent to which losses were experienced by different groups of employees. This Report transmits the findings and recommendations of the Joint Committee staff with respect to its review of these areas.

On March 6, 2002, a disclosure agreement was executed by representatives of Enron Corp., the Senate Finance Committee, and the Joint Committee staff. Under the terms of the disclosure agreement, Enron agreed to the disclosure of its tax returns and tax return information that would otherwise be confidential under the Federal tax laws. The Senate Finance Committee and Joint Committee staff agreed that any disclosure of information collected during the investigation would only be disclosed through official reports, meetings, or hearings of either Committee.

2. Methodology and scope of Joint Committee staff investigation

Enron agreed to cooperate with the Joint Committee staff investigation. Enron complied with requests for information from the Joint Committee staff through the voluntary production of documents.

In conducting its investigation, the Joint Committee staff:

- Requested Enron’s tax returns since 1985;³
- Reviewed more than 100 boxes of documents received from Enron in response to seven extensive document requests;

² Except as otherwise indicated, all references to “Enron” in this Report refer to Enron Corporation and its affiliates, and all references to “Enron Corp.” refer specifically to the parent company.

³ Each tax return was thousands of pages in length.

- Reviewed more than 40 boxes of documents from the Internal Revenue Service (“IRS”) relating to Enron;
- Conducted 46 interviews of current and former Enron employees and other individuals with information relevant to the investigation;
- Made four trips to Houston, Texas, to review documents and conduct interviews;
- Reviewed publicly available information relating to Enron, including information made available by various Congressional committees, governmental agencies, the U.S. Bankruptcy Court for the Southern District of New York, and information contained in media reports; and
- Reviewed information provided by the Pension Benefit Guaranty Corporation, the Department of Labor, and the Senate Permanent Subcommittee on Investigations.

The Joint Committee staff faced several limitations in conducting the investigation. The Joint Committee staff had to rely on Enron’s cooperation to make available relevant documents and employees. In many cases, current Enron management could not locate the requested documentation or were unable to answer questions posed by the Joint Committee staff. The individuals interviewed by the Joint Committee staff were not under oath, nor were individuals relevant to the investigation compelled to appear. Many Enron employees who had participated in the transactions or activities reviewed by the Joint Committee staff have since left Enron and, in some cases, could not be located for an interview. Other individuals stated that they recalled little of the specific events or transactions. The Joint Committee staff cannot represent that this Report identifies all relevant facts or analyzes all transactions in which Enron engaged that might be of interest to policymakers or government agencies.

Despite these limitations, the Joint Committee staff believes that its investigation provides valuable analysis of Enron’s structured transactions and compensation structures and provides important recommendations and findings for improvements to the Federal tax system. More generally, the Joint Committee staff believes the Report provides significant insights into a corporation’s tax and compensation activities that typically are unavailable to those outside the company.

The Report identifies financial accounting benefits that Enron claimed in connection with certain tax-motivated transactions, but it was beyond the scope of the investigation to evaluate the validity of these claimed financing accounting benefits. Therefore, the financial accounting benefits are reported as claimed.

This Report is presented in three volumes. Volume I contains the Joint Committee staff report of investigation. Volume I is divided into Four Parts: Part One is the general observations, findings, and recommendations of the Joint Committee staff investigation; Part Two contains general background information, including the methodology and scope of the Joint Committee staff investigation and a history of the company; Part Three provides a detailed discussion of certain of Enron’s tax-motivated business transactions; and Part Four provides a detailed discussion of Enron’s pension plans and compensation practices.

Volumes II and III contain four Appendices to this Report. Volume II contains Appendices A and B. Appendix A contains copies of certain general information relating to investigation, including the letter to the Joint Committee staff from Senators Baucus and

Grassley and the disclosure agreement among Enron, the Senate Finance Committee, and the Joint Committee staff. Appendix B provides detailed documentation relating to Enron's tax-motivated transactions. Volume III contains Appendices C and D. Appendix C reprints copies of the tax opinion letters provided with respect to Enron's tax-motivated transactions. Appendix D contains information relating to Enron's pension plans and other compensation-related materials.