United States Courts
Southern District of Texas
FILED
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Michael N. Milby, Clerk

IN THE UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

In re ENRON CORPORATION LITIGATION	§	Civil Action No. H-01-3624 **(Consolidated)**
This Document Relates To:	§	CLASS ACTION
MARK NEWBY, et al., Individually and On Behalf of All Other Similarly Situated	§	
Plaintiffs,	§	
vs.	§	
ENRON CORP., et al.,	§	
Defendants.	§	
THE REGENTS OF THE UNIVERSITY OF CALIFORNIA, et al., Individually and On Behalf of All Others Similarly Situated,	§	
Plaintiffs,	§	
vs.	§	
KENNETH L. LAY, JEFFREY K. SKILLING, ANDREW S. FASTOW, RICHARD A. CAUSEY, JAMES V. DERRICK, JR., et al.	§	

THE OUTSIDE DIRECTOR DEFENDANTS'
ANSWER TO THE CONSOLIDATED COMPLAINT

Defendants Robert A. Belfer, Norman P. Blake, Jr., Ronnie C. Chan, John H. Duncan, Joe H. Foy, Wendy L. Gramm, Robert K. Jaedicke, Charles A. LeMaistre, John Mendelsohn, Jerome J. Meyer, Frank Savage, John A. Urquhart, John Wakeham, Charls E. Walker, and Herbert S. Winokur, Jr. (collectively, the "Outside Directors"), by their undersigned counsel, respectfully submit this

#1302

Answer to the Class Action Consolidated Complaint for Violation of the Securities Laws (the "Complaint") as follows:

GENERAL STATEMENTS AND RESPONSES TO THE COMPLAINT

This Answer addresses only Lead Plaintiffs' claims for violations of Sections 11 and 15 of the 1933 Act (and the paragraphs incorporated therein), as all other claims against the Outside Directors have been dismissed by this Court. *See Newby, et al. v. Enron*, et al., C.A. No. H-01-3624 (S.D. Tex. Mar. 12, 2003) Instrument No. 1269 (the "Dismissal Order"). Plaintiffs' Complaint makes clear that only seventy-two paragraphs of the Complaint are incorporated in their Section 11 allegations. Compl. at ¶ 1005 (Lead Plaintiffs "expressly exclude and disclaim any allegation that could be construed as alleging fraud or intentional or reckless misconduct"); *see also*, Dismissal Order at 81. Accordingly, a response by the Outside Directors to the unincorporated paragraphs of the Complaint—all of which have been dismissed against them—is not required. To the extent a response to those paragraphs is required, all allegations purporting to relate to the Outside Directors are denied.

The Court has also ordered Plaintiffs to replead their claims under the Texas Securities Act, because they are insufficient to place the Outside Directors on notice of what provision of the statute (if any) they are alleged to have violated. *See* Dismissal Order at 150. If Plaintiffs replead that claim, and if their pleading survives a motion to dismiss, the Outside Directors will respond to the surviving Texas Securities Act allegations in compliance with the Federal Rules of Civil Procedure. To the extent any answer is required to the Texas Securities Act allegations, all allegations purporting to relate to the Outside Directors are denied.

Plaintiffs' Complaint also contains conclusory allegations, or allegations that pertain to the conduct of other Defendants. No answer is required to these allegations. Unless otherwise expressly admitted or denied, the Outside Directors lack knowledge or information sufficient to form a belief as to the truth of allegations that do not relate to the Outside Directors, or that relate to the conduct of other defendants. Allegations that state a legal conclusion do not require a response; to the extent that a response is required, such allegations are denied. Finally, the Complaint contains excerpts from a number of third party publications. The Outside Directors lack sufficient knowledge or information to determine whether Plaintiffs have quoted these publications correctly or in their full context.[1]

SPECIFIC RESPONSES TO THE PARAGRAPHS OF THE COMPLAINT

No response is required to the so-called "Preamble," the numerous headings, subheadings, or quotations scattered intermittently throughout the Complaint between headings and/or numbered paragraphs. To the extent that responses are required, however, all are denied.

1-74. The allegations in these paragraphs have been dismissed against the Outside Directors by virtue of the Court's Order dated March 12, 2003. The allegations in these paragraphs are not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore require no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require no response. To the extent these paragraphs contain specific assertions about the Outside Directors or their conduct, the Outside Directors incorporate in response to these paragraphs the answers and responses in the paragraphs to which they have provided specific responses. To the extent any further response is required to any specific assertions about the Outside Directors, these allegations are denied.

75. It is admitted that claims are purportedly asserted under the Securities Act of 1933 and Texas Rev. Civ. Stat., art. 581-33. It is denied, however, that claims exist under the Securities Exchange Act of 1934 and Rule 10b-5, as all such claims against the Outside Directors were dismissed. *See* Dismissal Order at 149.

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[1]As used in this response, the term "Outside Directors" means both individual directors and the Outside Directors as a group.

76. This Court lacks subject matter jurisdiction over the claims against the Outside Directors under the Securities Exchange Act of 1934, as all such claims against the Outside Directors were dismissed. *See* Dismissal Order at 149. Subject matter jurisdiction of claims against the Outside Directors under the Securities Act of 1933 exists, but the Outside Directors deny that they are liable to the Plaintiffs under any provision of the Securities Act of 1933.

77. Venue is proper in this District under Section 22 the Securities Act of 1933. Venue is not proper against the Outside Directors under Section 27 of the Exchange Act of 1934, because claims against the Outside Directors under the 1934 Act have been dismissed. *See* Dismissal Order at 149. It is admitted that Enron maintains its principal place of business in this District. The Outside Directors lack sufficient knowledge to form a belief as to the truth of any remaining allegations in this paragraph.

78. The Outside Directors lack sufficient knowledge to form a belief as to the truth of the allegations of this paragraph concerning the conduct of other Defendants. These allegations are denied as they relate to the Outside Directors.

79. It is admitted that the Regents of the University of California are the Court-appointed Lead Plaintiffs in this action, though the Outside Directors lack sufficient knowledge to form a belief as to the number of Enron securities purchased by them or at what price. Any remaining allegations in this paragraph are denied.

80. The Outside Directors lack sufficient knowledge to form a belief as to the truth of the allegations in this paragraph.

81. The Outside Directors lack sufficient knowledge to form a belief as to the truth of either the Plaintiffs' alleged securities purchases or the descriptive characteristics of each Plaintiff. Any remaining allegations in this paragraph are denied.

82. The Outside Directors admit that Enron has filed for bankruptcy protection pursuant to Chapter 11 of the U.S. Bankruptcy Code. They lack sufficient knowledge to form a belief as to the truth of the remaining allegations of this paragraph.

83(a). The Outside Directors admit that Kenneth L. Lay was a director of Enron, the Chairman of its Board of Directors and served as Enron's Chief Executive Officer at various times during the class period. The Outside Directors admit, as well, that Kenneth L. Lay received salary and bonus payments during his tenure at Enron, and that his bonus payment was based in part upon the performance of Enron as measured against certain peer groups. The precise amounts of Defendant Lay's salary and bonus payments for the years 1993-2000 are disclosed in Enron's annual Proxy Statements for the years 1996-2001. The Outside Directors are without knowledge or information sufficient to respond to the remaining allegations of this paragraph.

83(b). The Outside Directors admit that Jeffrey K. Skilling was a director of Enron, President, the Chief Operating Officer, and Enron's Chief Executive Officer at various times during the class period. The Outside Directors admit, as well, that Skilling received salary and bonus payments during his tenure at Enron, and that his bonus payment was based in part upon the performance of Enron as measured against certain peer groups. The precise amounts of Defendant Skilling's salary and bonus payments for the years 1994-2000 are disclosed in Enron's annual Proxy Statements for the years 1997-2001. The Outside Directors are without knowledge or information sufficient to respond to the remaining allegations of this paragraph.

83(c). The Outside Directors admit that Andrew S. Fastow was Enron's Chief Financial Officer until his employment was terminated in October 2001. The Outside Directors admit, as well, that Fastow received salary and bonus payments during his tenure at Enron, and that his bonus payment was based in part upon the performance of Enron as measured against certain peer groups. The Outside Directors are without knowledge or information sufficient to respond to the remaining allegations of this paragraph.

83(d). The Outside Directors admit that Richard A. Causey was Enron's Chief Accounting Officer. The Outside Directors admit, as well, that Causey received salary and bonus payments during his tenure at Enron, and that his bonus payment was based in part upon the performance of Enron as measured against certain peer groups. The Outside Directors are without knowledge or information sufficient to respond to the remaining allegations of this paragraph.

83(e). The Outside Directors admit that James V. Derrick, Jr. was Enron's General Counsel. The Outside Directors admit, as well, that Derrick received salary and bonus payments during his tenure at Enron, and that his bonus payment was based in part upon the performance of Enron as measured against certain peer groups. The precise amounts of Defendant Derrick's salary and bonus payments for the years 1993-1995 are disclosed in Enron's annual Proxy Statement for the year 1996. The Outside Directors are without knowledge or information sufficient to respond to the remaining allegations of this paragraph.

83(f). The Outside Directors admit that Mark A. Frevert was Chairman of Enron Wholesale Services and of Enron Europe at various points during his employment at Enron. The Outside Directors admit, as well, that Frevert received salary and bonus payments during his tenure at Enron, and that his bonus payment was based in part upon the performance of Enron as measured against certain peer groups. The precise amounts of Defendant Frevert's salary and bonus payments for the years 1997-2000 are disclosed in Enron's annual Proxy Statements for the years 2000-2001. The Outside Directors are without knowledge or information sufficient to respond to the remaining allegations of this paragraph.

83(g). The Outside Directors admit that Stanley C. Horton was Chairman of Enron Transportation Services. The Outside Directors admit, as well, that Horton received salary and bonus payments during his tenure at Enron, and that his bonus payment was based in part upon the performance of Enron as measured against certain peer groups. The precise amounts of Defendant

Horton's salary and bonus payments for the years 1995-2000 are disclosed in Enron's annual Proxy Statements for the years 1998 and 2000-2001. The Outside Directors are without knowledge or information sufficient to respond to the remaining allegations of this paragraph.

83(h). The Outside Directors admit that Kenneth D. Rice was Chairman of EBS. The Outside Directors admit, as well, that Rice received salary and bonus payments during his tenure at Enron, and that his bonus payment was based in part upon the performance of Enron as measured against certain peer groups. The precise amounts of Defendant Rice's salary and bonus payments for the years 1996-2000 are disclosed in Enron's annual Proxy Statements for the years 1999 and 2001. The Outside Directors are without knowledge or information sufficient to respond to the remaining allegations of this paragraph.

83(i). The Outside Directors admit that Richard B. Buy was Executive Vice President, Chief Risk Officer, Senior Vice President, and Management Director of ECT at various points during his employment at Enron. The Outside Directors admit, as well, that Buy received salary and bonus payments during his tenure at Enron, and that his bonus payment was based in part upon the performance of Enron as measured against certain peer groups. The Outside Directors are without knowledge or information sufficient to respond to the remaining allegations of this paragraph.

83(j). The Outside Directors admit that Lou L. Pai was Chairman and Chief Executive Officer of Enron Accelerator, and a director of EES at various points during his relationship with Enron. The Outside Directors admit, as well, that Pai received salary and bonus payments during his tenure at Enron, and that his bonus payment was based in part upon the performance of Enron as measured against certain peer groups. The Outside Directors are without knowledge or information sufficient to respond to the remaining allegations of this paragraph.

83(k). The Outside Directors admit that Joseph M. Hirko was Chief Executive Officer of EBS. The Outside Directors admit, as well, that Hirko received salary and bonus payments during his tenure at Enron, and that his bonus payment was based in part upon the performance of Enron as measured against certain peer groups. The Outside Directors are without knowledge or information sufficient to respond to the remaining allegations of this paragraph.

83(l). The Outside Directors admit that Ken L. Harrison was Chief Executive Officer of Portland General Electric and a director of Enron at various points during his relationship with Enron. The Outside Directors admit, as well, that Harrison received salary and bonus payments during his tenure at Enron, and that his bonus payment was based in part upon the performance of Enron as measured against certain peer groups. The precise amounts of Defendant Harrison's salary and bonus payments for the year 1997 are disclosed in Enron's annual Proxy Statement for the year 1998. The Outside Directors are without knowledge or information sufficient to respond to the remaining allegations of this paragraph.

83(m). The Outside Directors admit that Steven J. Kean was Vice President and Chief of Staff at various points during his relationship with Enron. The Outside Directors admit, as well, that

Kean received salary and bonus payments during his tenure at Enron, and that his bonus payment was based in part upon the performance of Enron as measured against certain peer groups. The Outside Directors are without knowledge or information sufficient to respond to the remaining allegations of this paragraph.

83(n). The Outside Directors admit that Rebecca Mark-Jusbasche was Chairman and CEO of Enron International and/or CEO of Azurix at various points during her relationship with Enron. The Outside Directors admit, as well, that Mark-Jusbasche received salary and bonus payments during her tenure at Enron, and that her bonus payment was based in part upon the performance of Enron as measured against certain peer groups. The precise amounts of Defendant Mark-Jusbasche's salary and bonus payments for the years 1996-1998 are disclosed in Enron's annual Proxy Statement for the year 1999. The Outside Directors are without knowledge or information sufficient to respond to the remaining allegations of this paragraph.

83(o). The Outside Directors admit that Michael S. McConnell was Executive Vice President, Technology at various points during his relationship with Enron. The Outside Directors admit, as well, that McConnell received salary and bonus payments during his tenure at Enron, and that his bonus payment was based in part upon the performance of Enron as measured against certain peer groups. The Outside Directors are without knowledge or information sufficient to respond to the remaining allegations of this paragraph.

83(p). The Outside Directors admit that Jeffrey McMahon was Executive Vice President, Finance, Treasurer, and Senior Vice President, Finance at various points during his relationship with Enron. The Outside Directors admit, as well, that McMahon received salary and bonus payments during his tenure at Enron, and that his bonus payment was based in part upon the performance of Enron as measured against certain peer groups. The Outside Directors are without knowledge or information sufficient to respond to the remaining allegations of this paragraph.

83(q). The Outside Directors admit that Cindy K. Olson was Executive Vice President, Human Resources at Enron. The Outside Directors admit, as well, that Olson received salary and bonus payments during her tenure at Enron, and that her bonus payment was based in part upon the performance of Enron as measured against certain peer groups. The Outside Directors are without knowledge or information sufficient to respond to the remaining allegations of this paragraph.

83(r). The Outside Directors admit that Joseph W. Sutton was Vice Chairman of Enron. The Outside Directors admit, as well, that Sutton received salary and bonus payments during his tenure at Enron, and that his bonus payment was based in part upon the performance of Enron as measured against certain peer groups. The precise amounts of Defendant Sutton's salary and bonus payments for the years 1996-1999 are disclosed in Enron's annual Proxy Statement for the years 1999-2000. The Outside Directors are without knowledge or information sufficient to respond to the remaining allegations of this paragraph.

83(s). The Outside Directors admit that Mark E. Koenig was Executive Vice President, Investor Relations at Enron. The Outside Directors admit, as well, that Koenig received salary and bonus payments during his tenure at Enron, and that his bonus payment was based in part upon the performance of Enron as measured against certain peer groups. The Outside Directors are without knowledge or information sufficient to respond to the remaining allegations of this paragraph.

83(t). The Outside Directors admit that Kevin Hannon was Operating Officer of EBS. The Outside Directors admit, as well, that Hannon received salary and bonus payments during his tenure at Enron, and that his bonus payment was based in part upon the performance of Enron as measured against certain peer groups. The Outside Directors are without knowledge or information sufficient to respond to the remaining allegations of this paragraph.

83(u). The Outside Directors admit that Lawrence Greg Whalley was President and Chief Operating Officer at various points during his tenure with Enron. The Outside Directors admit, as well, that Whalley received salary and bonus payments during his tenure at Enron, and that his bonus payment was based in part upon the performance of Enron as measured against certain peer groups. The Outside Directors are without knowledge or information sufficient to respond to the remaining allegations of this paragraph.

83(v). The allegations in this paragraph are denied, except that it is admitted that Robert A. Belfer is a defendant in this action and at certain times served as a director of Enron.

83(w). The allegations in this paragraph are denied, except that it is admitted that Norman P. Blake, Jr. is a defendant in this action and at certain times served as a director of Enron.

83(x). The allegations in this paragraph are denied, except that it is admitted that Ronnie C. Chan is a defendant in this action and at certain times served as a director of Enron.

83(y). The allegations in this paragraph are denied, except that it is admitted that John H. Duncan is a defendant in this action and at certain times served as a director of Enron.

83(z). The allegations in this paragraph are denied, except that it is admitted that Wendy L. Gramm is a defendant in this action and at certain times served as a director of Enron.

83(aa). The allegations in this paragraph are denied, except that it is admitted that Robert K. Jaedicke is a defendant in this action and at certain times served as a director of Enron.

83(bb). The allegations in this paragraph are denied, except that it is admitted that Charles A. LeMaistre is a defendant in this action and at certain times served as a director of Enron.

83(cc). The allegations in this paragraph are denied, except that it is admitted that Joe H. Foy is a defendant in this action and at certain times served as a director of Enron.

83(dd). The Outside Directors admit that Defendants Mendelsohn, Meyer, Wakeham, Walker, Willison, Winokur, Urquhart and Ferraz served at certain times as directors of Enron. The Outside Directors admit that these Defendants signed certain registration statements during their tenure as directors of Enron. The remaining allegations of this paragraph are denied.

83(ee). The Outside Directors admit that Defendant Savage was a director of Enron from mid-October 1999 through mid-2002. Defendant Savage also served on the Finance Committee. As a director, Savage signed a registration statement filed with the SEC in June 2001. The Outside Directors deny, however, that the Zero Coupon Convertible Notes allegedly purchased by Plaintiffs were sold pursuant to this registration statement, as is alleged in this paragraph. The Outside Directors admit that Savage was formerly the Chairman of Alliance Capital Management International, a division of Alliance Capital. Savage admits, and the remaining Outside Directors admit in reliance on Savage's admission, that he was also a director of Alliance Capital Management L.P., which is a large financial services company. The Outside Directors are without knowledge sufficient to admit or deny that Alliance was the largest institutional holder of Enron stock at any particular point in time. The remaining allegations in this paragraph are denied.

83(ff). The Outside Directors admit that they attended Board and committee meetings in their capacity as directors of Enron and, at those meetings, received information from Enron's management and its advisers concerning the company's business activities. The remaining allegations of this paragraph that relate to the Outside Directors are denied. The Outside Directors lack sufficient knowledge to form a belief as to the truth of the allegations in this paragraph that pertain to other so-called "Enron Defendants."

83(gg). The Outside Directors admit that Lay, Mark-Jusbache and Skilling served as directors of Azurix. The remaining allegations of this paragraph are denied.

83(hh). The Outside Directors admit that Lay, Pai, Derrick and Causey were officers and/or directors of the New Power Company. The remaining allegations of this paragraph are denied.

83(ii). The allegations in this paragraph are denied.

83(jj). The Outside Directors lack sufficient knowledge to form a belief as to the truth of the allegations of this paragraph, except that it is admitted on information and belief that J. Clifford Baxter at certain times served as Vice Chairman and/or Chief Strategy Officer of Enron, and is now deceased.

84. The allegations of this paragraph contain conclusions of law to which no response is required. As to the remaining allegations, the Outside Directors deny the allegations in this paragraph that relate to them and, in any event, the allegations in this paragraph concerning alleged insider trading by the Outside Directors have been dismissed and require no further response. *See, e.g.*, Dismissal Order at 124. Otherwise, the Outside Directors lack sufficient knowledge to form a belief as to the truth of the allegations in this paragraph.

85. The Outside Directors admit that the Enron board functioned, in part, through various committees including an Audit Committee, a Finance Committee, and an Executive Committee. The Outside Directors admit that Enron's board and the indicated committees met frequently and received reports concerning Enron's businesses. These committees engaged in various specific activities, and the Outside Directors deny the generalized characterizations by the Plaintiffs of the functions of these committees. Any remaining allegations in this paragraph are denied.

86. It is admitted that the individuals listed in this paragraph served on the Board and Committees indicated for all or part of the years indicated, except that the Outside Directors deny that Charls Walker served on the Board for any part of 2000.

87-100. The allegations in these paragraphs are not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore require no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require no response. To the extent these paragraphs contain specific assertions about the Outside Directors or their conduct, the Outside Directors incorporate in response to these paragraphs the answers and responses in the paragraphs to which they have provided specific responses. To the extent any further response is required to any specific assertions about the Outside Directors, these allegations are denied.

101. The Outside Directors admit that CitiGroup is a defendant in this action and is a large, integrated financial institution. The Outside Directors lack sufficient knowledge to form a belief as to the truth of the remaining allegations of this paragraph.

102. The allegations in this paragraph are not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore require no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require no response. To the extent this paragraph contains specific assertions about the Outside Directors or their conduct, the Outside Directors incorporate in response to this paragraph the answers and responses in the paragraphs to which they have provided specific responses. To the extent any further response is required to any specific assertions about the Outside Directors, these allegations are denied.

103. The Outside Directors admit that Canadian Imperial Bank of Commerce is a defendant in this action and is an integrated financial services institution. They lack sufficient knowledge to form a belief as to the truth of the allegations of the remaining allegations of this paragraph.

104. The Outside Directors admit that Bank of America Corp. is a defendant in this action and is an integrated financial services institution. They lack sufficient knowledge to form a belief as to the truth of the remaining allegations of this paragraph.

105-107. The allegations in these paragraphs are not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore require no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require no response. To the extent these paragraphs contain specific assertions about the Outside Directors or their conduct, the Outside Directors incorporate in response to these paragraphs the answers and responses in the paragraphs to which they have provided specific responses. To the extent any further response is required to any specific assertions about the Outside Directors, these allegations are denied.

108. The Outside Directors admit that Lehman Brothers Holdings, Inc. is a defendant in this action and is an integrated financial services institution. They lack sufficient knowledge to form a belief as to the truth of the remaining allegations of this paragraph.

109-120. The allegations in these paragraphs are not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore require no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require no response. To the extent these paragraphs contain specific assertions about the Outside Directors or their conduct, the Outside Directors incorporate in response to these paragraphs the answers and responses in the paragraphs to which they have provided specific responses. To the extent any further response is required to any specific assertions about the Outside Directors, these allegations are denied.

121. In this paragraph, Plaintiffs allege that Enron's financial statements and public statements were misleading for a variety of reasons. During their tenure on the Board, the Outside Directors were not aware that any of Enron's public or financial statements were materially incomplete or misleading. The Outside Directors also deny that in the exercise of reasonable diligence they could have been aware of that alleged fact. In their service on the Board, the Outside Directors were entitled to and did rely upon representations of management and Enron's outside experts, including Arthur Andersen, that: (a) the transactions presented to the Board were in Enron's best interests and (b) Enron's public financial disclosures were complete, lawful and not misleading. The Outside Directors did not approve any transaction that they believed was unfair to Enron or not in its best interest at the time the transaction was approved. Thus, the allegations in paragraph 121(a)-(k) are denied as they pertain to the Outside Directors. To the extent they pertain to the alleged actions of other Defendants, the Outside Directors are without information sufficient to form a belief as to the truth of those allegations. In addition, this paragraph purports to incorporate certain paragraphs of the Complaint containing allegations that have been dismissed by the Court. No response to those allegations is required; to the extent a response is required, those allegations are denied.

122-123. The allegations in these paragraphs are not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore require no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require no response. To the extent these paragraphs contain specific assertions about the Outside Directors

or their conduct, the Outside Directors incorporate in response to these paragraphs the answers and responses in the paragraphs to which they have provided specific responses. To the extent any further response is required to any specific assertions about the Outside Directors, these allegations are denied.

124. The Outside Directors admit that Enron filed a Form 424(b)(2) on or about November 25, 1998 concerning the sale of $250 million of 6.95% Notes due July 15, 2028 with Credit Suisse First Boston Corp. acting as underwriter, and that the net proceeds were to be used for general corporate purposes and to retire short-term debt. Any remaining allegations are denied to the extent they purport to relate to the Outside Directors.

125. The allegations in this paragraph are not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore require no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require no response. To the extent this paragraph contains specific assertions about the Outside Directors or their conduct, the Outside Directors incorporate in response to this paragraph the answers and responses in the paragraphs to which they have provided specific responses. To the extent any further response is required to any specific assertions about the Outside Directors, these allegations are denied.

126. The Outside Directors admit that Enron filed a Form S-3 on or about January 12, 1999 concerning $1 billion in securities, signed by Lay, Causey, Fastow, Belfer, Blake, Chan, John Duncan, Foy, Gramm, Harrison, Jaedicke, LeMaistre, Meyer, Skilling, Urquhart, Wakeham, Walker, and Winokur or their representative(s). The Outside Directors admit the involvement of, and their reliance on, the participation of Enron management and its outside experts in the preparation of this document. The remaining allegations in this paragraph are denied.

127-133. The allegations in these paragraphs are not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore require no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require no response. To the extent these paragraphs contain specific assertions about the Outside Directors or their conduct, the Outside Directors incorporate in response to these paragraphs the answers and responses in the paragraphs to which they have provided specific responses. To the extent any further response is required to any specific assertions about the Outside Directors, these allegations are denied.

134. The Outside Directors admit that Enron filed a Form S-3/A on or about February 3, 1999 signed by Lay, Causey, Fastow, Belfer, Blake, Chan, John Duncan, Foy, Gramm, Harrison, Jaedicke, LeMaistre, Meyer, Skilling, Urquhart, Wakeham, Walker, and Winokur, or their representative(s), and that this filing contained a section reporting certain of Enron's financial information for 1998. The remaining allegations in this paragraph are denied.

135. The Outside Directors admit that on or about February 12, 1999 Enron filed a Form 424(b)(2) naming Merrill Lynch, Credit Suisse First Boston, Lehman Brothers, Salomon Smith Barney, Morgan Stanley Dean Witter, Prudential Securities, and Schroder & Co. Inc. as underwriters, and that the proceeds were to be used to fund capital investments and repay short term debt. The remaining allegations in this paragraph are denied.

136-140. The allegations in these paragraphs are not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore require no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require no response. To the extent these paragraphs contain specific assertions about the Outside Directors or their conduct, the Outside Directors incorporate in response to these paragraphs the answers and responses in the paragraphs to which they have provided specific responses. To the extent any further response is required to any specific assertions about the Outside Directors, these allegations are denied.

141. The allegations in this paragraph are admitted, except that the Form 10-K was signed by Lay, Causey, Fastow, Foy, Gramm, Harrison, Jaedicke, LeMaistre, Meyer, Skilling, Urquhart, Wakeham, Walker, and Winokur, or their representative(s).

142-150. The allegations in these paragraphs are not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore require no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require no response. To the extent these paragraphs contain specific assertions about the Outside Directors or their conduct, the Outside Directors incorporate in response to these paragraphs the answers and responses in the paragraphs to which they have provided specific responses. To the extent any further response is required to any specific assertions about the Outside Directors, these allegations are denied.

151. The Outside Directors admit that a Form 424(b)(2) was filed in May 1999 concerning the sale of $500 million of 7.375% Notes due May 15, 2019 with Lehman Brothers, Bank of America, and CIBC acting as underwriters, and the net proceeds were to be used to repay short-term debt and for general corporate purposes. The remaining allegations of this paragraph are denied.

152-163. The allegations in these paragraphs are not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore require no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require no response. To the extent these paragraphs contain specific assertions about the Outside Directors or their conduct, the Outside Directors incorporate in response to these paragraphs the answers and responses in the paragraphs to which they have provided specific responses. To the extent any further response is required to any specific assertions about the Outside Directors, these allegations are denied.

164. The Outside Directors admit that Enron filed a Form S-3 on or about July 23, 1999 concerning 10 million Notes to be exchanged for shares of Enron Oil & Gas (EOG) common stock. The Outside Directors admit the Form S-3 was signed by Lay, Causey, Fastow, Belfer, Blake, Chan, John Duncan, Foy, Gramm, Harrison, Jaedicke, LeMaistre, Mendelsohn, Skilling, and Wakeham or their representative(s). The S-3 contained certain of Enron's financial information for 1998, including that incorporated from Enron's Form 10-K for 1998. The Outside Directors deny that Mark-Jusbasche, Meyer, Urquhart, or Winokur signed this registration statement. In addition, this paragraph purports to incorporate certain paragraphs of the Complaint containing allegations that have been dismissed by the Court. No response to those allegations is required; to the extent a response is required, those allegations are answered as indicated at those paragraphs. The remaining allegations in this paragraph are denied.

165. The Outside Directors admit that on or about August 11, 1999 Enron filed a Form 424(B)(1) concerning 7% Exchangeable Notes to be exchanged for shares of common stock of Enron Oil & Gas (EOG) due July 31, 2002 with Bank of America and Solomon Smith Barney Inc. among the underwriters. The Outside Directors further admit that at the time of the 424(b)(1) filing, the net proceeds were to be used to retire existing debt and for general corporate purposes. The remaining allegations of this paragraph are denied. Plaintiffs allege that Enron's second quarter 1999 financial results were false. During their tenure on the board, the Outside Directors were not aware that any of Enron's financial statements were materially incomplete or misleading. The Outside Directors also deny that in the exercise of reasonable diligence they could have been aware of that alleged fact.

166-235. The allegations in these paragraphs are not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore require no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require no response. To the extent these paragraphs contain specific assertions about the Outside Directors or their conduct, the Outside Directors incorporate in response to these paragraphs the answers and responses in the paragraphs to which they have provided specific responses. To the extent any further response is required to any specific assertions about the Outside Directors, these allegations are denied.

236. The Outside Directors admit that Enron filed Forms 424(b)(3) in May 2000 concerning 8.375% Medium term Notes, Series A due May 23, 2005, with Bank of America listed as agent. The Outside Directors admit that at the time, the proceeds were expected to be used for general corporate purposes and to repay debt. The Outside Directors further admit that on or about June 2, 2000 Enron filed a Form 424(b)(2) concerning $325 million in 7.875% Notes due June 15, 2003 with Lehman Brothers as a participating underwriter. The Outside Directors admit that the net proceeds were to be used for general corporate purposes and to pay short-term debt. The remaining allegations of this paragraph are denied.

237-335. The allegations in these paragraphs are not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore require no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require

no response. To the extent these paragraphs contain specific assertions about the Outside Directors or their conduct, the Outside Directors incorporate in response to these paragraphs the answers and responses in the paragraphs to which they have provided specific responses. To the extent any further response is required to any specific assertions about the Outside Directors, these allegations are denied.

336. The Outside Directors deny the allegations in this paragraph.

337-383. The allegations in these paragraphs are not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore require no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require no response. To the extent these paragraphs contain specific assertions about the Outside Directors or their conduct, the Outside Directors incorporate in response to these paragraphs the answers and responses in the paragraphs to which they have provided specific responses. To the extent any further response is required to any specific assertions about the Outside Directors, these allegations are denied.

384. The Outside Directors admit that on November 8, 2001, Enron filed a Form 8-K, which restated its financial results for certain periods. The allegations of this paragraph are denied, however, to the extent that they misquote and misstate the contents of that Form 8-K.

385-418. The allegations in these paragraphs are not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore require no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require no response. To the extent these paragraphs contain specific assertions about the Outside Directors or their conduct, the Outside Directors incorporate in response to these paragraphs the answers and responses in the paragraphs to which they have provided specific responses. To the extent any further response is required to any specific assertions about the Outside Directors, these allegations are denied.

419. The Outside Directors admit that Enron has filed a Form 8-K restating and correcting its financial results for certain periods. The remaining allegations of this paragraph are denied.

420. The allegations in this paragraph is not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore requires no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require no response. To the extent this paragraph contains specific assertions about the Outside Directors or their conduct, the Outside Directors incorporate in response to this paragraph the answers and responses in the paragraphs to which they have provided specific responses. To the extent any further response is required to any specific assertions about the Outside Directors, these allegations are denied.

421. The Outside Directors admit that Enron has restated its financial results for certain periods. Plaintiffs' allegations concerning the effect of those restatements are conclusory and require no response. The Outside Directors deny the remaining allegations in this paragraph.

422-446. The allegations in these paragraphs are not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore require no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require no response. To the extent these paragraphs contain specific assertions about the Outside Directors or their conduct, the Outside Directors incorporate in response to these paragraphs the answers and responses in the paragraphs to which they have provided specific responses. To the extent any further response is required to any specific assertions about the Outside Directors, these allegations are denied.

447. The Outside Directors admit that a portion of the restatement contained in Enron's Form 8-K involved a restatement of the accounting treatment of a transaction involving Chewco and JEDI. The 8-K describes the nature of that restatement in detail, including its effect on Enron's financial reports. The Outside Directors were not aware of, and in the exercise of reasonable diligence could not have been aware of these accounting errors until they were reported to the Audit Committee by Arthur Andersen and Enron management a few days before the 8-K was filed. The Outside Directors deny the remaining allegations of this paragraph.

448. The Outside Directors admit that a portion of the restatement contained in Enron's Form 8-K involved a restatement of the accounting treatment of certain transactions involving LJM and LJM2. The 8-K describes the nature of those restatements in detail, including its effect on Enron's financial reports. The Outside Directors were not aware of, and in the exercise of reasonable diligence could not have been aware of these accounting errors until they were reported to the Audit Committee by Arthur Andersen and Enron management a few days before the 8-K was filed. The Outside Directors admit that Fastow had a managerial role in both LJM and LJM2, and that Enron entered into transactions with the LJM entities. The Outside Directors deny the remaining allegations of this paragraph.

449. The allegations in this paragraph are not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore require no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require no response. To the extent this paragraph contains specific assertions about the Outside Directors or their conduct, the Outside Directors incorporate in response to this paragraph the answers and responses in the paragraphs to which they have provided specific responses. To the extent any further response is required to any specific assertions about the Outside Directors, these allegations are denied.

450. The Outside Directors admit that a portion of the restatement contained in Enron's Form 8-K involved a restatement of the accounting treatment of certain transactions involving LJM1 and LJM2. The 8-K describes the nature of those restatements in detail, including its effect on

Enron's financial reports. The Outside Directors were not aware of, and in the exercise of reasonable diligence could not have been aware of these accounting errors until they were reported to the Audit Committee by Arthur Andersen and Enron management a few days before the 8-K was filed.

451-517. The allegations in these paragraphs are not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore require no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require no response. To the extent these paragraphs contain specific assertions about the Outside Directors or their conduct, the Outside Directors incorporate in response to these paragraphs the answers and responses in the paragraphs to which they have provided specific responses. To the extent any further response is required to any specific assertions about the Outside Directors, these allegations are denied.

518. The Outside Directors deny the allegations in this paragraph to the extent they relate to the Outside Directors. The Outside Directors were entitled to and did rely upon representations by management, Enron's outside experts, and the accounting expertise of Arthur Andersen and of Enron's accounting staff in performing their duties as directors of Enron. In reliance upon management, Enron's outside experts including Arthur Andersen, and Enron's accounting staff, the Outside Directors believed that Enron's financial reports were lawful, complete and appropriate at the time those reports were issued. They did not know and in the exercise of reasonable diligence could not have known of the accounting errors reported in the restatement until they were reported to the Audit Committee by Arthur Andersen and Enron management a few days before the 8-K was filed. The reasons for Enron's restatement of its financial report are set out in its Form 8-K. The Outside Directors are without information sufficient to determine whether Plaintiffs' characterizations of the GAAP rules cited in these paragraphs are complete, not misleading and in context. Accordingly, those allegations are denied.

519-609. The allegations in these paragraphs are not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore require no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require no response. To the extent these paragraphs contain specific assertions about the Outside Directors or their conduct, the Outside Directors incorporate in response to these paragraphs the answers and responses in the paragraphs to which they have provided specific responses. To the extent any further response is required to any specific assertions about the Outside Directors, these allegations are denied.

610. The Outside Directors deny the allegations in this paragraph to the extent they relate to the Outside Directors. The Outside Directors were entitled to and did rely upon representations by management, Enron's outside experts, and the accounting expertise of Arthur Andersen and of Enron's accounting staff in performing their duties as directors of Enron. In reliance upon management, Enron's experts including Arthur Andersen, and Enron's accounting staff, the Outside Directors believed that Enron's financial reports were lawful, complete and appropriate at the time those reports were issued. They did not know and in the exercise of reasonable diligence could not

have known of the accounting errors reported in the restatement until they were reported by Arthur Andersen and Enron management a few days before the 8-K was filed. The reasons for Enron's restatement of its financial report are set out in its Form 8-K. The Outside Directors are without information sufficient to determine whether Plaintiffs' characterizations of the GAAP rules cited in these paragraphs are complete, not misleading and in context. Accordingly, those allegations are denied.

611. The allegations in this paragraph are not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore require no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require no response. To the extent this paragraph contains specific assertions about the Outside Directors or their conduct, the Outside Directors incorporate in response to this paragraph the answers and responses in the paragraphs to which they have provided specific responses. To the extent any further response is required to any specific assertions about the Outside Directors, these allegations are denied.

612. The registration statements and offering documents referenced in this paragraph speak for themselves. To the extent Plaintiffs have mischaracterized these documents, these allegations are denied. Moreover, the claims against the Outside Directors have been dismissed as to each of these alleged offerings other than the alleged: (i)"5/19/99" Notes offering; (ii) "8/10/1999" Exchangeable for EOG Notes offering; and (iii) Zero Coupon Notes placement. Therefore, all other alleged offerings in this paragraph require no response. To the extent a response is required all such allegations are denied. Any remaining allegations in this paragraph are denied.

613. The Outside Directors deny the allegations in this paragraph to the extent they relate to the Outside Directors. The Outside Directors were entitled to and did rely upon representations by management, Enron's outside experts, and the accounting expertise of Arthur Andersen and of Enron's accounting staff in performing their duties as directors of Enron. In reliance upon management, Enron outside experts including Arthur Andersen, and Enron's accounting staff, the Outside Directors believed that Enron's financial reports were lawful, complete and appropriate at the time those reports were issued. They did not know and in the exercise of reasonable diligence could not have known of the accounting errors reported in the Enron's restatement until they were reported to the Audit Committee by Arthur Andersen and Enron management a few days before the 8-K was filed. The nature of, and the reasons for, Enron's restatement of its financial reports are set out in its Form 8-K. The Outside Directors are without information sufficient to determine whether Plaintiffs' characterization of the GAAP rules cited in this paragraph is complete, not misleading and in context. Accordingly, those allegations are denied. In addition, this paragraph purports to incorporate certain paragraphs of the Complaint containing allegations that have been dismissed by the Court. No response to those allegations is required; to the extent a response is required, those allegations are denied.

614. The Outside Directors admit that Enron filed a Form S-3 on December 19, 1997 which incorporated Enron's Form 10-K for 1997. The Outside Directors admit that Enron's Form

10-K for 1997 contained a number of disclosures concerning its project at Dabhol. The Outside Directors deny, however, that Plaintiffs have characterized those disclosures accurately. The Outside directors also deny the remaining allegations of the paragraph.

615. The Outside Directors admit that Enron's registration statement incorporated by reference documents filed pursuant to Section 13(a) of the 1934 Act, including Enron's Form 10-Ks. The contents of the SEC filings referenced in this paragraph speak for themselves. The Outside Directors deny the allegations in this paragraph to the extent they relate to the Outside Directors. The Outside Directors were entitled to and did rely upon representations by management, Enron's outside experts, and the accounting expertise of Arthur Andersen and of Enron's accounting staff in performing their duties as directors of Enron. In reliance upon management, Enron's experts including Arthur Andersen, and Enron's accounting staff, the Outside Directors believed that Enron's financial reports were lawful, complete and appropriate at the time those reports were issued. They did not know and in the exercise of reasonable diligence could not have known of the accounting errors reported in the Enron's restatement until they were reported to the Audit Committee by Arthur Andersen and Enron management a few days before the 8-K was filed. The nature of, and the reasons for, Enron's restatement of its financial reports are set out in its Form 8-K. The Outside Directors are without information sufficient to determine whether Plaintiffs' characterization of the GAAP rules cited in this paragraph is complete, not misleading and in context. Accordingly, those allegations are denied. In addition, this paragraph purports to incorporate certain paragraphs of the Complaint containing allegations that have been dismissed by the Court. No response to those allegations is required; to the extent a response is required, those allegations are denied.

616. In this paragraph, Plaintiffs allege that Enron's offering documents were misleading for a variety of reasons. During their tenure on the Board, the Outside Directors were not aware that any of Enron's public or financial statements were materially incomplete or misleading. The Outside Directors also deny that in the exercise of reasonable diligence they could have been aware of that alleged fact. In their service on the Board, the Outside Directors were entitled to and did rely upon representations of management and Enron's outside experts, including Arthur Andersen, that: (a) the transactions presented to the Board were in Enron's best interests and (b) Enron's public financial disclosures were complete, lawful and not misleading. The Outside Directors did not approve any transaction that they believed was unfair to Enron or not in its best interest at the time the transaction was approved. Thus, the allegations in this paragraph are denied as they pertain to the Outside Directors. To the extent they pertain to the alleged actions of other Defendants, the Outside Directors are without information sufficient to form a belief as to the truth of those allegations.

617. Upon information and belief, the Outside Directors state that they would expect that both the lawyers who worked on Enron's transactions and the banks that engaged in transactions with Enron to have had knowledge concerning those transactions. The Outside Directors, however, were not personally involved in discussions with banks or outside lawyers concerning those transactions and so lack information sufficient to admit or deny the truth of these allegations as they

pertain to those parties. The Outside Directors also admit that certain of Enron's debt contained trigger points or other forms of credit support that were disclosed in its Form 10-Ks. The Outside Directors deny, however, that they were aware of any agreement to include a trigger point or stock deposit agreement in the structure of the Raptor transactions. The Outside Directors deny, as well, that they understood the Raptor transactions were allegedly "bogus hedges" at the time they approved them. To the contrary, based upon all of the information provided to them at the time, the Outside Directors believed those transactions were appropriate and legitimate. They did not know—and in the exercise of reasonable diligence could not have known—that there was anything improper about the Raptor transactions until they were reported to the Audit Committee by Arthur Andersen and Enron management a few days before the 8-K was filed. To the extent that any of the remaining allegations relate to the Outside Directors, they are denied in their entirety. The Outside Directors also lack sufficient knowledge to form a belief as to the truth of the allegations of this paragraph that pertain to the conduct of other defendants.

618-623. The Outside Directors deny that the Zero Coupon offering described in these paragraphs was undertaken pursuant to a registration statement. Instead, it was a private placement under Rule 144A and the provisions of Section 11 of the 1933 Act therefore do not apply to it. Because the registration statement does not pertain to the 144A offering of Zero Coupon notes, the remaining allegations of these paragraphs are denied. To the extent the substance of these allegations pertains to the conduct of the Outside Directors, the Outside Directors answer in accordance with paragraph 617 above. The Outside Directors are without information and belief sufficient to respond to the allegations as they pertain to the conduct of other defendants.

624. In this paragraph, Plaintiffs again allege that Enron's offering documents were misleading for a variety of reasons. During their tenure on the Board, the Outside Directors were not aware that any of Enron's public or financial statements were materially incomplete or misleading. The Outside Directors also deny that in the exercise of reasonable diligence they could have been aware of that alleged fact. In their service on the Board, the Outside Directors were entitled to and did rely upon representations of management and Enron's outside experts, including Arthur Andersen, that: (a) the transactions presented to the Board were in Enron's best interests and (b) Enron's public financial disclosures were complete, lawful and not misleading. The Outside Directors did not approve any transaction that they believed was unfair to Enron or not in its best interest at the time the transaction was approved. Thus, the allegations in this paragraph are denied as they pertain to the Outside Directors. To the extent they pertain to the alleged actions of other Defendants, the Outside Directors are without information sufficient to form a belief as to the truth of those allegations.

625. In this paragraph, Plaintiffs purports to quote a section from Enron's Form 10-K. Although the quoted language appears in a portion of Enron's Form 10-K, Plaintiffs have taken the quote out of context and omitted important risk disclosures concerning Enron's risk management system. Plaintiffs' contention that this partial quotation was somehow misleading is, therefore, denied. In addition, the Outside directors deny this allegation for the reasons stated in paragraph

624, above. The Outside Directors further deny the characterization of the offering documents referred to in this paragraph.

626-627. The Outside Directors deny these allegations to the extent that they pertain to the Outside Directors. To the contrary of what is alleged in this allegation, the Outside Directors approved procedures and policies of a sophisticated risk management system that constantly monitored its value at risk, and the Outside Directors were assured by management, and independent auditors that those procedures were being followed. A description of Enron's value at risk system appeared regularly in Enron's Form 10-K. The Outside Directors were entitled to and did rely on representations from Enron management and Enron's experts including Arthur Andersen to the effect that this system was functional, complete and adequate to assess and quantify the risks that Enron was assuming in its trading portfolio. The Outside Directors also understood and believed, at the time, that the Raptor hedges would be incorporated into Enron's risk assessment function through the efforts of the Risk Assessment and Control group. The Outside Directors did not know, and in the exercise of reasonable diligence, could not have known that Enron's value at risk calculation did not, as Plaintiffs allege, incorporate an assessment of the risks being hedged in the Raptor transactions until they were reported to the Audit Committee by Arthur Andersen and Enron management a few days before the 8-K was filed. The Outside Directors lack sufficient knowledge to form a belief as to the truth of the remaining allegations of this paragraph, except that they are denied to the extent they purport to refer or relate to the Outside Directors.

628. The Outside Directors deny these allegations to the extent that they pertain to the Outside Directors. The Outside Directors deny that they understood (or in reasonable diligence could have understood) that the Raptor transactions were allegedly bogus hedges at the time they approved them. To the contrary of what is alleged in this paragraph, the Outside Directors understood and believed that Enron had an extremely sophisticated risk management system that constantly monitored the credit risks of its portfolio including, for example, Enron's Top 25 Credit Exposures. The Outside Directors also understood and believed that Enron maintained adequate reserves to account for credit deficiencies that might be encountered by its trading counterparties. These reserves, and the Raptor transactions themselves, were described in Enron's Form 10-K. The Outside Directors were entitled to and did rely on representations from management and Enron's experts including Arthur Andersen to the effect that Enron's efforts to monitor its credit risk were functional, complete and adequate to assess and quantify the credit risks that Enron was assuming in its trading portfolio. The Outside Directors also understood and believed, at the time, that any credit risk in the LJM transactions (including the Raptor transaction) would be incorporated into the credit function performed by Enron's Risk Assessment and Control department. The Outside Directors lack sufficient knowledge to form a belief as to the truth of the remaining allegations of this paragraph, except that they are denied to the extent they purport to refer or relate to the Outside Directors.

629-630. The Outside Director's deny the characterization of the Offering Documents referred to in this paragraph. Moreover, Plaintiffs, purporting to quote from certain SEC filings have taken the quote out of context and omitted important risk disclosures concerning Enron's risk

management system, including risk disclosures that appeared in Enron's previously issued Form 10-K for 2000. Plaintiffs' contention that this partial quotation was somehow misleading is, therefore, denied. In addition, the Outside directors deny this allegation for the reasons stated in paragraph 624, above. To the extent these paragraphs contain allegations pertaining to other defendants, the Outside Directors are without information or belief sufficient to respond to them.

631. The allegations in this paragraph are denied.

632-635. The Outside Directors deny these allegations as it pertains to what they knew and were told about Enron Broadband Services and the Enron Intelligent Network. They lack sufficient knowledge to form a belief as to the truth of the allegations of this paragraph as they pertain to the actions of other defendants.

636. In this paragraph, Plaintiffs purports to quote a section of Enron's Form 10-K. Plaintiffs have taken the quote out of context and omitted important risk disclosures concerning the business risks associated with the Enron's broadband businesses. Plaintiffs' contention that this partial quotation was somehow misleading is, therefore, denied. In addition, the Outside Directors deny this allegation for the reasons stated in paragraph 624, above. To the extent these paragraphs contain allegations pertaining to other defendants, the Outside Directors are without information or belief sufficient to respond to them.

637-639. The Outside Directors deny these allegations as it pertains to what they knew and were told about Enron Broadband Services and the Enron Intelligent Network. They lack sufficient knowledge to form a belief as to the truth of the allegations of this paragraph as they pertain to the actions of other defendants.

640-641. In this paragraph, Plaintiffs purports to quote a section of Enron's Form 10-Q and Form 10-K concerning Enron Energy Services. Plaintiffs have taken the quote out of context and omitted important risk disclosures concerning the business risks associated with the EES. Plaintiffs' contention that this partial quotation was somehow misleading is, therefore, denied. The Outside Directors also deny this allegation for the reasons stated in paragraph 624, above. This paragraph also purports to incorporate paragraphs of the Complaint that have been dismissed against the Outside Directors, so no response to those allegations is required. To the extent a response is required, those allegations are denied. Finally, to the extent these paragraphs contain allegations pertaining to other defendants, the Outside Directors are without information or belief sufficient to respond to them.

642-898. The allegations in these paragraphs are not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore require no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require no response. To the extent these paragraphs contain specific assertions about the Outside Directors or their conduct, the Outside Directors incorporate in response to these paragraphs the answers and responses in the paragraphs to which they have provided specific responses. To the extent any

further response is required to any specific assertions about the Outside Directors, these allegations are denied.

899. In this paragraph, Plaintiffs allege that Andersen misrepresented Enron's financial condition for the years 1997-2000. During their tenure on the Board, the Outside Directors were not aware that any of Enron's public or financial statements were materially incomplete or misleading. The Outside Directors also deny that in the exercise of reasonable diligence they could have been aware of that alleged fact. In their service on the Board, the Outside Directors were entitled to and did rely upon representations of management and Enron's outside experts, including Arthur Andersen, that: (a) the transactions presented to the Board were in Enron's best interests and (b) Enron's public financial disclosures were complete, lawful and not misleading. Thus, the allegations in this paragraph are denied as they pertain to the Outside Directors. The Outside Directors also deny the Plaintiffs' characterization of the Zero Coupon note offering which was a rule 144A private placement to which the provisions of Section 11 of the Securities Act of 1933 do not apply. Finally, to the extent they pertain to the alleged actions of other Defendants, the Outside Directors are without information sufficient to form a belief as to the truth of those allegations.

900-985. The allegations in these paragraphs are not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore require no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require no response. To the extent these paragraphs contain specific assertions about the Outside Directors or their conduct, the Outside Directors incorporate in response to these paragraphs the answers and responses in the paragraphs to which they have provided specific responses. To the extent any further response is required to any specific assertions about the Outside Directors, these allegations are denied.

986. It is admitted that Lead Plaintiff purports to bring this action pursuant to Rule 23 of the Federal Rules of Civil Procedure. The scope of the class, and whether this action is sustainable under Rule 23 of the Federal Rules of Civil Procedure are legal conclusions to which no responses are required, but to the extent that responses are required, such allegations are denied. Any remaining allegations in this paragraph are denied.

987-991. The Outside Directors are without information or belief sufficient to response to these allegations, because no discovery concerning the scope of the purported class(es) has yet occurred.

992-1004. The allegations in these paragraphs are not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore require no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require no response. To the extent these paragraphs contain specific assertions about the Outside Directors or their conduct, the Outside Directors incorporate in response to these paragraphs the answers and responses in the paragraphs to which they have provided specific responses. To the

extent any further response is required to any specific assertions about the Outside Directors, these allegations are denied.

1005. The Outside Directors admit that Plaintiffs purport to incorporate in their claim for alleged violations of Sections 11 and 15 the paragraphs listed in paragraph 1005. The Outside Directors also admit that Plaintiffs have disclaimed any allegations of fraud and intentional or reckless misconduct against the Outside Directors.

1006. The Outside Directors admit that Lead Plaintiff purports to bring this claim under §§ 11 and 15 of the Securities Act of 1933. The registration statements and offering documents referenced in this paragraph speak for themselves. The Outside Directors specifically deny that the Zero Coupon Convertible Notes allegedly purchased by Plaintiffs were sold pursuant to this registration statement, as is alleged in this paragraph; to the contrary, those notes were issued and sold pursuant to Rule 144A by Enron, so the provisions of the Securities Act of 1933 do not apply to that offering. Any remaining allegations in this paragraph are denied.

1007. In this paragraph, Plaintiffs contend that Enron's financial statements, registration statements and prospectuses were false and misleading "as they omitted to state facts necessary to make the statements made not misleading and failed to adequately disclose material facts." During their tenure on the Board, the Outside Directors were not aware that any of Enron's public or financial statements were materially incomplete or misleading. The Outside Directors also deny that in the exercise of reasonable diligence they could have been aware of that alleged fact. In their service on the Board, the Outside Directors were entitled to and did rely upon representations of management and Enron's outside experts, including Arthur Andersen, that: (a) the transactions presented to the Board were in Enron's best interests and (b) Enron's public financial disclosures were complete, lawful and not misleading. Thus, the allegations in this paragraph are denied as they pertain to the Outside Directors. The Outside Directors also deny that the Zero Coupon Convertible Notes allegedly purchased by Plaintiffs were sold pursuant to a registration statement, as is alleged in this paragraph; to the contrary, those notes were issued and sold pursuant to Rule 144A by Enron, so the provisions of the Securities Act of 1933 do not apply to that offering. Finally, to the extent they pertain to the alleged actions of other Defendants, the Outside Directors are without information sufficient to form a belief as to the truth of those allegations.

1008. The Outside Directors admit that Enron is the registrant of certain of the securities listed in paragraph 1006 and referred to in this paragraph. The Outside Directors deny, however, that the Zero Coupon Notes were offered by Enron pursuant to a registration statement. Any remaining allegations in this paragraph are denied.

1009. The Outside Directors admit that they signed the registration statements that they signed in reliance upon the representation of Enron management and experts including Arthur Andersen that they were complete and not misleading. Furthermore, when they signed registration statements, the Outside Directors believed them to be true, and did not know and in the exercise of reasonable diligence could not have known of the untruths and omissions that Plaintiffs now contend

are contained in those documents or the Form 10-Ks incorporated in them. The Outside Directors deny, however, that they prepared or drafted either of these documents; rather, they were aware they were prepared by Enron's management, counsel and outside auditors and authorized them to be filed in reliance upon the representations of those parties, and without any knowledge that the documents were in any way deficient or misleading. The remaining allegations in these paragraphs are also denied as they pertain to the Outside Directors, but the Outside Directors lack information or belief sufficient to respond to this allegation as it pertains to the conduct of other defendants.

1010. The Outside Directors deny this allegation as it pertains to the Outside Directors, but lack sufficient knowledge to form a belief as to the truth of the allegations of this paragraph as they pertain to other defendants.

1011. The Outside Directors deny that they were sellers of any of Enron's securities, and further deny the remaining allegations as they pertain to the Outside Directors. The Outside Directors lack sufficient knowledge to form a belief as to the truth of the allegations of this paragraph as they pertain to other defendants.

1012. The Outside Directors admit that Arthur Andersen consented to the inclusion of financial statements that it prepared in Enron's Forms 10K, Registration Statements, Prospectuses and other offering documents. The Outside Directors deny, however, that they knew, or in the exercise of reasonable diligence could have known, that those financial statements contained material misrepresentations or omissions. The Outside Directors are without information sufficient to state whether Arthur Andersen knew that fact, but note that Arthur Andersen always advised Enron's Audit Committee and Board that Enron's financial statements were prepared in accordance with Generally Accepted Accounting Principles and presented fairly, in all material respects, the financial condition of the company.

1013. The Outside Directors admit in accordance with their answer to paragraph 1006 that the firms in question acted as either underwriters or placement agents in connection with the securities sales described in paragraph 1006. The Outside Directors also understood that, as underwriters and placement agents, the firms in question would undertake a reasonable and diligent investigation of the statements made in Enron's offering documents—but they lack sufficient knowledge or information to determine whether these firms, in fact, did so or whether any investigation that the firms performed was reasonable and diligent.

1014-1016.The Outside Directors lack sufficient knowledge to form a belief as to the alleged purchases by plaintiffs. Any remaining allegations in this paragraph are denied, except that the Outside Directors lack sufficient knowledge to form a belief as to the truth of the allegations as they refer or relate to other defendants.

1017-1030. The allegations in these paragraphs not incorporated in Plaintiffs' claims under Sections 11 and 15 of the Securities Act of 1933 and therefore require no response. In all other respects, these allegations have been dismissed against the Outside Directors and, similarly, require

no response. To the extent these paragraphs contain specific assertions about the Outside Directors or their conduct, the Outside Directors incorporate in response to these paragraphs the answers and responses in the paragraphs to which they have provided specific responses. To the extent any further response is required to any specific assertions about the Outside Directors, these allegations are denied.

GENERAL DENIAL

Except as otherwise expressly recognized above, the Outside Directors deny each and every allegation contained in Paragraphs 1 through 1030, including, without limitation, the footnotes, headings, and subheadings contained in the Consolidated Complaint, and specifically deny any liability to Plaintiffs or any members of the class that Plaintiffs purport to represent, or that Plaintiffs or any members of the class that Plaintiffs purport to represent has suffered any legally cognizable damages for which the Outside Directors are responsible. The Outside Directors expressly reserve the right to amend and/or supplement their Answer.

AFFIRMATIVE DEFENSES

First Defense: Failure to State A Claim for Relief

The Complaint fails to state a claim upon which relief can be granted against the Outside Directors and fails to comply with the requirements of the Private Securities Litigation Reform Act and rule 9(b) of the Federal Rules of Civil Procedure.

Second Defense: Statute of Limitations

Plaintiffs' claims are barred, in whole or in part, by applicable statutes of limitation.

Third Defense: Failure to Plead Reliance

Plaintiffs' claims under Section 11 and 15 of the Securities Act of 1933 are barred because they have failed to plead reliance, despite the fact that they purchased their securities after the filing of an Enron Form 10-K.

Fourth Defense: Laches and Adequate Remedy at Law

Plaintiffs' claims for injunctive relief have been dismissed by the Court's Order. In the unlikely event they are revived or plead again, Plaintiffs are barred from obtaining injunctive relief by the doctrine of laches and because an adequate remedy exists at law for their alleged injury.

Fifth Defense: Reasonable Diligence and Reliance Upon Management

The Outside Directors were entitled to, and did, rely upon recommendations, statements and representations of Enron's management in connection with their decisions to authorize the transactions challenged in Plaintiffs' complaint and in authorizing the filing of Forms 10-K and certain Registration Statements by Enron. As a result of that reasonable reliance, the Outside Directors did not know, in the exercise of reasonable diligence could not have known, and had no reasonable grounds to believe that Enron's public filings contained material misrepresentations or omissions.

Sixth Defense: Reasonable Diligence and Reliance Upon Arthur Andersen

The Outside Directors were entitled to, and did, rely upon recommendations, statements and representations of Arthur Andersen in connection with their decisions to authorize the transactions challenged in Plaintiffs' complaint and in authorizing the filing of Forms 10-K and certain Registration Statements by Enron. As a result of that reasonable reliance, the Outside Directors did not know, in the exercise of reasonable diligence could not have known, and had no reasonable grounds to believe that Enron's public filings contained material misrepresentations or omissions.

Seventh Defense: Reliance Upon Expertised Opinions

The Outside Directors were entitled to, and did, rely upon the opinions of professionals and experts in affixing their signatures to, and authorizing the filing of, Registration Statements, Forms 10-K and various offering documents by Enron. The Outside Directors believed that these experts were, in fact, expert in their field and were competent to render the opinions they had provided. The Outside Directors had no notice that the opinions provided by these experts were in any way inadequate, unfounded or incorrect as to the matters on which the experts had opined. This affords the Outside Directors a complete defense to liability under both Sections 11 and 15 of the Securities Act of 1933.

Eighth Defense: Reliance Upon Advice of Counsel

The Outside Directors were entitled to, and did, rely upon the advice of Enron's counsel in authorizing the transactions that are challenged in the Complaint, and in authorizing the filing of Registration Statements, Forms 10-K and various offering documents by Enron. The Outside Directors had no notice that the advice they received from Enron's counsel was in any way inadequate, unfounded or incorrect as to the matters upon which advice had been rendered to them and to Enron. This affords the Outside Directors a complete defense to liability under both Sections 11 and 15 of the Securities Act of 1933.

Ninth Defense: Proportionate Fault

The provisions of the Private Securities Litigation Reform Act require that the liability of Outside Directors under 15 U.S.C. § 77k (Section 11) be determined in accordance with the proportionate fault provisions of 15 U.S.C. § 78u-4. Accordingly, the Outside Directors are entitled to a submission asking the jury to assess the percentage of fault of each, individual Outside Director, and the percentage of fault (if any) of the other persons or entities that the jury finds contributed to cause the harm alleged by the Plaintiffs. This assessment must be submitted, individually, for each offering alleged to have violated the provisions of the Securities Act of 1933.

Tenth Defense: Standing

Certain Plaintiffs lack standing to pursue the claims that they have sought to pursue against the Outside Directors.

Eleventh Defense: No Material Misrepresentation or Omission

The Outside Directors were advised, understood and believed that there were no misrepresentations or omissions in the public securities filings of Enron, or in its public statements, at the time that they were made. Plaintiffs' claims against the Outside Directors are barred, in whole or in part, because the relevant registration statements did not contain any misrepresentations or omissions or because the misrepresentations or omissions relied upon by Plaintiffs were not material.

Twelfth Defense: Knowledge and Lack of Diligence by Plaintiffs

Enron's public filings and public statements disclosed to Plaintiffs the facts they now contend were concealed from, or misrepresented to, them. Plaintiffs also failed to exercise due care with respect to the transactions on which their claims are premised.

Thirteenth Defense: Reasonable Diligence by the Outside Directors

Plaintiffs claims are barred because the Outside Directors at all times acted with reasonable care and diligence with respect to the matters Plaintiffs now contend were misrepresented by, or omitted from, Enron's public filings and public statements.

Fourteenth Defense: Lack of Proximate Cause

The actions or inactions of the Outside Directors were not the sole proximate cause, or the joint proximate cause, of any of the injuries alleged by Plaintiffs.

Fifteenth Defense: Lack of Transaction Causation

The actions or inactions of the Outside Directors were not the sole or partial cause of any decision by any Plaintiff to purchase or sell Enron securities.

Sixteenth Defense: Lack of Loss Causation

The actions or inactions of the Outside Directors were not the sole or the partial cause of any loss allegedly suffered by any Plaintiff.

Seventeenth Defense: Superceding or Intervening Causation

Plaintiffs' claims against the Outside Directors are barred because the injuries Plaintiffs sustained, if any, were caused by the actions or inactions of parties other than the Outside Directors, actions or inactions by parties outside the control of the Outside Directors, or economic events that were, likewise, outside the control of the Outside Directors. These actions, inactions and events were intervening or superceding causes of Plaintiffs' alleged damages.

Eighteenth Defense: Assumption of the Risk

Plaintiffs' claims against the Outside Directors are barred, in whole or in part, because they assumed the risks disclosed in Enron's public disclosures and those risks came to fruition to cause Plaintiffs' losses. Plaintiffs who purchased with knowledge of these risks, or knowledge of adverse events at Enron, likewise assumed the risks that there would be further deterioration in the price or value of Enron's securities, such that their damages are not recoverable as a matter of law.

Nineteenth Defense: Failure to Mitigate

Enron's stock declined over a prolonged period of time as a result of market circumstances and disclosed business reversals suffered by Enron. These events continued to cause Enron's securities to decline in price over time. Plaintiffs who failed to sell their Enron securities, in the face of this disclosed information, failed to take reasonable steps to mitigate their damages and therefore cannot recover all or part of the damages they seek to recover from the Outside Directors.

Twentieth Defense: Truth on the Market

When Plaintiffs purchased their Enron securities, the total mix of information in the market disclosed the truth about Enron, such that the price of the securities Plaintiffs purchased reflected the effect of the transactions and events Plaintiffs contend were concealed or misrepresented.

Twenty-First Defense: Lack of Signature or Resignation as a Director

The following directors did not sign the Registration Statements listed, or had resigned from the Board as of the date of the offerings in question. Moreover, if the names of these directors were included in the Registration Statements indicated, it was without their consent. Accordingly, these directors are not liable to Plaintiffs under Sections 11 or 15 in connection with these offerings: Charls Walker (May 1999 and May 2001 offerings); Jerome J. Meyer (July 1999 Registration Statement and July 2001 offerings); Herbert S. Winokur (July 1999 Registration Statement); Joe H. Foy (July 2001 offering); and John Urquhart (July 1999 Registration Statement).

Twenty-Second Defense: Private Placement

Section 11 of the Securities Act of 1933 does not afford a remedy to purchasers who bought their securities in a private placement pursuant to Rule 144A. Claims by any such purchasers are barred as a matter of law.

Twenty-Third Defense: Secondary Market Purchases

Section 11 of the Securities Act of 1933 does not afford a remedy to purchasers who buy their securities in the secondary market. Claims by any such purchasers are barred as a matter of law. In any event, claims by secondary market purchasers are barred to the extent they fail to plead and prove reliance upon the alleged misrepresentations or omissions.

Twenty-Fourth Defense: Excess Damages

Plaintiffs are limited to only those damages authorized by the Securities Act of 1933, the Private Securities Litigation Reform Act and therefore may not recover damages in excess of those authorized by these statutes or the regulations promulgated pursuant to these statutes.

Twenty-Fifth Defense: Requirement to Prove Reliance

Any Plaintiff who acquired an Enron security after Enron made generally available to its security holders an earnings statement covering a period of twelve months after the effective date of a registration statement is barred from recovery under Section 11, because Plaintiffs cannot prove reliance upon any alleged misstatements or omissions contained in the Registration Statement.

Twenty-Sixth Defense: Requirement of Tracing

Plaintiffs' claims against the Outside Directors are barred, in whole or in part, because Plaintiffs cannot prove that they purchased securities traceable to a registration statement.

Twenty-Seventh Defense: Lack of Statutory Control

Plaintiffs claims against the Outside Directors under Section 15 of the Securities Act are barred because the Outside Directors did not have "control" over any person liable under sections 77(k) or 77(l) of the Securities Act of 1933, as the term "control" is defined in the statute.

Twenty-Eighth Defense: Lack of Knowledge

Plaintiffs' claim under Section 15 is barred against the Outside Directors because none of the Outside Directors had knowledge of, or a reasonable ground to believe in the existence of facts by reason of which the liability of the controlled person is alleged to have existed.

Twenty-Ninth Defense: Aiding and Abetting

Plaintiffs' claim under Section 15 is also barred because none of the Outside Directors aided or abetting the issuer of the securities.

Thirtieth Defense: Good Faith

Plaintiffs' claims under Section 15 are also barred because the Outside Directors acted in good faith.

Reservation of Right to Amend

Consistent with the Federal Rules of Civil Procedure, the Outside Directors reserve their rights to plead further and to allege additional defense in response to amended pleadings filed by Plaintiffs, where discovery indicates such pleadings are supported or as justice may require.

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been served by sending a copy via electronic mail to serve@ESL3624.com on this 26th day of March, 2003.

I further certify that a copy of the foregoing has been served via Certified Mail Return Receipt Requested on the following parties, who do not accept service by electronic mail on the 26th day of March, 2003.

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