

sole obligation must be to maximize the recovery on behalf of the Class without regard to its own issues. Alliance's role in FSBA's investment in Enron is under investigation by the Florida Attorney General and the Florida State Legislature. On February 7, 2002, the Florida House Select Committee on Oversight & Accountability for Florida's Pension Funds held a hearing to investigate FSBA's purchase of Enron stock through Alliance. By letter dated February 4, 2002, Robert A. Butterworth, Florida's Attorney General, advised the House Select Committee that the attorney general's office had served Alliance with a subpoena. *See* Letter from Butterworth to Flanagan of Feb. 4, 2002, attached at Exhibit B.

In response to such arguments, FSBA claims that Alliance was only responsible for a small percentage of FSBA's investment in Enron stock. The attached materials contradict that contention by demonstrating that Alliance's role in FSBA's purchase of Enron stock is considerable. According to a recently obtained FSBA internal document, Alliance accounted for approximately **90%** of FSBA's losses. *See* Dec. 13, 2001 Memorandum from Herndon to Bush, Milligan, and Gallagher (the "Herndon Memorandum")(attached at Exhibit C). In that Memorandum, Mr. Herndon, the Executive Director of FSBA, advised that "over 90% of our total loss [in Enron stock] is the result of an investment decision by one outside investment manager, Alliance Capital."² It has recently

Jeb Bush didn't know anything about this [Alliance's involvement with FSBA]. He didn't pick the money manager, and he certainly didn't know one of the money managers sat on the Enron board.

"Lawyers Fight For Enron Role," Chicago Tribune, February 10, 2002 (attached at Exhibit A)(emphasis added).

² One week before FSBA filed its motion for lead plaintiff (prior to joining with the NYC Funds), Mr. Herndon advised Governor Bush that FSBA's losses were approximately \$306

been reported that Alliance accounted for \$284 million of FSBA's \$325 million losses. *See* "Florida Investigating Enron Stock Purchases In Pension Fund," Los Angeles Times, February 8, 2002 (attached at Exhibit D)(noting that Alliance purchased 2.7 million shares of Enron stock *after* the SEC investigation of Enron was announced in October 2001).

That is contrary to FSBA's statement in its Sur-Reply filed on February 5, 2002 and counsel for FSBA's interview with the Chicago Tribune published on February 10, 2002. In its Sur-Reply, FSBA argued: **"Even if one were to put aside any of the losses that the FSBA incurred in connection with the purchase made through Alliance on which the State Group and the Milberg Group focus, the NYC Funds and the FSBA still have losses in excess of \$409 million. . . ."** FSBA/NYC Funds Sur-Reply at 5 (emphasis added). Similarly, in yesterday's Chicago Tribune article, FSBA counsel claimed that Alliance accounted for about 10% of FSBA's Enron losses. *See* Exhibit A.

FSBA's claim that, excluding the purchases made through Alliance, FSBA/NYC Funds' losses are in excess of \$409 million is inconsistent with its own internal data. The reply brief of the FSBA/NYC Funds, filed on January 28, 2002, claimed that combined total losses of FSBA and the NYC Funds were \$443.9 million. FSBA/NYC Funds Reply Memorandum at 1. In order to be correct in stating that its group losses excluding stock purchased through Alliance still totaled \$409 million, FSBA would have to represent that Alliance accounted for only \$34.9 million of FSBA's \$325 million in losses. This, of course, is contrary to FSBA's own internal reports placing FSBA's

million – \$19 million less than what FSBA claimed in its motion for lead plaintiff. *See* Herndon Memorandum.

Alliance-related losses at \$284 million, rather than either the \$34.9 million represented to this Court or the 10% of its losses as represented to the media.

Dated: February 11, 2002

Respectfully submitted,

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CERTIFICATE OF SERVICE

This is to certify that the above and foregoing document has been served upon all counsel of record via facsimile on this 11th day of February, 2002.

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From the Chicago Tribune

Lawyers fight for Enron role

Winner to direct lawsuit's course

By Flynn McRoberts
Tribune staff reporter

February 10, 2002

HOUSTON — A beauty contest is under way inside this city's federal courthouse. The contestants strut in expensive suits, not swimsuits. They don't want world peace. They want a piece of Enron, or at least whatever's left of it.

They are the lawyers for plaintiffs suing top executives and directors of the collapsed energy-trading behemoth, alleging securities fraud and seeking to recoup what they estimate is tens of billions of dollars in losses to pension funds, individual investors and others.

All of them ache to have U.S. District Judge Melinda Harmon name their client the lead plaintiff in *Newby vs. Enron*, which consolidates shareholder lawsuits in the case. Sometime in the next few days, Harmon is expected to declare the winner.

The happy victor among the who's who of shareholder-rights lawyers will greatly shape a case that could take years to resolve: The lead plaintiff's counsel largely determines whom to sue, whether to settle and, in the end, how to split tens of millions of dollars in possible attorneys' fees.

Exactly who gets the nod will be affected by everything from Texas' own brand of judicial politics to a 1995 law that fundamentally changed the way shareholder lawsuits are handled and substantially reduced what lawyers can make off such cases.

"You want the lead plaintiff to be aggressive, to be good, to litigate hard and furious—and if it doesn't settle, go to court and kick their ass," one of the lawyers involved said. "And in the end, you don't want them to charge outrageous fees."

Given the stakes, it's not surprising that the jockeying among the plaintiffs' attorneys has been nearly as intense as that between them and lawyers representing Enron and its fired auditor, Chicago-based Andersen.

In recent hearings before Harmon, the three teams of lawyers vying for the top spot split time between attacking those defendants and not-so-subtly questioning their colleagues' fitness to represent the wronged shareholders.

Their arguments range from the legal—how to measure whose client suffered the most in Enron's collapse—to the political. The latter point has drawn in none other than President Bush's little brother.

An investment firm for one of the biggest holders of Enron stock, the Florida state pension fund, accounted for millions of the fund's estimated \$330 million loss by purchasing 2.7 million shares of Enron after the Securities and Exchange Commission announced its probe of the Houston energy trading giant last fall.



It turns out that Frank Savage, former executive of the investment firm Alliance Capital Management, also sits on the board of Enron. And one of the pension fund's three trustees is Gov. Jeb Bush.

The overseer of the \$96 billion fund, which has since fired Alliance, said the governor wasn't involved in selecting Alliance or deciding to purchase Enron stock. And Savage reportedly left Alliance in early August, before Enron's troubles became widely known.

Nevertheless, the awkward appearances have prompted attorneys for other Enron plaintiffs to question whether the Florida pension fund should get the coveted lead role in the Houston litigation against Enron's leadership, Andersen and others.

"That gets my clients awfully nervous because of the political issues—[Enron's] contributions to George Bush and everyone else in the administration. And here his brother is going to manage the litigation?" asked Bill Federman, an Oklahoma City attorney who is representing individual shareholders against Enron.

Some attorneys involved suggest that Florida has joined the suit mainly to give the Bush family political cover. It also raises the possibility that defense attorneys for Enron's officers and Andersen could argue to potential jurors that Alliance and Savage behaved badly, not their clients.

Attorneys for the Florida pension fund, which has joined with the New York City pension fund, dismiss any suggestion that Florida's governor presents a conflict. "Jeb Bush didn't know anything about this. He didn't pick the money manager, and he certainly didn't know one of the money managers sat on the Enron board," said Charlie Parker, co-counsel for the team.

Noting that Alliance was only one of dozens of money managers for the Florida fund, accounting for about 10 percent of its Enron losses, Parker added: "Our clients are the employees of the State of Florida, and they shouldn't be affected because one of the money managers made bad investment decisions."

Federman alluded to the Florida situation during a hearing before Harmon late last month, but few expect the Bush issue to weigh heavily in her decision. They note that she was nominated to the federal bench by "41"—local lingo for the 41st president of the United States, Houston resident George Herbert Walker Bush.

Other plaintiffs have issues

The Florida team isn't the only one with issues. The University of California is represented by the law firm of Milberg Weiss, whose attorney Bill Lerach made national TV recently by helping to orchestrate a former Enron executive's disclosure of shredded documents.

About the time Harmon began considering whom to name lead plaintiff, the U.S. attorney in Los Angeles convened a grand jury to investigate allegations that Milberg Weiss may have paid people to act as plaintiffs in similar lawsuits. A spokesman for the U.S. attorney's office declined to comment.

But Trey Davis, spokesman for the California Board of Regents, said Milberg Weiss "has assured the university that there's no merit to the inquiry by the grand jury in Los Angeles."

Each legal team hopes Harmon favors it under the provisions of the Private Securities Litigation Reform Act of 1995. That law changed the way the lead plaintiff is selected; no longer is it the first to file, but the one who suffers the most damage from the alleged securities fraud.

The new law sought to end the practice of lawyers racing to the courthouse to be the first to file shareholder lawsuits when their "professional plaintiffs" may have owned only a handful of shares in the targeted company.

Critics of the '95 law contend that in reducing the threat of lawsuits it also encouraged the sort of financial malfeasance alleged in the Enron debacle.

A San Diego trial attorney, Lerach became known as the king of securities-fraud lawsuits and once put the fear of litigation in almost all executives whose stock price fell after they had promised favorable returns.

Lerach also was a major fundraiser and supporter of President Bill Clinton, which wouldn't endear him to Republicans among the Texas judiciary. Clinton initially sided with Lerach by vetoing the 1995 reform act. In a rare override of his veto, Congress passed it anyway, and the law is now shaping the litigation unfolding in federal court in Houston.

By the most obvious measure under the new statute, the Florida and New York City pension funds would be the most injured parties, since they lost a combined \$440 million. "They not only have the most in losses, but each has the most experience in leading this type of litigation," Parker said.

The California regents hope Harmon will consider not only the \$145 million loss to their \$54 billion portfolio, "but also the ability of a single investor to monitor and organize the litigation, compared to the ability of a group to pursue the case," Davis said.

The regents also argue that the third group of plaintiffs—the pension funds of the states of Georgia, Ohio and Washington, which lost more than \$280 million—made "huge profits on the sale of Enron stock" purchased before the period covered in the suit, from November 1998 to November 2001.

Davis said the California university system, by contrast, bought Enron stock between May 24, 2000, and Jan. 1, 2001, and sold it between Nov. 14 and Nov. 29 last year for \$110.5 million of its \$145 million in losses.

The Georgia, Ohio and Washington team dismisses those calculations, contending its clients suffered an overall net loss. The team also argues that it holds the reasonable middle ground: more experienced than the California regents in such cases, but not so involved in other similar lawsuits that it couldn't give proper attention to the Enron case.

Act limits legal fees

Whoever is selected lead plaintiff in the suit—which is separate from Enron's bankruptcy proceedings in New York and another group of suits filed on behalf of 401(k) participants—their lawyers are likely to make much less than they would have before the 1995 act.

Prior to that, attorneys fees ranged from 20 percent to 30 percent of the plaintiffs' recovery, according to Parker. Since the act, which favors institutional investors, such investors have negotiated those fees down to typically less than 10 percent.

Moreover, "Enron is in bankruptcy, and Arthur Andersen has very limited resources for such cases," Parker said. So while "the claims are in the tens of billions of dollars for the class, the resources to pay those claims may be only 10 percent of the losses."

One fact that has gone largely unnoticed: Though the state pension funds were hardest hit among the plaintiffs, they are nowhere near the biggest losers. That distinction goes to the mutual funds that invested heavily in Enron stock.

But don't expect to find any of them on the list of plaintiffs. Why not? "It's embarrassing for them," said one plaintiff's lawyer in the Newby case. "They have analysts who are supposed to be giving advice."

Enron's attorneys, for their part, say all the lawyers are good and the wrangling shows the process is working as the reform act envisioned.

"There are fixed standards. It's a vast improvement over the way it used to be," said Stephen Susman, who is defending Enron in the case. "It makes the plaintiffs' lawyers compete with each other, and that's the way it should be."

In the end, Susman said, "all the showboating that's going on is not going to [be worth] a tinker's damn. This judge will make her decision based on legal principles."

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STATE OF FLORIDA

OFFICE OF ATTORNEY GENERAL

ROBERT A. BUTTERWORTH

February 4, 2002

The Honorable Mark Flanagan
Chair, House Select Committee on Enron
Room 200, House Office Building
Tallahassee, Florida 32399

RE: Status of Attorney General's Office Review of Enron

Dear Chairman Flanagan:

I appreciate this opportunity to report to you and the members of your Select Committee on the current status of actions undertaken by this office regarding the collapse of the Enron Corporation and the resulting monetary damage done to the citizens of the State of Florida and its various governmental entities including, but not limited to, the state pension fund.

This past December I directed my staff to begin an investigation of Enron, Arthur Anderson, and Alliance. On January 17, 2002, this office issued subpoenas under our Racketeer Influenced and Corrupt Organization Act authority, Chapter 895, Florida Statutes. These subpoenas demand that a broad range of information be provided to this office on or before February 28, 2002. To ensure that this matter is given the highest priority, I have assembled a team of seven of my most experienced litigators from throughout the state. The team is headed by Chief of Economic Crimes Mary Leontakianakos, an AV rated former prosecuting attorney.

I share your deep concern for the harm caused by the collapse of Enron and the possibility that it might have been mitigated or avoided entirely if not for individual and/or corporate wrongdoing. Rest assured, I am committed to determining whether such wrongdoing occurred and, if so, assigning appropriate liability to those responsible and securing just compensation for those harmed.

Sincerely,

Robert A. Butterworth
Attorney General

RAB/ddm





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GOVERNOR
AS CHAIRMAN
TOM GALLAGHER
STATE TREASURER
AS TREASURER
ROBERT F. MILLIGAN
STATE COMPTROLLER
AS SECRETARY
TOM HERNDON
EXECUTIVE DIRECTOR

MEMORANDUM

TO: Honorable Jeb Bush
Honorable Bob Milligan
Honorable Tom Gallagher

FROM: Tom Herndon *TH*

DATE: December 13, 2001

SUBJECT: Cabinet Agenda Item #9 - Enron

As I described in my earlier memo on this subject, the fall of Enron Corporation is certainly one of the most startling financial disasters in market history. Last year, Enron had \$101 billion in revenues and a market capitalization of \$63 billion. Today, its shares sell for less than a dollar each, thousands of employees are out of work and facing a difficult future, and millions of shareholders are angry over what appears to be a massive pattern of fraudulent accounting practices.

The Florida State Board of Administration (FSBA) was especially hard hit in this disaster as the chart appended to this memo as Attachment 1 reflects. As you can see from a cursory review, over 90% of our total loss is the result of an investment decision by one outside investment manager, Alliance Capital.

Overall, we estimate our total losses to be approximately \$306 million. It is difficult for us to know how our losses compare to other large investors, but such a comparison may be meaningless in any case. The bottom line is that the loss is very sizeable to us and represents approximately 1/2 of 1% of the total Domestic Equities asset class and approximately 1/3 of 1% of the total plan assets. In spite of this loss, the FRS is still in a surplus condition and no "Enron effect" is likely to impact the contribution rate.

In our December 11, 2001 performance review of Alliance Capital, considerable attention was devoted to this topic. Alliance has been an investment manager for the FSBA for almost 15 years, and until approximately 2 years ago, was consistently one of our best performers. Unfortunately, their performance has deteriorated in the last couple of years and the Enron decision further exacerbates the situation.



SBA Trustees
December 13, 2001
Page 2

In fact, at the end of the December 11th performance review, we made the decision to terminate Alliance Capital and have subsequently communicated this position to the firm. Staff is currently reallocating the approximately \$3.6 billion in assets that are being withdrawn from Alliance, and will begin a search for replacement manager(s) in the near future, if any are needed. I have also attached a copy of a letter of explanation from Mr. Al Harrison of Alliance along with a backup schedule that shows the Alliance Enron chronology for our account. (Attachment 2). Further action may be taken in this regard in the future as the specific investment situation becomes more clear.

Turning to the matter of securities class litigation, the FSBA will apply to the federal court in Texas for appointment as lead plaintiff for the class. The deadline for that application is December 21st. As outlined in our earlier memo, the bankruptcy filing by Enron effectively halts any proceeding against the company itself; however, there are other parties that can be pursued in an attempt to recoup losses for stockholders. We have entered into a representation agreement with the law firms mentioned in our previous memorandum. (Attachment 3). Our outside lawyers are working closely with our General Counsel, the Florida Attorney General's Office, the Securities Regulation Division of the Comptroller, and other state pension funds and large Enron investors to tackle this issue.

TH/pm

cc: General Butterworth
SBA Cabinet Aides
IAC Members

unaudited

Enron (ENE)

Holdings 11/25 (prior to news)

		QTY	COST
SM01	Core	201,881	\$ 5,621,583.09
SM20	Alliance	7,583,900	\$ 282,864,520.79
SM41	Initech	124,200	\$ 4,734,820.45
SM63	Smith Barney	586,958	\$ 13,762,606.42
		<u>8,476,939</u>	<u>\$ 309,083,630.76</u>

SELL

DATE	QTY	VALUE	LOSS	% of Lo	
11/29, 12/3	201,881	\$ 75,076.85	\$ (5,546,506.24)	1.1	
11/30	7,583,900	\$ 2,123,482.00	\$ (280,841,028.79)	91.7	
11/29	124,200	\$ 50,549.40	\$ (4,684,371.06)	1.2	
11/28	586,958	\$ 687,131.95	\$ (15,181,474.47)	5.0	
		<u>8,476,939</u>	<u>\$ 2,830,230.20</u>	<u>\$ (308,253,360.56)</u>	100.0

Holdings

as of 12/11/2001

SM05	Prior	1,220,693	\$ 20,023,122.86
622A	Commingled	41,500	\$ 2,852,782.27
		<u>1,262,193</u>	<u>\$ 22,875,905.15</u>

ATTACHMENT 1

12/12/2001

December 5, 2001

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Management Corporation
US Bank Place
801 Second Avenue South, Suite 50
Minneapolis, Minnesota 55402-4922
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AllianceCapital

Alfred Harrison
Vice Chairman

Mr. Ken Menke
Florida State Board of Administration
Assistant Chief of Domestic Equities
P.O. Box 13300
Tallahassee, Florida 32317-3300

Dear Ken:

Enron was a company with a dominant (45%) position in the newly deregulated area of the wholesale gas and electricity trading market. In many respects Enron pioneered the on-line facilitation of the movement of these products in the U.S. and Europe. Indeed, as recently as last week, many business professors still praised the company's innovative vision (e.g. Financial Times, December 4, 2001).

Over the last year we met with the company in Alliance offices about ten times. As we were buying the stock the fundamental growth rate (20-25%) always seemed attractive in relation to a market where many growth stocks, especially in the technology field, were declining as their earnings fell.

As is obvious, analysts and portfolio managers must make the assumption that audited financial statements are not deficient through the non-disclosure of pertinent off balance sheet items and the details of private partnerships.

In mid-August Jeff Skilling, who had been appointed to take over as CEO after Ken Lay, resigned. This resignation was stated to be for personal reasons, and the company did not offer additional information.

Unfortunately from approximately that time forward previously undisclosed information has come to light as to possible contingent liabilities. Earnings for previous years have also been restated. We understand from news accounts that the Securities and Exchange Commission, the Department of Justice and the United States Congress also have questions about Enron's apparent non-disclosure of information.

ATTACHMENT 2

Mr. Ken Menke
December 5, 2001
Page Two

Over the past few months, even as the share price declined, the basic business appeared to be unaffected and standing alone could more than justify the lower price of the stock.

In the last several weeks we met with management on several occasions, from both a stock and fixed income vantage point. However, subsequent to our meetings, the company continued to newly disclose negative information.

Even so, with the stock in continued decline, Dynegy probably the second largest entity in the field, offered a merger proposition that valued the company at \$10-\$15, depending on the price of Dynegy stock. Dynegy management traveled the country, including meeting with Alliance, stressing the great advantage of such a merger, and a number of analysts on the Street forecast a more than 50% one-year appreciation in the price of the "new" Dynegy being so created. Accordingly given the 30% arbitrage discount offered by owning the "new" Dynegy, the purchase of the depressed Enron stock made sense.

Dynegy withdrew this offer, however, when the ratings agencies downgraded Enron debt to junk status. I sold the stock on Friday, November 30th. The company went into Chapter 11 bankruptcy that weekend.

Kind regards,

Yours truly,

ah

Alfred Harrison

AH/meh

Enclosure

Florida State Board of Administration

custp	security_desc1	term_code	trade_date	units	price	principal	net_amount	broker_by/sec	commission
293561106	ENRON CORP	B	11/06/00	150,329	78.7449	\$11,847,382.47	\$11,847,382.47		\$0.00
293561106	ENRON CORP	B	11/06/00	75,200	82.3086	\$6,197,281.92	\$6,197,281.92		\$0.00
293561106	ENRON CORP	B	11/06/00	17,500	82.7282	\$1,447,643.50	\$1,447,643.50		\$0.00
293561106	ENRON CORP	B	11/13/00	40,000	78.8982	\$3,155,768.00	\$3,155,768.00		\$0.00
293561106	ENRON CORP	B	11/14/00	83,100	78.7656	\$6,511,567.38	\$6,511,567.38		\$0.00
293561106	ENRON CORP	B	11/15/00	18,000	79.7423	\$1,436,354.70	\$1,436,354.70		\$0.00
293561106	ENRON CORP	B	11/21/00	48,709	79.7598	\$3,877,477.31	\$3,877,477.31		\$0.00
293561106	ENRON CORP	B	11/22/00	189,820	77.7605	\$14,755,331.40	\$14,755,331.40		\$0.00
293561106	ENRON CORP	B	11/27/00	50,000	78.8328	\$3,940,630.00	\$3,940,630.00		\$0.00
293561106	ENRON CORP	B	11/29/00	142,809	71.4851	\$10,212,355.28	\$10,212,355.28		\$0.00
293561106	ENRON CORP	B	11/30/00	456,200	66.9837	\$30,387,477.31	\$30,387,477.31		\$0.00
293561106	ENRON CORP	B	01/04/01	153,400	71.3222	\$10,931,103.28	\$10,931,103.28		\$0.00
293561106	ENRON CORP	B	01/05/01	92,700	71.3705	\$6,660,028.37	\$6,660,028.37		\$0.00
293561106	ENRON CORP	B	01/08/01	50,000	78.7900	\$3,940,000.00	\$3,940,000.00		\$0.00
293561106	ENRON CORP	B	01/09/01	127,500	64.9828	\$8,302,702.00	\$8,302,702.00		\$0.00
293561106	ENRON CORP	B	01/15/01	180,000	68.1822	\$12,273,999.60	\$12,273,999.60		\$0.00
293561106	ENRON CORP	B	01/17/01	124,400	67.2891	\$8,390,868.04	\$8,390,868.04		\$0.00
293561106	ENRON CORP	B	01/22/01	127,200	63.5438	\$8,078,209.74	\$8,078,209.74		\$0.00
293561106	ENRON CORP	S	01/17/01	112,600	60.0688	\$6,754,296.72	\$6,754,296.72		\$0.00
293561106	ENRON CORP	B	03/05/01	160,000	53.2378	\$8,518,848.00	\$8,518,848.00		\$0.00
293561106	ENRON CORP	B	03/20/01	185,100	45.8286	\$8,465,700.88	\$8,465,700.88		\$0.00
293561106	ENRON CORP	B	03/21/01	100,100	44.2865	\$4,435,884.65	\$4,435,884.65		\$0.00
293561106	ENRON CORP	B	03/22/01	50,000	43.8000	\$2,190,000.00	\$2,190,000.00		\$0.00
293561106	ENRON CORP	B	07/18/01	114,400	48.8000	\$5,583,200.00	\$5,583,200.00		\$0.00
293561106	ENRON CORP	B	07/20/01	95,300	48.2414	\$4,598,386.82	\$4,598,386.82		\$0.00
293561106	ENRON CORP	B	07/23/01	50,000	47.1672	\$2,358,361.00	\$2,358,361.00		\$0.00
293561106	ENRON CORP	B	09/05/01	75,000	44.8119	\$3,360,892.50	\$3,360,892.50		\$0.00
293561106	ENRON CORP	B	09/08/01	77,700	42.8552	\$3,336,042.04	\$3,336,042.04		\$0.00
293561106	ENRON CORP	B	09/15/01	100,000	56.8828	\$5,688,280.00	\$5,688,280.00		\$0.00
293561106	ENRON CORP	B	09/17/01	75,000	51.8558	\$3,889,431.00	\$3,889,431.00		\$0.00
293561106	ENRON CORP	B	09/21/01	158,700	57.0000	\$9,042,600.00	\$9,042,600.00		\$0.00
293561106	ENRON CORP	B	09/22/01	73,000	52.7850	\$3,852,825.00	\$3,852,825.00		\$0.00
293561106	ENRON CORP	B	09/24/01	30,000	51.9125	\$1,557,375.00	\$1,557,375.00		\$0.00
293561106	ENRON CORP	B	01/05/01	185,700	31.8778	\$5,918,886.50	\$5,918,886.50		\$0.00
293561106	ENRON CORP	B	01/06/01	74,000	30.6504	\$2,248,031.20	\$2,248,031.20		\$0.00
293561106	ENRON CORP	B	01/16/01	78,000	29.4846	\$2,301,818.88	\$2,301,818.88		\$0.00
293561106	ENRON CORP	B	01/18/01	250,100	26.0638	\$6,518,740.00	\$6,518,740.00		\$0.00
293561106	ENRON CORP	B	01/25/01	57,800	27.0000	\$1,560,660.00	\$1,560,660.00		\$0.00
293561106	ENRON CORP	B	01/26/01	319,500	25.8040	\$8,245,450.00	\$8,245,450.00		\$0.00
293561106	ENRON CORP	B	01/27/01	157,200	24.8048	\$3,900,654.56	\$3,900,654.56		\$0.00
293561106	ENRON CORP	B	11/22/01	311,200	22.8240	\$7,101,455.20	\$7,101,455.20		\$0.00
293561106	ENRON CORP	B	11/24/01	302,500	18.2840	\$5,524,085.00	\$5,524,085.00		\$0.00
293561106	ENRON CORP	B	11/26/01	154,500	15.4735	\$2,388,348.54	\$2,388,348.54		\$0.00
293561106	ENRON CORP	B	11/28/01	313,900	14.3145	\$4,494,703.94	\$4,494,703.94		\$0.00
293561106	ENRON CORP	B	11/30/01	317,800	12.2275	\$3,885,211.28	\$3,885,211.28		\$0.00
293561106	ENRON CORP	B	11/13/01	581,800	9.2704	\$5,401,738.76	\$5,401,738.76		\$0.00
293561106	ENRON CORP	B	11/14/01	478,600	9.8475	\$4,714,598.36	\$4,714,598.36		\$0.00
293561106	ENRON CORP	B	11/15/01	209,500	9.0224	\$1,890,667.80	\$1,890,667.80		\$0.00
293561106	ENRON CORP	S	11/20/01	7,583,900	0.2280	\$1,723,421.21	\$1,723,421.21		\$0.00

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December 11, 2001

VIA FACSIMILE

**Ms. Linda Lettera, General Counsel
Florida State Board of Administration
1801 Hermitage Blvd.
Tallahassee, FL 32308**

Re: Enron Securities Litigation

Dear Ms. Lettera:

This letter will set forth the terms of retention of our law firm and the law firm of Entwistle & Cappucci LLP, as legal counsel for the Florida State Board of Administration in asserting class action claims under the federal securities laws on behalf of a class of Enron investors against the former management of Enron, certain directors, Arthur Andersen LLP and other appropriate members of management who participated in the accounting fraud at Enron. As in any class action, attorneys' fees will be subject to court approval and will be contingent upon a successful result through either settlement or judgment.

In the event this action is resolved through settlement or judgment against one or more defendants or groups of defendants, the following fee schedule, based on a percentage of the recovery, will apply. For example, in the event there is a settlement with a group of officer and director defendants prior to resolution of claims against the auditing firm, the appropriate schedule will apply to each separate recovery depending on the point and time that the claims are resolved against the various defendants. The attorneys' fees paid pursuant to this schedule will compensate both law firms for their efforts on behalf of the Florida State Board of Administration and the Class.

1. A recovery prior to a ruling on any motion to dismiss filed by the defendants: five (5%) percent of the gross recovery to be awarded in attorneys' fees.

ATTACHMENT 3

BERMAN DEVALERIO PEASE TABACCO BURT & PUCILLO

Ms. Linda Lettera
December 11, 2001
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2. A recovery after a favorable ruling on a motion to dismiss the consolidated amended complaint and the commencement of discovery (i.e., document discovery on the merits), but prior to the commencement of deposition discovery or resolution of a motion for class certification: seven and one half (7.5%) percent of the gross recovery in attorneys' fees.

3. A recovery after the commencement of deposition discovery and certification of the class, provided there has been a period of at least 150 days of document related discovery in addition to the commencement of merits depositions: ten (10%) percent of recovery of the gross recovery in attorneys' fees.

4. A recovery after the completion of all fact discovery in the case and the exchange of expert reports: twelve and one half (12.5%) of recovery of the gross recovery in attorneys' fees.

5. A recovery after a jury is impaneled: fifteen (15%) percent of recovery of the gross recovery in attorneys' fees.

The foregoing categories include all appeals.

Our law firms together with any other law firms retained by the Lead Plaintiff or Plaintiffs will advance all of the costs necessary for the prosecution of this case, including the costs of expert witnesses. We will incur costs for case related travel in a manner consistent with the guidelines set forth in Florida Statutes § 112.061. All air travel will be at coach fares. We will avoid incurring any expenses that are not necessary, such as bringing additional associate attorneys to depositions and hearings when the presence of such attorney is not necessary to conduct such proceedings. All costs incurred which will be paid out of the recovery will be subject to audit by the Florida State Board of Administration, or such other state agency as you may designate. Our firm will not seek reimbursement of any costs that you do not approve of.

As you are aware, it is difficult to predict at the outset of litigation all of the events that may affect the amount of work involved in achieving a result. Sometimes cases against certain defendants settle relatively quickly and sometimes there is a substantial effort that must be made in order to achieve a favorable result. Accordingly, if the foregoing schedule results in a fee that is not consistent with the applicable case law and guidelines for the award of attorneys' fees in securities class action litigation, rather than submit such a proposal to the court, the parties may renegotiate the schedules to achieve a result which is more consistent with the guidelines set down by courts on attorneys' fees in securities class action litigation. In addition, under no circumstances will we submit an application for an award of fees that is not approved by you in advance of such submission. The foregoing guidelines are subject to and in addition to the

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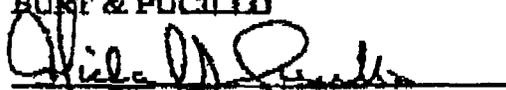
authority that the court exercises over the award of attorneys' fees in securities class action litigation.

If the foregoing meets with your approval, please so indicate in the space provided below. This agreement may be executed in counterpart and delivered by facsimile by the parties hereto.

Very truly yours,

**BERMAN DEVALERIO PEASE TABACCO
BURT & PUCILLO**

By:


Michael J. Pucillo

and

ENTWISTLE & CAPPUCCI LLP

By:


Vincent R. Cappucci

MJP/j

ACCEPTED AND AGREED TO:

**FLORIDA STATE BOARD OF
ADMINISTRATION**

By:

Linda Lettera, General Counsel

Dated: _____

http://www.latimes.com/news/printedition/asection/la-000009887feb08_story

THE FALL OF ENRON

Florida Investigating Enron Stock Purchases in Pension Fund

Probe: Money manager continued buying shares in the ill-fated energy firm despite accounting disclosures, leading to \$325 million in losses.

By RALPH FRAMMOLINO
TIMES STAFF WRITER

February 8 2002

Stung by \$325 million in Enron-related losses, Florida lawmakers Thursday began examining why the state's pension fund kept buying the ill-fated energy stock late last year despite signs that the company was in deep trouble.

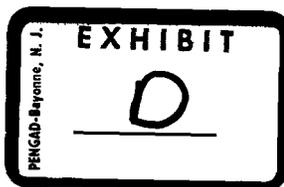
The fund's Enron loss is the largest for any governmental agency, and Florida officials are especially interested in the actions of money manager Alfred Harrison of Alliance Capital Management Corp., who bought 2.7 million shares of Enron stock for the pension system in October and November. The purchases came as the share price dropped from \$22 to \$9, Enron disclosed huge losses and federal regulators started a probe.

Harrison has business ties to an Enron board member, prompting lawmakers to wonder whether the connection influenced the purchases, said Rep. Mark Flanagan, a Republican from Bradenton who chairs the 10-member select House Banking Committee, which is holding hearings on the pension system. Flanagan said he also wants to question whether Harrison was dumping Enron stock from a private mutual fund he controlled at the same time he was loading up on Enron for the state. The questions were prompted by Alliance Capital's financial reports. "We are very concerned about the actions of this investment manager and what appears to be a major conflict of interest," said Flanagan, who also is an investment advisor.

"Everybody, even the little old lady who dabbles in buying and selling stock, knew that Enron was in big trouble," Flanagan said. Harrison could not be reached for comment. A spokesman for New York-based Alliance Capital said the firm was fooled by the company's glowing financial statements.

"We believed Enron's management and we believed they audited their financial statements and obviously, it appears that neither of them were accurate," spokesman John Meyers said. "It seems clear that like a lot of other investors, we were misled."

Meyers said it was "absolutely untrue" that Harrison was dumping Enron for his private clients while purchasing it for the state. Even with the Enron losses, Harrison earned a 1,513% return over 17 years as a money manager for the pension fund--better than the 997% return of the Standard & Poor's 500 over the same period, Meyers said.



The select committee held its first hearing Thursday.

"Our goal is to uncover any inadequacies of the Florida retirement system and whether anybody is to recover the \$325 million and put it back," Flanagan said.

The Florida loss amounts to only one-half of 1% of the pension fund and doesn't threaten the savings or retirement for 650,000 state government workers, officials said. Still, the Enron transactions have sent waves of consternation through Tallahassee, the state capital.

Based on the size of the loss, state officials have petitioned to become the lead plaintiff in a massive civil suit filed against Enron in Houston. The state attorney general has issued subpoenas to Alliance Capital as part of an Enron-related racketeering investigation, and Gov. Jeb Bush has suggested filing a civil suit against the investment firm. Harrison was fired as a contract money manager handling a \$3.3-billion slice of the \$92-billion fund.

Although Florida sustained the largest single Enron-related governmental loss, it isn't alone. The University of California is out nearly \$145 million from the Enron collapse, as are the pension plans for Georgia (\$127 million), Ohio (\$114 million) and New York (\$110 million).

According to State Board of Allocation records, Harrison began buying Enron stock in November 2000, when shares topped \$82. The purchases continued through 2001, unabated by the sudden resignation of Chief Executive Jeffrey K. Skilling in mid-August.

More than 1.4 million shares were purchased in October, after Enron reported a \$638-million loss for the third quarter and disclosed a \$1.2-billion reduction in shareholder equity. The purchases also came after the company disclosed a Securities and Exchange Commission inquiry and as share prices slid from \$22.82 to \$12.23.

Harrison bought an additional 1 million shares in November—days after Enron had shocked Wall Street by disclosing it had overstated earnings by \$586 million since 1997. By then, the share price was lingering at \$9.

During the two months, Harrison collected more than \$110,000 in commissions before selling the retirement system's 7.6 million shares, at 28 cents each, on Nov. 30. Enron filed for Chapter 11 bankruptcy protection two days later.

Harrison's purchases accounted for about \$284 million of the retirement system's \$325-million loss from Enron, records indicate. Other managers also made investments for the system.

The sell-off and loss spurred Board of Administration officials to hold a Dec. 11 meeting with Harrison, who said he "made a judgment and he was wrong," according to notes taken from the meeting.

Harrison told officials that, in hindsight, Skilling's resignation was a turning point for Enron but said he continued to buy the stock because he believed the company was fundamentally sound. During the final days, he hoped a merger with Dynegy Inc. would turn things around. "If the Dynegy deal had gone through, they would have made a killing," the meeting notes say.

But Dynegy backed out of the merger, and Harrison sold the pension system's shares rather than risk getting nothing through bankruptcy, the notes say. Harrison said he was pleasantly surprised to get 28 cents a share "because at the time he thought we might get 10 cents the way things were going," the notes say.

Harrison agreed that the investment was a "blot on his record," and Board of Administration officials terminated his contract Dec. 13. "His performance had been steadily declining, but Enron was the straw that broke the camel's back," said Lee Baldwin, the board's investment communications

manager.

During the meeting, Harrison also faced questions about whether his ties to Enron board member Fred Savage affected his decision to buy the company stock.

Harrison said he didn't realize Savage was on the Enron board until a few weeks ago and that Savage, who sold life insurance products overseas, played no role in picking Alliance investments.

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