

· Following on the heels of what could have been a positive third quarter Enron's senior management team has just destroyed what little credibility it had left. From a fundamental analyst role, we find that we can no longer recommend ENE to investors, now that management has reduced its credence down to "ground zero". We are lowering our rating on ENE to Hold from Buy.

· Whether former CEO Jeff Skilling left for personal reasons, pressures from the board, or stock performance reasons, his departure's impact on the stock pales in comparison with what the new management team has done. This new team appears to be calloused to shareholder sentiment, and in our view, should be questioned by the board. At the very least, the CFO, Andy Fastow should be asked to resign from his position.

· Our ratings downgrade is not about numbers. So far, Enron has met analysts' EPS expectations and yet, correlations between stock performance and price targets/net asset valuations have had little meaning. Recent revisions to our net asset valuation model adjusted for the sale of Portland General and the restructuring of its energy services business (EES), our current NAV for Enron is \$27.00. However, this assumes that the sale of its international investments will be transacted without additional write-downs, and that remains an unknown in our model. Our EPS estimates remain unchanged at \$1.80 for 2001 and \$2.11 for 2002.

· Over the past 6-8 months, we have asked management the "right" questions and received the "wrong" answers. Putting together information accumulated under the "mosaic theory", we questioned management on growing broadband concerns last March, potential asset write downs last August, and probable SEC issues over the past few weeks. While at the time of our questions, management denied that any problems existed, we later have found that our initial concerns were valid.

· While we realize that a Hold rating @ \$20+ per share seem "too little, too late", we had asked the company when the stock was at \$33 about potential SEC issues. The problem seems to be that we asked about SEC "investigations" rather than "inquiries", a verbal technicality that may haunt us for some time. Enron has informed us that we asked the "wrong" question (and albeit too early), but this obsession with semantics and definitions reminds us of the disgust felt during the Clinton administration and the Monica affair.

· At the time of our mid-day downgrade yesterday, 10/22/01, ENE said that it had no plans to formally address shareholder concerns. Since that time they must have had a change of heart and plans to hold a public conference call at 9:30 a.m. (see above).