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HEADLINE: ENRON'S MANY STRANDS: EXECUTIVE COMPENSATION;
Enron Paid Huge Bonuses in '01; Experts See a Motive for Cheating

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BODY:

The Enron Corporation paid its executives huge one-time bonuses last year as a reward for hitting a series of stock-price targets ending in 2000 - the very time, investigators now say, when corporate officials were improperly inflating the company's profits by as much as a billion dollars.

The bonus payments and other special cash distributions include some $320 million paid just 10 months before Enron's collapse into bankruptcy, according to company records. Legal experts said that the payments could provide strong evidence of a motive for the financial machinations that investigators think distorted the company's reported performance and ultimately led to its demise. Without those efforts, the profit and stock price levels required to obtain the money almost certainly would not have been reached.

Details of the bonuses ~ as well as other payments totaling more than $432 million made to almost 2,000 corporate executives during the two years before Enron's collapse ~ are described in spreadsheets and data maintained on the corporate computers, information that has been obtained by federal prosecutors. Copies of the spreadsheets were also obtained by The New York Times.

An Enron spokesman said that bonus payments at the company were linked to a variety of factors, and did not differ significantly from similar programs offered by other companies. "They were all performance-based programs, which is pretty standard for most corporations," the spokesman, Eric Thode, said.

However, former prosecutors said that given the size of the payments and their direct tie to stock price and earnings performance, the program used by Enron was almost certain to find its way into any criminal case that prosecutors might ultimately decide to pursue.

"A strong financial motive is probably the best evidence a prosecutor can get to promote or to establish criminal intent," said Stephen Meagher, a former federal prosecutor who handled white-collar cases and who now represents whistle-blowers. "The levels of compensation that we are talking about here would certainly seem to be a powerful incentive for anyone to do anything."

Current and former Enron executives said that the one-time payments ~ under a program known as the Performance Unit Plan ~ had been awaited for several years, and that their distribution ultimately contributed to an exodus of executives throughout the ranks of the company beginning last March and continuing through the early fall.

"Everybody knew that money was coming, and was hanging on for it," one former executive said. "Once it was paid, a lot of people who wanted to move on decided that the time had come."

In addition, executives received large bonuses at almost the same time, with the amount based in large part on the earnings of the company ~ figures that investigators for a special committee of the Enron board have concluded were inappropriately inflated by company executives.

"This is powerful new evidence of potential fraud," said Eli Gottesdiener, one of several lawyers representing Enron workers in suits arising out of losses to their retirement savings as a result of the stock's price collapse. "It shows yet another way ~ beyond just the already unusually high volume of insider stock sales ~ that top Enron insiders concretely and personally benefited from what appears to have been an intentional manipulation of the company's books."

The payments to individuals, according to the data, were huge. For example, Andrew S. Fastow, the former chief financial officer whose complex series of partnerships were used to hide debt and bolster profits, was issued a $350,000 check on Jan. 11, 2001. A few weeks later, on Feb. 5, Mr. Fastow received a check for $1.3 million. That was followed two days later by another payment, of just under $1.4 million.

The records show the final payment to Mr. Fastow was issued twice on the same day, and Enron executives said such double listings mean that two checks were issued; that could not be independently verified.

Michael J. Kopper, another executive who worked closely with Mr. Fastow on the partnerships, also received multiple payments early last year. On Feb. 5, a check was issued to him for $800,000, the records show; the next day, a check was cut for just under $603,000. Another check was written to Mr. Kopper on Aug. 10, for $905,000, but that amount was part of a severance agreement, records show.

A third executive whose role is being examined by prosecutors, Ben F. Glisan Jr., received smaller sums. The records show that a check was issued in his name for $600,000 on Feb. 5, followed by a second check the next day, for $69,223.

Two Enron executives who were primarily responsible for reviewing the partnership dealings to protect against conflicts of interest also profited from the reports of strong financial performance made possible by those transactions. Richard A. Causey, the recently dismissed chief accounting officer, was paid $350,000 on Jan. 11, followed by $1 million on Feb. 5; that same day, a second check was issued in his name for $200,000. Richard B. Buy, the chief risk officer, was paid $75,000 on Jan. 11; $900,000 on Feb. 5; and $695,000 on Feb. 7. The records show another $695,000 payment that same day, although again it is not clear if this is a repeat from a data error or the record of an actual check.

Some of the largest payments went to the top officers. Kenneth L. Lay, then the chairman and chief executive, received a check for $3.6 million on Jan. 11, and then one for $7 million on Feb. 5. Jeffrey K. Skilling, then the president and chief operating officer, received $1.9 million on Jan. 11, and $5.6 million on Feb. 5. As required by law, those payments were disclosed in the company's filings with the Securities and Exchange Commission.

The records also describe in detail the $55 million in bonus payments that were handed out to an array of top executives immediately before the company's collapse, to ensure their continued employment at the company. For example, Jeffrey McMahon, the former treasurer and current president and chief operating officer, received a $1.5 million bonus on Nov. 29. At the beginning of 2001, on Feb. 5, he received a check for $1.1 million; the next day, another check was issued to him for just under $700,000.

The long-term payments were made under the Performance Unit Plan, a four-year program that compensated executives with cash if Enron's total shareholder return ~ a combination of dividends and the increase in the stock price ~ ranked sixth or greater compared with a number of alternative investments. Those comparisons included the performance from 1997 through 2000 for 11 industry peers, the Standard & Poor's 500-stock index and 90-day Treasury bills.

Almost every decision that ultimately led to the company's collapse ~ including the establishment of a series of partnerships known as LJM2, Chewco and Raptor, which an investigating committee of the board concluded were used to bolster earnings improperly ~ was made during the time frame of the Performance Unit Plan.

Before that period, company filings with the S.E.C. show, Enron's stock performance was comparatively lackluster. A $100 investment in Enron stock in 1995 would have been worth $159.58 by 1998, compared with $210.85 for a $100 investment in the same time period in the S.& P. 500.

But, with many of Enron's poor-performing assets being shifted into the partnerships, earnings ~ and the stock performance ~ became supercharged in the next two years. By 1999, that $100 invested four years before would have been worth $251.60 --just under the $253.61 value of the investment in the stock index. The following year, as the shakeout in technology stocks began, Enron stock vanquished the competition. It would have been worth $474.61, compared with $227.89 for the S.& P. investment.

The differences in performance appear to be reflected in the data on the spreadsheets. With no multiyear bonuses coming due, and with the company's performance in 1999 below that of 2000, the payments that went out for the earlier year are dramatically lower.

The data ~ which purport to be all checks issued of more than $50,000 over the last two years ~ show only $23 million in such checks issued in 2000. There is the possibility that the data are incomplete, however: the first such check to appear on the spreadsheet was issued on Feb. 3 of that year, meaning either that earlier data are missing or that the payment is indeed the first one of 2000.

The annual bonuses were financed out of a pool established as a percentage of after-tax net income, according to S.E.C. filings. In other words, the smaller the company's reported profits, the less money there was to be distributed in the bonus pool.

A report from the board special committee concluded earlier this month that company executives intentionally manipulated the company's profits, inflating them by almost $1 billion in the year before Enron's collapse through byzantine dealings with the partnerships.

According to the report, Enron entered into a series of transactions with the partnerships controlled by Mr. Fastow that served no economic purpose other than to manipulate reported profits. An independent third party would never have entered into such dealings, the committee concluded.

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GRAPHIC: Photo: Jeffery K. Skilling and other top Enron executives got big bonuses for bolstering the stock in 2000. (Associated Press)(pg. C6)

Graph: "Big Payments"
The following is a list of Enron executives and the bonuses and other payments they received in 2001. Many were for hitting profit and stock price targets during a period when, investigators say, the company inflated profits. Only amounts over $50,000 are shown.

NAME: Kenneth L. Lay
CHECK AMOUNT: $3,600,000
DATE (2001): Jan. 11
CHECK AMOUNT: 7,000,000
DATE (2001): Feb. 5

NAME: Jeffrey K. Skilling
CHECK AMOUNT: 1,920,000
DATE (2001): Jan. 11
CHECK AMOUNT: 5,600,000
DATE (2001): Feb. 5

NAME: Kenneth Rice
CHECK AMOUNT: 1,750,000
DATE (2001): Feb. 5
CHECK AMOUNT: 1,487,500
DATE (2001): Feb. 5
CHECK AMOUNT: 262,500
DATE (2001): Feb. 5
CHECK AMOUNT: 1,617,011
DATE (2001): Feb. 7*

NAME: Jeffrey McMahon

CHECK AMOUNT: 1,100,000
DATE (2001): Feb. 5
CHECK AMOUNT: 694,862
DATE (2001): Feb. 6
CHECK AMOUNT: 1,500,000
DATE (2001): Nov. 29

NAME: John Clifford Baxter
CHECK AMOUNT: 200,000
DATE (2001): Jan. 11
CHECK AMOUNT: 1,200,000
DATE (2001): Feb. 5
CHECK AMOUNT: 1,386,055
DATE (2001): Feb. 7*

NAME: Andrew S. Fastow
CHECK AMOUNT: 350,000
DATE (2001): Jan. 11
CHECK AMOUNT: 1,300,000
DATE (2001): Feb. 5
CHECK AMOUNT: 1,386,055
DATE (2001): Feb. 7*

NAME: Richard A. Causey
CHECK AMOUNT: 350,000
DATE (2001): Jan. 11
CHECK AMOUNT: 1,000,000
DATE (2001): Feb. 5
CHECK AMOUNT: 200,000
DATE (2001): Feb. 5

NAME: Michael J. Kopper
CHECK AMOUNT: 800,000
DATE (2001): Feb. 5
CHECK AMOUNT: 602,671
DATE (2001): Feb. 6
CHECK AMOUNT: 905,000
DATE (2001): Aug. 10

NAME: Richard B. Buy
CHECK AMOUNT: 75,000
DATE (2001): Jan. 11
CHECK AMOUNT: 900,000
DATE (2001): Feb. 5
CHECK AMOUNT: 694,862
DATE (2001): Feb. 7*

NAME: Mark Haedicke
CHECK AMOUNT: 175,000
DATE (2001): Jan. 11*
CHECK AMOUNT: 400,000
DATE (2001): Feb. 5*
CHECK AMOUNT: 808,346
DATE (2001): Feb. 6
CHECK AMOUNT: 141,461
DATE (2001): Feb. 6*

CHECK AMOUNT: 750,000
DATE (2001): Nov. 29

NAME: James V. Derrick Jr.
CHECK AMOUNT: 484,000
DATE (2001): Jan. 11*
CHECK AMOUNT: 800,000
DATE (2001): Feb. 5*

NAME: Ben F. Glisan Jr.
CHECK AMOUNT: 600,000
DATE (2001): Feb. 5
CHECK AMOUNT: 69,223
DATE (2001): Feb. 6

*Documents show that another check was issued in the same amount on the same day. Enron executives said that such multiple appearances indicated separate checks were issued, but because that could not be confirmed, only one check is listed here.

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