STATEMENT OF DR. CHARLES A. LeMAISTRE

Before the Permanent Subcommittee on Investigations
Committee on Governmental Affairs
United States Senate
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Chairman Levin, Senator Collins, and Members of the Subcommittee. Good afternoon, and thank you for the opportunity to address the Subcommittee.

My name is Charles LeMaistre. I am a physician by profession. I am also the President Emeritus of the University of Texas M.D. Anderson Cancer Center, and former Chancellor of the University of Texas System. For 17 years, I served on Enron's Board. For most of those years, I held the position of Chairman of the Compensation and Management Development Committee. I resigned in March 2002 as part of the restructuring of the Board.

I would like to address some of the questions that have been raised regarding the compensation and bonus process for Enron executives.

I. THE COMPENSATION COMMITTEE

The Compensation Committee's basic responsibility was to assure that the senior executives of the Company were compensated effectively in a manner consistent with the compensation strategy stated to the shareholders. The committee considered internal equity, competitive compensation practices, and the requirements of appropriate regulatory bodies. The philosophy behind executive compensation is to reward executive performance that creates long-term shareholder value; in essence a "pay-for-performance" philosophy. Enron executives had the opportunity to earn at the 75^{th} percentile or higher of the compensation rates at comparable competitive companies, subject to obtaining performance at the 75^{th} percentile or higher at Enron.

As a first step, we received detailed recommendations from management and discussed the justifications fully. We also relied, frequently, on an outside executive compensation firm, Towers Perrin, to provide advice and recommendations regarding the various compensation issues that were brought to the Committee. Based on that advice, the Committee arrived at its proposals for presentation to the Board.

In recent years, the Compensation Committee was dealing with Enron's evolution from a pipeline company to an energy trading company that engaged in sophisticated and complex financing structures. Enron sought out different talent for its senior management in the energy trading business. To hire and successfully retain these highly sought individuals, Enron needed to offer compensation packages equivalent to, or better than, those offered by the competition. Enron believed that the talented individuals leading the Company were one of its most valuable assets, and critical to its success. Towers Perrin was often asked to craft compensation packages, stress test the executive compensation plan, and conduct surveys of competitive practices to be sure Enron was well-positioned in the marketplace.

II. COMPENSATION RELATED ISSUES

A. Ken Lay

The media and others have raised many questions about Mr. Lay's compensation. In particular, I would like to address the $141 million he received in total compensation for the year 2000. It has been suggested that this level of compensation was unreasonably high and over 10 times the average received by the CEOs of top two hundred companies.

First, I believe that comparing Mr. Lay's total compensation against the average salary for a CEO in a top 200 company does not necessarily yield an accurate picture. Because Mr. Lay's compensation placed him in the top 10 highest paid CEOs, I believe that comparing his compensation to those in that category is more accurate. Within the top 10, Mr. Lay was ranked seventh. That year, Enron coincidentally was ranked as the seventh largest company. The average compensation for the top 10 CEOs was about $169 million. The top compensation was $293 million. I have attached a chart to my statement that presents this information.

Second, I think it is important to break out what comprises Mr. Lay's total compensation package to determine the actual cost to the Company for that year. A very large portion of the total compensation is at risk under the pay-for-performance philosophy. The portion at risk depends upon meeting competitive criteria for the future value realized from stock options exercised and from restricted stock payouts to be realized. For this portion, the executive is rewarded only if the shareholder is rewarded. If the "at risk" portion is subtracted from the total, you arrive at about $10 million, which I believe is a more accurate representation of Mr. Lay's 2000 compensation cost the company that year. That roughly $10 million includes a base salary of about $1.3 million and a bonus of $7 million. I also note that 2000 was an extraordinary year for Enron and its shareholders, which accounts for the large increase in his bonus from the previous year. Mr. Lay's compensation was disclosed and footnoted in detail in the Proxy Statement each year.

B. Andy Fastow's Salary from the LJM Partnerships

On October 19, 2001 the Wall Street Journal reported that Mr. Fastow, and possibly some of his partnership associates, received more than $7 million in compensation from the LJM partnerships. Let me comment on what I know about his LJM compensation.

On October 19, 2001, a special meeting of the full Board was called to discuss Mr. Fastow's compensation from the LJM and other related matters. On October 22, 2001, the Board authorized Mr. Duncan and me to inquire directly of Mr. Fastow as to his compensation from the LJM partnerships. Enron's General Counsel drafted the questions that we would ask. I called Mr. Fastow on October 22 and arranged for a conference call the next day. On that call, Mr. Duncan and I asked Mr. Fastow about the amount of his investments in LJM1 and LJM2 and the return on those investments. Mr. Fastow responded that his commitments in LJM1 and LJM2 were $1 million and $3.9 million respectively. He stated that his income from LJM1 was $23 million, and approximately $22 million from LJM2. On October 24, 2001, Mr. Fastow was relieved of his responsibility as Chief Financial Officer.

I do not believe that the Board of Directors would ever have approved Mr. Fastow's participation in the partnerships if we had known he would be generating such compensation. If management had instituted the controls the Board installed, Mr. Fastow's compensation would have been reported to Mr. Skilling, the Audit Committee, Finance Committee, and the Compensation Committee. The October 6, 2000 Finance Committee meeting minutes clearly show, from his own presentation, that Mr. Fastow was aware of the six controls imposed by the Board on his participation in LJM, including his responsibility to review with Mr. Skilling "his economic interests in the Company and the LJM funds." Following Mr. Fastow's presentation, the Finance Committee added to the existing six controls a quarterly review of the LJM transactions and a review by the Compensation Committee of Mr. Fastow's LJM compensation.

C. Enron's Performance Unit Plan

Prior to 1999, Enron granted performance units to corporate and certain operating company executives who were not in an Enron long-term incentive plan. These operating company executives were, for the most part, in commercial support and pipeline businesses. The first performance units were awarded in 1987 and the last in 1998. Awards were based on Enron's total shareholder return over four years. The participants were nominated by the Office of the Chairman and approved by the Compensation Committee. There was a limit of 3 million performance units per individual. Performance was measured against that of a performance peer group of companies with a payout scale of 1 to 7. Each unit was assigned a valuation of $1.00. A ranking of 1 gained a payout of $2 per performance unit ("p.u."). A ranking of 7 gained a payout of $ 0.00/p.u..

In the event that the total shareholder return did not exceed the cumulative percentage for the 90-day Treasury Bill, a performance unit would have no value.

III. CONCLUSION

I believe that our Committee and the Enron Board endeavored to manage carefully and effectively Enron's executive compensation while this company was rapidly evolving, growing, and undertaking new business opportunities. The Compensation Committee sought and relied on the advice of outside executive compensation experts to ensure that our recommendations and decisions were consistent with the marketplace. Although the Board was willing to award compensation that was competitive and deserved, it certainly did not approve and was not made aware by management that some individuals reaped huge profits at the Company's expense, or that others abused certain benefits in ways for which they were not designed.

Thank you for your attention.

I will be pleased to answer questions from the Subcommittee.