

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

UNITED STATES SECURITIES	§	
AND EXCHANGE COMMISSION,	§	
	§	
Plaintiff,	§	
	§	Civil Action No.
v.	§	
	§	COMPLAINT
RAYMOND M. BOWEN, JR.,	§	
	§	
Defendant.	§	

Plaintiff Securities and Exchange Commission for its Complaint alleges as follows:

SUMMARY

1. Enron engaged in a scheme to defraud to manipulate Enron’s earnings, including the overvaluation of Enron’s merchant investments. Raymond M. Bowen, Jr., a former senior executive of Enron, knew or was reckless in not knowing of the scheme, and thereby violated the antifraud provisions of the Securities Exchange Act of 1934 and related books and records provisions.

JURISDICTION AND VENUE

2. The Court has jurisdiction over this action pursuant to Sections 21(d), 21(e), and 27 of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. §§ 78u(d) and (e) and 78aa].

3. Venue lies in this District pursuant to Section 27 of the Exchange Act [15 U.S.C. § 78aa] because certain acts or transactions constituting the violations occurred in this District.

4. In connection with the acts, practices, and courses of business alleged herein, Bowen, directly or indirectly, made use of the means and instruments of transportation and communication in interstate commerce, and of the mails and of the facilities of a national securities exchange.

DEFENDANT

5. Raymond M. Bowen, Jr., 44, resides in Houston, Texas. During the relevant time period, Bowen was a managing director of Enron North America and co-head of its commercial transactions group. Bowen became chief operating officer of Enron Industrial Markets in August 2000 and Enron's treasurer in November 2001. He later was elevated to Chief Financial Officer of the post-bankruptcy Enron in January 2002. On October 1, 2004, Bowen resigned from Enron.

ENTITIES INVOLVED

6. Enron Corp. is an Oregon corporation with its principal place of business in Houston, Texas. During the relevant time period, Enron's common stock was registered with the Commission pursuant to Section 12(b) of the Exchange Act and traded on the New York Stock Exchange. Among other operations, Enron was the nation's largest natural gas and electricity marketer. Enron rose to number seven on the *Fortune 500* list of companies. By December 2, 2001, when it filed for bankruptcy, Enron's stock price had dropped in less than a year from more than \$80 per share to less than \$1.

7. Enron Wholesale Services (Wholesale) was Enron's largest and fastest growing business segment in 2000 and 2001. Wholesale consisted of several business units, including Enron North America (ENA). ENA was the largest and most profitable business unit within

Wholesale and included Enron's wholesale merchant energy business related to natural gas and power across North America, including trading, marketing and new asset development activities in that region. In its segment disclosures, ENA's results were reported within the Wholesale Services segment.

FACTUAL ALLEGATIONS

Enron's Merchant Investments

8. Enron invested in various equity, debt, and partnerships in energy and technology companies. These "merchant" investments were accounted for on a fair value basis with quarterly increases or decreases in value recorded in earnings. For publicly traded securities, fair value was determined based upon quoted market prices. For private equity investments, fair value was determined primarily through sophisticated financial models.

9. Enron fraudulently manipulated fair value accounting with respect to its quarterly valuations of the assets in the merchant portfolio. Despite the fact that many of the merchant investments were experiencing major problems, Enron's senior management dictated that there could be no write-downs in any given quarter unless there was some offsetting gain. Thus, ENA personnel took a triage approach to the quarterly asset valuations and only adjusted valuations downward if absolutely necessary or if there were offsetting gains.

10. Bowen had oversight responsibilities regarding portions of the merchant portfolio during the second and part of the third quarters of 2000 and knew or was reckless in not knowing that the merchant portfolio was materially overvalued on Enron's books.

Enron Asset Hedges

11. By 1999, a significant portion of Enron's quarterly earnings were tied to

unrealized gains in assets accounted for on a fair value basis. Many of these assets, such as shares in publicly traded technology companies, were extremely volatile. Others were already on Enron's books at greatly inflated values, the result of Enron generating earnings through fair value manipulation when operating activities came up short of targets. Because the triage approach only postponed eventual write-downs, Enron needed a more permanent solution to the problem, for any reversal of earnings would have significantly hindered Enron's ability to meet its aggressive earnings targets.

12. Thus, beginning in the spring of 2000, Enron engaged in a series of financial transactions with certain Special Purpose Entities ("SPEs") known internally as the "Raptors". The SPEs were capitalized mainly with Enron stock. Enron used the SPEs to manipulate fraudulently Enron's reported financial results. Enron used the SPEs, among other things, to protect Enron from having to report publicly in its financial results decreases in value in large portions of its energy merchant asset portfolio and technology investments by purportedly hedging the value of those investments with an allegedly independent third party created by Enron and others.

13. Enron used the SPEs to hedge the value of Enron's assets. Enron employees manipulated the book values of Enron assets, many of which were expected to decline in value, before they were hedged, knowing that the SPE structure ensured that Enron would not suffer the financial reporting consequences of subsequent declines or large fluctuations in the value of those assets.

14. The SPEs were also used to manipulate fraudulently Enron's reported financial results. These vehicles did not offer true economic hedges. Because the vehicles were

dependent on the value of Enron stock, if the price of Enron stock declined the hedging obligations of the SPEs could not be met, thus creating losses that would have to be reflected on Enron's financial statements.

15. Bowen was aware that certain assets had been selected and were ultimately hedged by the SPEs, and knew or was reckless in not knowing that the SPEs did not provide a true economic hedge, and were used to manipulate Enron's financial statements. As a result of the fraudulent use of the SPEs, Enron reported over hundreds of millions in fictitious earnings on its books that should never have been recognized.

The Inflation Of Merchant Assets

16. In another example of the scheme to defraud carried out by Enron, Enron fraudulently inflated the value of its largest private "merchant" asset, Mariner Energy, Inc., an oil and gas exploration company.

17. In the fourth quarter of 2000, Enron needed an additional \$100 million of earnings to achieve budget targets that formed the basis of its earnings-per-share objective for that quarter. To meet this need, Enron's senior management directed others to fraudulently increase the recorded value of Mariner by approximately \$100 million. Bowen and others knew or were reckless in not knowing that Mariner's fourth quarter 2000 valuation was an amount selected to generate fictitious mark to market earnings sufficient to meet Enron's targets.

18. Following Enron's bankruptcy filing in December 2001, a detailed review of Mariner was conducted and it was determined that an approximate \$257 million write-down was warranted. That amount was included in the proposed write-downs disclosed by Enron in its April 22, 2002 Form 8-K.

FIRST CLAIM

Violations of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5]

19. Paragraphs 1 through 18 are realleged and incorporated by reference herein.

20. As set forth more fully above, Bowen, directly or indirectly, by use of the means or instrumentalities of interstate commerce, or by the use of the mails and of the facilities of a national securities exchange, in connection with the purchase or sale of securities: has employed devices, schemes, or artifices to defraud, has made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or has engaged in acts, practices, or courses of business which operate or would operate as a fraud or deceit upon any person.

21. By reason of the foregoing, Bowen violated Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)], and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

SECOND CLAIM

Violations of Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-1, & 13a-13 thereunder [17 C.F.R. §§ 240.12b-20, 240.13a-1, 240.13a-13]

22. Paragraphs 1 through 21 are realleged and incorporated by reference herein.

23. By engaging in the conduct described above, Bowen knowingly and substantially caused Enron to file materially false and misleading annual reports on Form 10-K and materially false and misleading quarterly reports on Form 10-Q with the Commission.

24. By reason of the foregoing, Bowen aided and abetted violations by Enron of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder.

THIRD CLAIM

Violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(b)(2)(A), 78m(b)(2)(B)]

25. Paragraphs 1 through 24 are realleged and incorporated by reference herein.
26. By engaging in the conduct described above, Bowen aided and abetted Enron's failures to make and keep books, records and accounts which, in reasonable detail, accurately and fairly reflected Enron's transactions and dispositions of its assets, in violation of Section 13(b)(2)(A) of the Exchange Act, and further aided and abetted failures to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that Enron's corporate transactions were executed in accordance with management's authorization and in a manner to permit the preparation of financial statements in conformity with generally accepted accounting principles in violation of Section 13(b)(2)(B) of the Exchange Act.
27. By engaging in the conduct described above, Bowen, directly or indirectly, falsified and caused to be falsified Enron's books, records, and accounts subject to Section 13(b)(2)(A) of the Exchange Act.
28. By reason of the foregoing, Bowen aided and abetted violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act.

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court:

- (A) Grant a Permanent Injunction restraining and enjoining Bowen from violating the statutory provisions set forth herein; prohibiting him from acting as an officer or director of any public company for a period of five years from the entry of a Final Judgment; and ordering him to pay disgorgement and a civil penalty;
- (B) Pursuant to Section 308 of the Sarbanes-Oxley Act of 2002, enter an order providing that the civil penalty ordered against Bowen be added to and become part of a disgorgement fund for the benefit of the victims of the violations alleged herein; and
- (C) Grant such other and additional relief as this Court may deem just and proper.

Dated: February 7, 2005

Respectfully submitted,

s/ _____
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