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Causey's plea wreaks havoc for Lay, Skilling

Attorneys for Enron's Skilling and Lay get two additional weeks to regroup defense

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After Enron's former top accountant entered a guilty plea Wednesday, Ken Lay and Jeff Skilling were granted an extra two weeks to prepare for trial, but legal analysts suggested more time may not be enough to offset the potential damage.

"It's a serious blow to the defense," said Kendall Coffey, a former U.S. attorney in Miami.

Richard Causey, who reported directly to Skilling, can help guide prosecutors through Enron's books and the intricate business dealings that contributed to its collapse.

And his switch in sides likely means the prosecution will be able to present a less complex case to jurors.

After the 25-minute hearing in Houston where Causey pleaded guilty to a single charge of securities fraud instead of facing a 36-count indictment, attorneys for Skilling and Lay argued for more time to prepare.

For months they had prepped for a single, unified defense among the three former executives, and as a result of Causey's departure "it's wreaked some havoc," Skilling's attorney Daniel Petrocelli told Judge Sim Lake in pleading for a delay.

Lake granted them two weeks, which means their trial will begin Jan. 30 instead of Jan. 17.

They must readjust, now dealing with that fact that Causey will provide prosecutors



LITTLE TO SAY: Former Enron executive Richard Causey says "no comment" as he leaves court with his wife, Bitsy, on Wednesday.

information and could take the stand against them.

Lay and Skilling did not attend Wednesday's proceedings.

Skilling faces more than 30 charges, including fraud and conspiracy; Lay faces seven counts of fraud and conspiracy, and four counts of bank fraud that are scheduled to be tried separately.

Attorneys for Lay and Skilling have vigorously argued that any fraud committed at Enron was done at lower levels that never reached the offices of former Chairman Lay and CEO Skilling.

Like former Chief Financial Officer Andrew Fastow, who agreed to cooperate with the government in 2004, Causey has intimate knowledge of the company, particularly in its last days before it filed for bankruptcy.

Causey, though, never engaged in side deals to profit personally, as Fastow has admitted to.

"When you have two highly placed cooperators, it eases the prosecution's burden substantially," Coffey said. "At the same time, when you're faced with officers who are trying a hear-no-evil, see-no-evil defense, your corroborator is bolstered because the hear-no-evil see-no-evil defense just doesn't strike jurors as common sense."

And for defendants, "the toughest witness in the world is the insider who turns," said David Berg, a Houston trial lawyer. "He has access to records and can explain things the government never understood and can provide a road map to conviction."

Causey, 45, was responsible for the company's public accounting statements, reported directly to Skilling for years and took part in conference calls with Lay in the fall of 2001 as Enron fell from being one of the world's largest companies to one of the country's largest bankruptcies.

Causey, who becomes the 16th person who was connected to Enron to plead guilty, agreed to cooperate with the government in exchange for a reduced sentence and forfeiting \$1.25 million.

Prosecutors agreed to ask the court for Causey to receive a prison term of seven years, which can be reduced to five if he "provides truthful, complete and accurate information."

The judge, however, still maintains the power to sentence Causey to the maximum of 10 years.

Defense attorneys will likely try to make it seem as though Causey was scared into

pleading guilty, Coffey said.

And after the hearing Wednesday, attorneys for Lay and Skilling were quick to proclaim Causey's innocence.

"He was broke, he was threatened with 35 to 40 years in prison" and was doing what he thought was best for his family, said Mike Ramsey, Lay's attorney.

Reid Weingarten, Causey's attorney, wouldn't say precisely why Causey took the deal, only that he felt remorse.

"Today, Rick Causey, a very decent, honorable man, began the process of putting behind him the unfortunate Enron episode," Weingarten said.

"All the while and for every day of the remainder of his life, he will regret the damage and the hurt that so many people suffered as a result of this tragedy."

In a courtroom filled with media, supporters and curiosity seekers, Causey showed little emotion as Lake asked whether all of the facts in the plea agreement were true.

"Yes, they are," Causey said.

Asked by Lake whether he knew what he did was illegal, Causey, with his head slightly bowed, quietly answered, "Yes."

Causey pleaded guilty to a single charge of securities fraud for filing false and misleading statements to the Securities and Exchange Commission.

"I participated along with others in Enron's senior management in efforts to use Enron's public filings and public statements to mislead the investing public about the true nature of Enron's financial performance by making false and misleading statements and omitting facts necessary to make certain statements misleading," the plea agreement says.

Causey's guilty plea homes in on two specific transactions that prosecutors allege Skilling had a hand in — an early 2000 deal called Project Greyhawk and an effort in early 2001 that the government says was an attempt to hide the loss from one division amid the profits of another.

Greyhawk, prosecutors say, was created by Skilling and others to take advantage of an expected jump in Enron's stock price after a planned Jan. 20, 2000, presentation on its broadband-services division.

When the stock price jumped so did the value of Enron's stake in a partnership called

JEDI since JEDI owned a large number of Enron shares.

Causey said he and others misled investors when they didn't reveal the \$85 million increase in their JEDI investment came from the increased value of Enron stock.

The plea, though, didn't identify any other people by name.

The second, according to Causey's plea deal, involved hiding hundreds of millions of dollars in losses incurred by Enron's retail-electricity business, Enron Energy Services, in the California market in the first quarter of 2001.

EES had been highly touted by the company, so a bad loss would reflect poorly on the company's stock price, Causey said in his agreement, which added that the loss was moved to Enron's Wholesale Services business, which had significant profits, allowing EES to remain profitable.

Causey said no mention of EES' losses was made public. The government alleges Skilling approved the transaction.

"For the defense, this is going to make it very difficult for Mr. Lay and Mr. Skilling to deny they had knowledge of the transactions with Fastow that took so much debt off the books of Enron," Berg said.

Sean Berkowitz, lead prosecutor for the Enron Task Force, told the judge the government's debriefing of Causey would start "in the near future."