TESTIMONY

STATEMENT OF ANATOL FEYGIN ON BEHALF OF JPMORGAN SUBMITTED TO THE COMMITTEE ON GOVERNMENTAL AFFAIRS OF THE UNITED STATES SENATE ON FEBRUARY 26, 2002

Mr. Chairman and Members of the Committee, my name is Anatol Feygin. I am a Senior Analyst and Vice President of J.P. Morgan Securities Inc. ("JPMorgan"), a subsidiary of JPMorgan Chase & Co.

JPMorgan is a leading global financial services firm with operations in more than 50 countries, serving more than 30 million consumers and the world's most prominent corporate, institutional and government clients, including over 99% of the *Fortune* 1000 companies.

JPMorgan has an established reputation for integrity. The Firm welcomes the opportunity to discuss my role as an analyst and the analysis underlying my recommendations regarding the stock of Enron Corporation ("Enron") prior to its bankruptcy.

I am pleased to appear before you today at the invitation of this Committee. In 1997, I joined JPMorgan as an intermediate analyst following my graduation from New York University's Stern Business School, where I earned a Masters of Business Administration degree in Finance. I currently work in the U.S. Equity Research Department of the Firm (the "Research Department"). At the present time, I follow eight companies in the Natural Gas sector and make specific recommendations to institutional investors concerning the equity securities of those clients.

Before turning to my evaluations of Enron, I would like to make a few preliminary but very significant points. First, absolute integrity is critical in this line of work. Second, I do not own any stock of the companies that I follow, and I did not own Enron stock. In addition to that, my family does not, and did not, own Enron stock or any of the securities of the companies that I follow. Third, I have complete freedom with respect to the recommendations that I make concerning any equity security and my compensation is not tied to the recommendations that I make with respect to any particular company. Finally, I have never received any compensation in any form from any company that I analyze, including Enron.

Independence and integrity form the foundation of JPMorgan's investment research. The Firm has well-established and comprehensive policies designed to ensure analysts' independence, which require the physical separation of investment banking from research and the close monitoring of our contact with investment banking personnel by the Compliance Department of the Firm.

Consistent with JPMorgan's policies of analyst independence, in analyzing the companies that I follow, I rely on publicly available information. My sources of information include the audited financial statements of the companies, their filings with the Securities and Exchange Commission ("SEC") and other regulatory bodies, annual reports and company presentations to analysts. The accuracy of the publicly available information provided by the issuer is essential to the accuracy of the resulting analysis.

In June 1999, I began following Enron equity securities. Prior to issuing my report and my initial "Buy" recommendation on Enron stock, I conducted extensive research tapping all available public sources of information. This process lasted close to a year. I met with Enron senior management and other personnel in the wholesale and retail energy businesses of the company. I was impressed at the outset with Enron's business model and its management team.

The rapidly deregulating energy markets offered Enron tremendous opportunity to grow earnings through the application of its innovative business model. I believed that it could be successfully applied in other industries to generate stable and growing earnings with minimal risk.

It was clear from my review of Enron's audited financial statements and other available public information that the company used off-balance sheet financing in a variety of circumstances. This was not in and of itself surprising. These techniques, which were widely used by other companies, were, and still are governed by generally accepted accounting principles and we had no reason to believe that Enron's audited financial statements were not prepared in accordance with such principles.

From the date of the initiation, I issued numerous research notes and updates pertaining to Enron that were distributed to JPMorgan clients. These updates and reports contained my analysis of significant news and events as they related to the company.

In 2000, Enron's revenue grew from $40 billion to $101 billion. EnronOnline was among the largest revenue generating websites. Enron's telecommunications business was generating growing revenues and expanding its customer base. Its recently founded retail energy business turned profitable in the fourth quarter.

The next year, 2001, started out well for Enron. Management reported that the company would continue to pursue its wholesale and retail energy businesses and that its developing businesses would continue to gain critical mass and momentum. First quarter results as publicly reported were strong, as expected. Enron reported that its business, both in the United States and abroad, was growing rapidly. Trading power volumes in North America almost doubled from a year ago; European volumes tripled. We viewed these increases as a testament to the sustainable competitive advantage Enron had amassed through its systems, scale and scope.

Second quarter results were similarly impressive with the company reporting earnings of $0.45 per share, ahead of our estimate of $0.43 per share. The results in all of Enron's business units, save for Enron Broadband, were excellent and we believed that the current energy environment presented an abundance of long-term opportunities.

In mid-August 2001, Enron's then CEO, Jeff Skilling resigned abruptly. We viewed this as a negative event, but we saw ample senior management talent to fill this gap. Indeed, Enron, in our view, had uniquely engineered a culture of innovation, with a deep and broad management team. Shortly thereafter, Enron made two new appointments to the "Office of the Chairman" which in my opinion returned the company's focus to its core, successful business model.

On the morning of October 16, 2001, Enron reported a $618 million third quarter loss and disclosed a $1.2 billion reduction in shareholder equity, related to the partnerships run by Andrew Fastow, Enron's then Chief Financial Officer. However, core earnings were up 35% and the stock finished the day 2% higher.

Nevertheless, during the next week, we saw a developing crisis of confidence, fueled by press reports, the SEC's disclosure that it had commenced an informal investigation and Enron's failure to address the resulting investor concerns head-on. On October 24, 2001, I downgraded Enron's rating from a "Buy" to a "Long-Term Buy" and removed it from the firm's "Focus List", which contains the firm's top near-term recommendations. A "Long Term Buy" means that the company is facing near term challenges that, once resolved, should allow the stock to outperform its peers. It does not mean that the stock should be purchased prior to the resolution of those issues.

On November 8, 2001, Enron filed documents with the SEC revising its financial statements for the past five years to account for $586 million in losses. However, its results for the previous three quarters of 2001 were not materially impacted and I did not believe that a further downgrade of the company was warranted.

On November 9, 2001, a proposed merger was publicly announced between Enron and

Dynegy. As the Committee is aware, JPMorgan was one of the advisors to Enron with respect to the merger. I, however, was not involved in the proposed transaction, and was only informed of it a few hours before it was publicly announced. Otherwise, I was not privy to any non-public information with respect to Enron, Dynegy or the proposed transaction. I viewed the proposed merger as a positive event and believed that if the merger had been consummated the combined entity would go on to outperform.

The merger was abandoned on November 28, 2001, following Enron's downgrade to below investment grade. Immediately following, on November 29, 2001, we suspended coverage of Enron. Enron filed for bankruptcy on December 2, 2001.

Thank you, Mr. Chairman. I would be pleased to respond to any questions that you or the other Members of the Committee may have.

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