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B-244

Discussion Material for

ENRON CORP.

Bankers Trust Company

A Wholly-Owned Subsidiary of Bankers Trust New York Corporation

March 27, 1997

EC2 000037924

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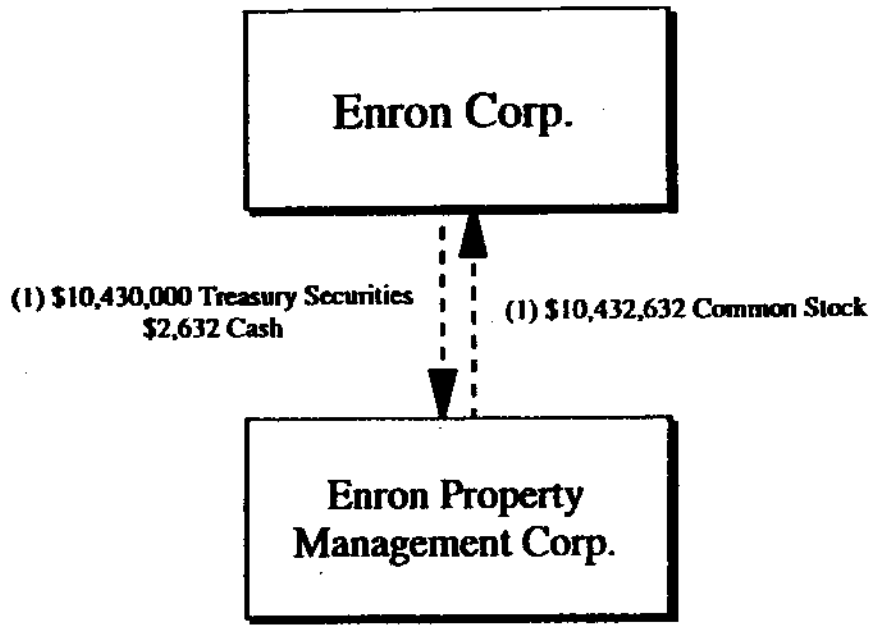
Transaction Cashflows on Closing Date



(1) Contribution of US Treasury Securities and capital contribution from Enron Corp. to Enron Property Management Corp.

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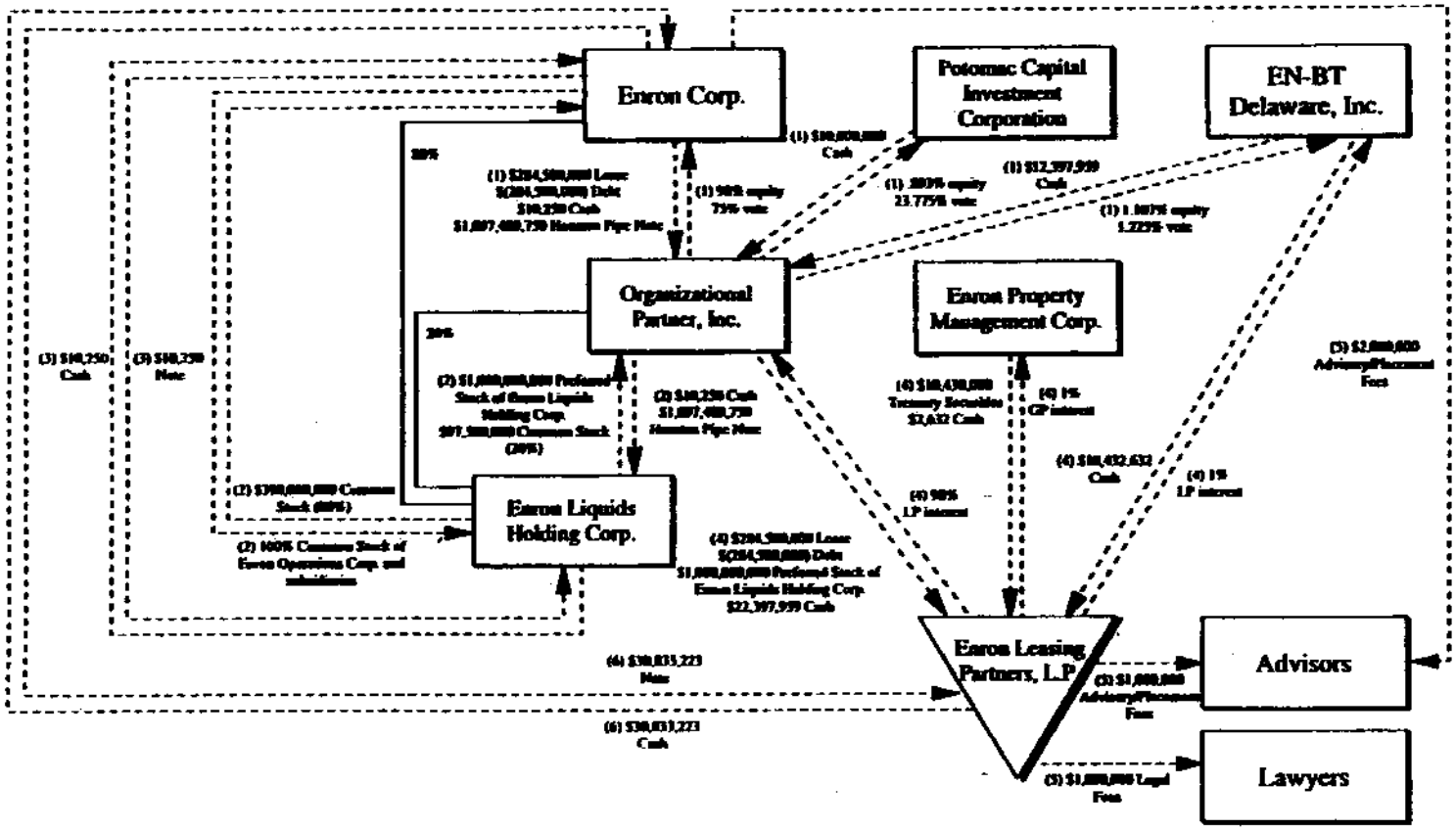
Transaction Cashflows on Closing Date



(1) Formation of Organizational Partner, Inc.
(2) Formation of Enron Liquids Holding Corp.
(3) Enron Liquids Holding Corp. loan of excess cash to Enron Corp.
(4) Formation of Enron Leasing Partners, L.P.
(5) Payment of Transaction Expenses.
(6) Enron Leasing Partners, L.P. loan of excess cash to Enron Corp.

Transaction Cashflows on Closing Date

Entity	Inflows	Outflows	Net Cash Position
Enron	$30,843,473	$2,012,882	$28,830,591
Enron Property Management Corp.	2,632	2,632	0
EN-BT Delaware, Inc.	0	22,830,591	(22,830,591)
Potomac Capital Investment Corporation	0	10,000,000	(10,000,000)
Organizational Partner, Inc.	22,408,209	22,408,209	0
Enron Leasing Partners, L.P.	32,833,223	32,833,223	0
Enron Liquids Holding Corp.	10,250	10,250	0
Advisors, Lawyers and etc.	4,000,000	0	4,000,000
Totals	90,097,787	90,097,787	0

Summary of Cashflows on Closing Date

(1) Enron Corp. will transfer $2,632 to Enron Property Management Corp. as a capital contribution.
(2) Enron Property Management Corp. will receive $2,632 from Enron Corp. as a capital contribution.

(3) Enron Corp. will transfer $10,250 to Organizational Partner, Inc. as a capital contribution.
(4) Potomac Capital Investment Corporation will transfer $10,000,000 to Organizational Partner, Inc. for $10,000,000 of preferred stock.
(5) EN-BT Delaware, Inc. will transfer $12,397,959 to Organizational Partner, Inc. for $12,397,959 of preferred stock.
(6) Organizational Partner, Inc. will receive $10,250 from Enron Corp. as a capital contribution.
(7) Organizational Partner, Inc. will receive $10,000,000 from Potomac Capital Investment Corporation and issue $10,000,000 of preferred stock.
(8) Organizational Partner, Inc. will receive $12,397,959 from EN-BT Delaware, Inc. and issue $12,397,959 of preferred stock.

(9) Organizational Partner, Inc. will transfer $10,250 to Enron Liquids Holding Corp. in exchange for preferred and common stock.
(10) Enron Liquids Holding Corp. will receive $10,250 from Organizational Partner, Inc. in exchange for preferred and common stock.

(11) Enron Liquids Holding Corp. will transfer $10,250 to Enron Corp. for a note.
(12) Enron Corp. will receive $10,250 from Enron Liquids Holding Corp. for a note.

(13) Organizational Partner, Inc. will transfer $22,397,959 to Enron Leasing Partners, L.P. in exchange for a 98% partnership interest.
(14) Enron Property Management Corp. will transfer $2,632 to Enron Leasing Partners, L.P. in exchange for a 1% partnership interest
(15) EN-BT Delaware, Inc. will transfer $10,432,632 to Leasing Partners, L.P. in exchange for a 1% partnership interest
(16) Enron Leasing Partners, L.P. will receive $22,397,959 from Organizational Partner, Inc. and will issue a 98% LP interest.
(17) Enron Leasing Partners, L.P. will receive $2,632 from Enron Property Management Corp. and will issue a 1% GP interest.
(18) Enron Leasing Partners, L.P. will receive $10,432,632 from EN-BT Delaware, Inc. and will issue a 1% LP interest.

(19) Enron Leasing Partners, L.P. will transfer $1,000,000 to Bankers Trust Company as advisory/placement fees.
(20) Enron Leasing Partners, L.P. will transfer $1,000,000 to Lawyers as legal fees.
(21) Enron Corp. will transfer $2,000,000 to Bankers Trust Company as a advisory/placement fee.

(22) Enron Leasing Partners, L.P. will transfer $30,833,223 to Enron Corp. in exchange for a note.
(23) Enron Corp. will receive $30,833,223 from Enron Leasing Partners, L.P. for a note.

PARTNERSHIP LEASING PROPOSAL

I. OVERVIEW OF TRANSACTION

A. **I.R.C. § 304** – Under this Code section, the acquisition from a shareholder (not part of the same controlled group of corporations) by one corporation of stock issued by another corporation (where the acquirer and issuer are members of the same controlled group) will result in a deemed dividend to the seller to the extent of the acquirer's earnings & profits.

B. **I.R.C. § 732(b)** – Upon liquidation of a partnership, any assets distributed will receive as their tax basis the outside basis of the partner's interest.

C. **SFAS 109** – For deferred tax accounting purposes, a corporation is allowed to record a benefit for the difference between its book and tax basis in an asset.

II. BENEFITS OF TRANSACTION

A. **Accounting Earnings** – Recognize deferred tax assets over the five life of the project.

B. **High Basis Tax Asset** – This transaction will create an asset(s) with a tax basis much higher than its FMV. This basis differential can be either recognized over time through depreciation and triggered sooner by a sale of the asset.

C. **Low Tax Risk** – Under current tax law, if modeled properly, the transaction will be revenue neutral to the IRS. Thus, there is little motivation for the Service to challenge this structure upon audit.

III. OUTSTANDING ISSUES

A. **SFAS 109** – In order to recognize the deferred tax assets, Enron must prove to Arthur Andersen that it is likely that the additional tax basis will be realized.

B. **SFAS 13** – The structure must be designed so that operating lease treatment will be maintained for book accounting purposes.

C. **Earning & Profits** – To receive dividend treatment, Enron must establish E&P in the subsidiaries purchasing the preferred stock from the Partnership.

D. **Tax Law Changes** – In its 1996 budget proposal, the Clinton Administration proposed a technical change to § 304 that could indirectly disallow the deemed dividend required for this transaction.

E. **Transaction Costs**

1. **Tax leakage** – The deemed dividend will result in a current tax liability of 7% of each deemed dividend.

2. **Outside fees** – Implementation of the transaction will require the services of investment bankers, attorneys and accountants. Negotiation of fee structures will be integral to the economics of the transaction.

Enron Corp.
Summary of Benefits of the Transaction
(Cumulative Over Life of Transaction)

Gross Dividend to Enron and Subsidiaries	$980.1 million
Gross Value of Basis ($980.1 million x 35% Tax Rate)	343.0 million
Taxes Paid by SPV Co on Dividend ($970.2 million x 20% x 35%)	(67.9) million
Taxes Paid by Enron GP on Dividend ($9.9 million x 30% x 35%)	(1.0) million
Taxes Paid on Preferred Stock Dividend to the Partnership	(15.8) million
Gross After-Tax Accounting Benefit	258.3 million
Costs of Transaction:	
Fees Paid to Bankers Trust Company	(12.0) million
Legal Fees	(1.0) million
Operational Expenses	(3.2) million
Tax Benefit for Cost of Transaction	5.8 million
Net After-Tax Accounting Benefit	247.9 million
Return on BTNY's investment*:	
BTNY Return on Partnership Interest	(2.3) million
Preferred Stock Dividends to BTNY	(15.6) million
After-Tax Accounting Earnings	**230.0 million**

Note
The after-tax accounting earnings of $230 million does not include earnings from Enron Corp.'s investment of BTNY's capital contributions of $43.1 million.

Need to understand -

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Transaction Cashflows on Closing Date

Entity	Inflows	Outflows	Net Cash Position
Enron	$1,540,330,212	$1,510,188,302	$30,141,910
Enron GP	10,188,302	10;188,302	0
Enron Sub II	1,500,000,000	1,500,000,000	0
Enron Sub III	1,500,000,000	1,500,000,000	0
BT Sub	0	43,141,910	(43,141,910)
SPV Co	32,953,608	32,953,608	0
Partnership	123,330,212	123,330,212	0
Advisors, Lawyers and etc.	13,000,000	0	13,000,000
Totals	4,719,802,334	4,719,802,334	0

Transaction Cashflows on Closing Date

	Rate	NPV of Benefit
AFR	6.78%	$10,989,698
Cost of Funds	7.00%	$8,162,741

*Assumes benefit is taken through the depreciation of the real estate over 39.5 years.

Project Teresa

Deal Basics

Business Purpose – To raise third party capital. To create a leasing company to manage a portfolio of leased assets. To achieve certain financial accounting benefits arising from basis increases in stock and partnership interests.

Primary Entities – Enron Corp. (bankruptcy filer); Enron Leasing Partners, L.P.; Organizational Partners, Inc.; Enron Pipeline Holding Company (EPHC)

Date Closed – March 1997

Principal Assets – Current assets include the Enron Center North Building; corporate aircraft; HPL note receivable; preferred stock in EPHC; potential IRS refund claims

Transaction Size – $1.2 billion in contributed assets (EPHC stock, building); anticipated earnings of up to $300 million from the structure

Net Income Impact – $225 million in earnings recorded through the 3rd quarter of 2001

Primary Tax Return Effect – Deconsolidation of OPI and EPMC; these entities paid $130 million in cash taxes for 1997-2000 ($25 million in estimated tax payments for 2001). These taxes were attributable to lease payments, interest, etc.

Current Status – A standstill agreement is under negotiation with Chase following default on synthetic lease financing of Building (immediate foreclosure possible absent such an agreement). Information demands received from Chase, DB and Potomac. No Enron officers or directors at OPI. Possible franchise tax, pipeline and building issues are on the horizon.

Counterparties

Counterparty – Bankers Trust (BT) & Potomac Capital as shareholders and lenders in OPI and BT as a limited partner in ELP.

Size of Investment – Approximately $30million aggregate equity and debt investments.

Litigation Status – None currently; default in OPI loan payments, action by DB possible.

Control Rights – Over major events of OPI & ELP including liquidation and bankruptcy.

Indemnities – Numerous

Advisory History

Principal Advisors

- King & Spalding – Tax and corporate counsel for initial structuring
- Ernst & Young – Tax services on restructuring
- Locke, Liddell – Corporate for restructuring
- Vinson & Elkins – Tax and corporate/real estate counsel for initial structuring

Primary Opinions

- ELP formation memo – K&S
- Business purpose opinion – K&S
- Stock purchase opinion – K&S
- Stock redemption opinion – K&S
- Building ownership opinion – V&E
- Restructuring Memo – E&Y
- SAS 50 Letter issued to BT from Arthur Andersen

Confidentiality Agreement – No

Widely Marketed Deal – No

Financial Model and Deal Memo – Financial model utilized; no deal memo

Current Counsel – Weil on certain building-related matters. No representation on structural or tax matters, but DB has requested that external counsel be engaged.

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