

ENRON HAD COMPLAINED ABOUT FIRED BROKER UBS EMPLOYEE ISSUED WARNING ON STOCK

By Frank Ahrens
Washington Post Staff Writer
Wednesday, March 27, 2002

"UBS PaineWebber brokers around the country are allowed to give financial advice contrary to the firm's recommendations, Sutton said in his letter. After Wu's firing, however, a new policy was instituted in Houston stating that "financial advisors should, rather than give their personal opinion, refer their clients to any relevant [company] analyst's report."

HOUSTON -- UBS PaineWebber's firing of a broker last summer came after Enron Corp. officials complained that he had warned customers to sell Enron stock, according to the brokerage firm's account of the incident.

UBS PaineWebber broker Chung Wu was dismissed for violating company policy by e-mailing 73 clients shortly after midnight last Aug. 21, telling them that he felt Enron was in financial trouble and that they should consider selling some of their stock, UBS PaineWebber's Mark B. Sutton wrote in a letter answering questions from Rep. Henry A. Waxman (D-Calif.).

Enron officials who had seen Wu's e-mails wrote to his superiors. "Please handle this situation," reads an e-mail -- attached to the letter -- from Enron's Aaron Brown to Patrick Mendenhall, the branch manager of the Houston UBS PaineWebber office. "This is very disturbing to me."

"Mary Joyce and Aaron Brown, the Enron personnel responsible for administering Enron's stock option plan, contacted PaineWebber on Aug. 21, 2001, to bring Mr. Wu's e-mail to the Firm's attention," Sutton said in his response. "Ms. Joyce expressed her extreme displeasure that the e-mail had been sent to dozens of Enron employees, requested that the Firm address the situation promptly, and in words or tone expressed her view that strong disciplinary action be taken."

At the time, UBS PaineWebber was recommending Enron as a "strong buy." Enron stock was trading at about \$36 a share, less than half of its peak price earlier in the year.

Later that day, Mendenhall e-mailed Wu's clients rebutting his advice. UBS PaineWebber brokers, the firm said, were not allowed to e-mail 10 or more clients with stock analyses without the permission of their supervisors or without informing clients of the firm's rating of the stocks. By the end of the day, Wu was fired.

Sutton's letter said, "Any financial advisor who sends an e-mail in the middle of the night to dozens of Firm clients urging them to take an action contrary to [the company's] research recommendation, without informing the clients of that recommendation or obtaining the necessary review and approval would be treated the same as Mr. Wu."

An Enron spokeswoman said the company would not comment on the involvement of Joyce or Brown. UBS PaineWebber had no comment beyond its statement.

Wu, who is now employed by Houston's A.G. Edwards & Sons, has also declined comment.

A group of Enron shareholders is suing UBS PaineWebber for securities fraud. The suit charges that the brokerage made favorable recommendations about Enron when brokers there knew the company was in trouble, and cites Wu's firing as an example of why the firm shouldn't have been recommending Enron's stock.

Waxman, who has taken a keen interest in the Enron collapse, said in a statement yesterday that the information UBS PaineWebber provided is helpful but does not "adequately explain whether PaineWebber acted in the best interests of its clients." He added: "Was PaineWebber's 'strong buy' recommendation flawed because of its close relationship with Enron?"

The UBS PaineWebber branch in Houston handled the accounts of many Enron employees -- including top executives such as longtime chairman Kenneth L. Lay. Waxman has been exploring whether Enron placed pressure on UBS PaineWebber to highly rate the company's stock. The firm kept its "strong buy" rating on Enron until Nov. 28, four days before the energy trader's bankruptcy filing.

Joe Rock, one of the attorneys suing UBS PaineWebber, said yesterday that the brokerage firm's response to Waxman reveals the clout Enron wielded.

"Why in the world is a company that is not associated with PaineWebber deciding whether or not our client can keep his job or not?" Rock said. "There was clearly a great amount of influence put on PaineWebber by Enron."

UBS PaineWebber brokers around the country are allowed to give financial advice contrary to the firm's recommendations, Sutton said in his letter. After Wu's firing, however, a new policy was instituted in Houston stating that "financial advisors should, rather than give their personal opinion, refer their clients to any relevant [company] analyst's report."

THE MAN WHO PAID THE PRICE FOR SIZING UP ENRON

By Richard A. Oppel Jr.
The New York Times
March 27, 2002
(PFD File)

Enron (news/quote) executives pressed UBS PaineWebber to take action against a broker who advised some Enron employees to sell their shares in August and was fired by the brokerage firm within hours of the complaint, according to e-mail messages released today by Congressional investigators.

The broker, Chung Wu, of PaineWebber's Houston office, sent a message to clients early on Aug. 21 warning that Enron's "financial situation is deteriorating" and that they should "take some money off the table."

That afternoon, an Enron executive in charge of its stock option program sent a stern message to PaineWebber executives, including the Houston branch office manager. "Please handle this situation," the newly released message stated. "This is extremely disturbing to me."

PaineWebber fired Mr. Wu less than three hours later.

That evening, the firm retracted Mr. Wu's assessment of Enron's stock — then about \$36 — by sending his clients an optimistic report that Enron was "likely heading higher than lower from here on out." A few months later, the stock was worthless, and the company was in bankruptcy court.

The episode illustrates just how easily Enron appears to have thrown its weight around at a Wall Street firm, which may have satisfied a big corporate customer at the expense of some retail customers. PaineWebber managed Enron's stock option program for employees and handled brokerage accounts for many company executives. It also did substantial investment banking work for Enron, which generated fees for the firm. PaineWebber said that Mr. Wu was fired because he had violated policies by sending unauthorized e-mail messages to more than 10 clients and by failing to disclose that PaineWebber's research analyst had rated Enron a "strong buy."

But the day that Mr. Wu was fired was the day that Enron's chairman, Kenneth L. Lay, was both shedding some of his own shares and talking up the stock. On Aug. 21, Mr. Lay sold \$4 million of stock to the company. He also sent an e-mail message to employees saying that one of his highest priorities was to restore investor confidence, adding that that "should result in a significantly higher stock price."

The message complaining to PaineWebber about Mr. Wu was sent by Aaron Brown, an Enron official who PaineWebber said helped oversee the stock option program. Mr. Brown could not be reached for comment. A switchboard operator at Enron said today that Mr. Brown no longer worked at the company, and a spokesman did not respond to questions.

Mr. Wu, who declined to comment through his lawyer today, previously asserted that Enron was behind his dismissal, but today's disclosure was the first to show pressure was applied by Enron officials. Mr. Wu now works for A. G. Edwards.

A PaineWebber spokesman declined to elaborate on the matter involving Mr. Wu but pointed to a letter sent to Congress last week.

In that letter, PaineWebber said that Mr. Wu violated a rule of the National Association of Securities Dealers requiring that sales literature be reviewed by a supervisor before being sent to clients. The firm also said that Mr. Wu's advice was hastily drafted and "raises basic suitability concerns" and pointed to his suggestion that investors who hold the stock or vested options might want to use options to hedge their exposure.

The firm said that Mr. Wu had acknowledged that he violated its policy and recognized the seriousness of the situation.

The PaineWebber letter stated: "Any financial adviser who sends an e-mail in the middle of the night to dozens of firm clients urging them to take an action contrary to Warburg's research recommendation, without informing the clients of that recommendation or obtaining the necessary review and approval, would be treated the same as Mr. Wu." (UBS Warburg is an affiliated firm.)

A securities lawyer suggested that PaineWebber may have overreacted. "While certainly brokerage firms should have some reasonable controls over the flow of information, this appears to be a totally egregious example," said Lewis Lowenfels, of Tolins & Lowenfels in New York and the co-author of a treatise on securities laws.

The e-mail messages from Enron were released today by Representative Henry A. Waxman of California, the ranking Democrat on the House Government Reform Committee. Mr. Waxman has accused PaineWebber of breaching its fiduciary duties in the episode and has said that Mr. Wu previously sent group messages to clients without being punished.

Mr. Waxman said today that "Enron's conduct regarding PaineWebber appears to be the latest in a series of indefensible actions."

"It appears that Enron's management pressured PaineWebber to dismiss Chung Wu, a PaineWebber financial adviser who was supposed to be independent of Enron, simply because Mr. Wu suggested to clients that they sell their Enron stock."

A lawsuit against PaineWebber filed by Enron investors, including some clients of Mr. Wu, argues that PaineWebber "directly lied to its clients for its own pecuniary gain by failing to reveal adverse information which it knew about Enron."

It asserts that other PaineWebber brokers in the Houston office "were selling as much Enron stock as they possibly could for highly placed Enron clients, despite the fact that inside PaineWebber, brokers commonly joked about Enron's stability."

The lawsuit also suggests another reason PaineWebber wanted to keep Enron happy. The brokerage firm had "an exclusive arrangement with Enron that PaineWebber would be the first brokerage company any Enron employee would deal with concerning the Enron employees' stock options and deferred benefit plans."

The suit also says that "getting first crack at these Enron employees paid off because about one out of three employees decided to keep their portfolios at PaineWebber."

That meant hundreds of millions of dollars in added revenue each year, the suit says.

[A PaineWebber spokesman called the lawsuit "totally without merit."](#)

In an e-mail message shortly after Mr. Wu's firing, PaineWebber's Houston branch office manager, Patrick Mendenhall, apologized profusely to Enron.

"I should have known that if I was this frustrated, that you, as our client, were more so," Mr. Mendenhall wrote to Mary Joyce, an Enron official who helped run the stock option program. "The financial adviser has been terminated," Mr. Mendenhall added. The PaineWebber spokesman declined to comment about the e-mail.

[That evening, Mr. Mendenhall sent a message to Mr. Wu's clients. "To the fullest extent possible, on behalf of UBS PaineWebber, I hereby retract Mr. Wu's statements," he wrote. He said that Mr. Wu had violated firm policy and attached a copy of the firm's latest report from Ron Barone, who had a "strong buy."](#)

"We would be aggressive buyers of Enron at current levels," Mr. Barone's research report stated.