

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

UNITED STATES SECURITIES	:	
AND EXCHANGE COMMISSION,	:	
	:	
Plaintiff,	:	
	:	Civil Action No. H-08-CV-2338
	:	
v.	:	COMPLAINT
	:	
LOU L. PAI,	:	
	:	
Defendant.	:	

Plaintiff, the United States Securities and Exchange Commission, alleges as follows:

SUMMARY

1. This is an insider trading action against Lou L. Pai, the former Chairman and Chief Executive Officer of Enron Energy Services (“EES”), a division of Enron Corp. (“Enron”).
2. Shortly before his departure from Enron, between May 18, 2001 and June 7, 2001, Pai sold 338,897 shares of Enron stock and exercised stock options that resulted in the sale of 572,818 shares to the open market – yielding millions of dollars in pre-tax proceeds.
3. Pai sold Enron stock in May and June 2001 while aware of material, nonpublic information concerning Enron. Before making these sales, Pai learned from EES successor management that it had identified certain financial and operational problems and substantial contract-related losses at EES. Pai knew or should have known that he could not sell Enron stock without first disclosing such material, nonpublic information.
4. Pai avoided substantial losses from these sales when the price of Enron stock

collapsed in the fall of 2001. Enron's stock price averaged approximately \$53.78 per share during the time of Pai's sales, but closed at \$0.40 on December 3, 2001 – the day after Enron filed for Chapter 11 bankruptcy protection. By selling his shares in May and June 2001 before the collapse of Enron's share price, Pai avoided millions of dollars of losses.

5. The Commission requests that this Court permanently enjoin Pai from violating Section 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5]; prohibit him from serving as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act, or that is required to file reports pursuant to Section 15(d) of such Act, for five years from the entry of a Final Judgment; order him to disgorge losses avoided (plus prejudgment interest thereon), pay a civil penalty, and have such disgorgement and penalty amounts added to and become part of a disgorgement fund for the benefit of the victims of the alleged violations; and grant such further relief as the Court may deem appropriate.

JURISDICTION AND VENUE

6. The Court has jurisdiction over this action pursuant to Sections 21(d), 21(e), 21A, and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), (e), 78u-1, and 78aa].

7. Venue properly lies in this District pursuant to Sections 21A and 27 of the Exchange Act [15 U.S.C. §§ 78u-1 and 78aa], because certain of the alleged transactions, acts, or practices occurred in this District.

8. By the conduct alleged in this Complaint, Pai, directly or indirectly, made use of the means and instruments of transportation or communication in interstate commerce, the mails, and the facilities of a national securities exchange.

DEFENDANT

9. Lou L. Pai, age 60, resides in Sugar Land, Texas. Prior to joining Enron in 1986, Pai earned a master's degree in economics at the University of Maryland and worked as an economist for the U.S. Securities and Exchange Commission. Over a fifteen year career at Enron, Pai headed several divisions. From March 1997 until January 2001, Pai was Chairman and Chief Executive Officer of EES. From February 2001 until June 2001, Pai was Chairman and Chief Executive Officer of another Enron division, Enron Xcelerator. In or about May 2001, Pai resigned from Enron, effective June 30, 2001.

ENTITIES INVOLVED

10. Enron was an Oregon corporation with its principal place of business in Houston, Texas. During the relevant 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. Until its bankruptcy filing in December 2001, Enron was the seventh largest corporation in the United States based on reported revenue.

11. EES was an Enron business unit organized in 1997 to provide energy products and services to industrial, commercial, and residential end-use customers in both regulated and deregulated markets. EES's products included the delivery of electricity and natural gas, facilities management services, metering and billing functions, and risk and commodity management services. These products and services were provided pursuant to comprehensive energy management agreements. In Enron's segment disclosures, EES's results were reported separately as Retail Energy Services ("Retail").

12. 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 business related to natural gas and power across North America. In Enron’s segment disclosures, ENA’s results were reported within the Wholesale Services segment.

FACTUAL ALLEGATIONS

13. After Pai transferred from EES to Enron Xcelerator in February 2001, he learned from EES’s successor management that it had identified certain financial and operational problems at EES, and substantial losses stemming from potential write-downs in the value of some of its largest contracts. The information Pai learned from EES’s successor management was material and nonpublic, and Enron never disclosed this information.

14. Enron’s Form 10-Q for the first quarter of 2001 – filed on May 15, 2001 – reported \$40 million of quarterly income before interest and taxes for the Retail segment, without identifying any losses related to the EES contracts. Prior to the first quarter 2001 filing, and two months after Pai left EES, Enron’s Chief Executive Officer and senior accounting personnel, together with EES’s successor management, secretly revised Enron’s segment reporting to avoid disclosing such losses in the Retail segment. EES’s losses were transferred instead to the much larger and more profitable Wholesale segment, which could absorb and obscure these losses. This transfer allowed Enron to continue to promote EES as a growth business and profit center. Had Enron reported EES’s contract-related losses in its Retail segment, that segment would have shown a quarterly loss of at least \$60 million, rather than a profit of \$40 million as reported.

15. From May 18, 2001 through June 7, 2001, Pai sold 338,897 shares of Enron stock and exercised stock options that resulted in the sale of 572,818 shares to the open market. These transactions yielded millions of dollars in pre-tax proceeds.

16. Pai's stock sales occurred before his departure from Enron, and after his discussions with EES successor management. Pai knew or should have known that the information he received was material and nonpublic. By selling Enron stock without disclosing such information, Pai breached a fiduciary duty he owed to Enron shareholders.

17. By virtue of these sales, Pai avoided millions of dollars of losses that he otherwise would have incurred when Enron's share price collapsed in the fall of 2001.

CLAIM FOR RELIEF

Violation 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]

18. Paragraphs 1 through 17 are realleged and incorporated herein by reference.

19. Based upon the foregoing, Pai, directly or indirectly, by the use or means or instrumentalities of interstate commerce, or by use of the mails or facilities of a national securities exchange, in connection with the purchase or sale of securities, knowingly or recklessly, and in breach of a fiduciary or other duty of trust and confidence, employed a device, scheme, or artifice to defraud; made an untrue statement of material fact or omitted to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or engaged in an act, practice, or course of business which operated or would operate as a fraud or deceit upon any person.

20. Accordingly, Pai 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].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court enter a Final Judgment which:

I.

Permanently restrains and enjoins Pai from violating 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].

II.

Prohibits Pai from acting as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act, or that is required to file reports pursuant to Section 15(d) of such Act, for five years from the entry of the Final Judgment.

III.

Orders Pai to disgorge profits made or losses avoided by virtue of the alleged violations, with prejudgment interest thereon.

IV.

Orders Pai to pay a civil money penalty pursuant to Section 21A of the Exchange Act [15 U.S.C. § 78u-1].

V.

Orders that the amount of any disgorgement, prejudgment interest, and civil penalty awarded be added to and become part of a disgorgement fund for the benefit of the victims of the alleged violations, pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002.

VI.

Grants such other and additional relief as this Court may deem just and proper.

Dated: July 29, 2008

Respectfully submitted,

S/

Luis R. Mejia
Chief Litigation Counsel
Attorney-in-Charge, Plaintiff
U.S. Securities and Exchange Commission
100 F. Street, N.E.
Washington, DC 20549-4030
Phone: (202) 551-4481
Fax: (202) 772-9245

Of Counsel:

Fredric D. Firestone
Gregory G. Faragasso
Daniel J. Juceam
Thomas M. Gargan