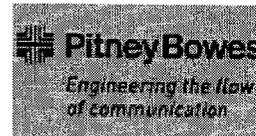




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Moody's Downgrades Enron's Debt, Maintains Review; Stock Drops 10%

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In another potentially serious blow to **Enron Corp.**'s finances, Moody's Investors Service Inc. lowered its ratings by one notch on the energy company's senior unsecured debt and kept the company under review for a possible further downgrade.

It also was learned that the Securities and Exchange Commission has moved its inquiry into Enron's finances to agency's Washington headquarters from its regional office in Fort Worth, Texas. The change is a sign that probe is being treated as a high priority, according to a person with knowledge of the inquiry. An SEC spokesman declined to comment.

Moody's reduction on Enron's senior unsecured long-term debt to Baa2 from Baa1 leaves the company's credit rating two levels above noninvestment grade. If the energy-trading giant's ratings were to fall to a noninvestment-grade level, there could be serious consequences for Enron. It could throw the Houston company into default on obligations involving billions of dollars of borrowings and force it under the terms of various financial agreements to issue millions of shares of stock to holders of that debt, which would dilute the value of existing shares.

While Enron still has some room before hitting noninvestment-grade status, there have been concerns among analysts and investors that the company's recent troubles could escalate. During recent days Enron's bonds have traded at levels similar to securities that carry a noninvestment-grade rating. Prices of the company's bonds improved somewhat Monday, though its stock price continued to fall sharply. In 4 p.m. New York Stock Exchange composite trading, Enron stock was at \$13.81, down \$1.59 or 10%, and topped the most-active list with 36.4 million shares changing hands. Enron's share price has fallen more than 50% during the past two weeks.

 ¹Enron Is in Discussions With Banks for Credit Line of up to \$2 Billion (Oct. 29)

 ²Enron Officials Sell Shares Amid Stock-Price Slump (Oct. 26)

 ³Enron May Have to Issue Stock to Cover Possible Shortfalls in Investment Portfolio (Oct. 24)

An Enron spokeswoman said the company is "working diligently" to keep an investment-grade credit rating. Among other things, the nation's biggest energy-trading firm is in negotiations with its banks on a new \$1 billion to \$2 billion credit line to bolster its liquidity. Enron repeatedly has said its business operations remain strong.

Monday's ratings downgrade is the latest piece of bad news for a company that has been engulfed in turmoil during the past two weeks. Confidence in its financial situation was shaken after Enron earlier this

month announced a \$618 million third-quarter loss and disclosed a \$1.2 billion erosion of shareholder equity related to transactions it had carried out with entities connected to its then-chief financial officer, Andrew Fastow. Last week, Enron named a successor to Mr. Fastow and said the SEC was looking into the deals.

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The SEC is looking into whether Enron violated federal-securities laws regarding its handling and disclosure of transactions connected to Mr. Fastow, the person familiar with the probe said. Generally, the SEC's headquarters office has more resources to apply to complex, high-profile cases than regional offices do. Moving the Enron inquiry to headquarters indicates that the SEC is looking to make a decision relatively quickly about whether or not to allege securities-law violations by the company, this person said.

Enron repeatedly has said the transactions were proper and legal. Monday, the Enron spokeswoman said the company is continuing to cooperate with the SEC probe and is gathering and sending the agency information that it requested.

Moody's said the downgrade was "prompted by the deterioration in Enron's financial flexibility," which has contributed to "a substantial loss in investor confidence." Going forward, Moody's said it will focus on Enron management's "success in lining up further liquidity support and on their ability to retain credit availability" from major trading partners. Enron is a principal in nearly one-quarter of all electricity and natural-gas trades in the nation.

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