

Former Enron executive a U of S commerce grad

The Associated Press and The StarPhoenix

Tuesday, November 04, 2003

A former Enron Corp. executive who pleaded guilty last Thursday to one count of insider trading and has agreed to pay penalties of \$8 million US is a product of Saskatoon schools and also attended university here in the late 1980s.

David Delainey, a 1990 graduate of the University of Saskatchewan college of commerce, acknowledged last week that he was in on a "senior management" scheme to manipulate the company's earnings to meet or exceed Wall Street's expectations.

Delainey, 37, agreed to co-operate with U.S. government prosecutors in exchange for the plea.

His indictment, handed up last Wednesday and unsealed Thursday, alleges he sold \$4.25 million US worth of stock from January 2000 through January 2001 when he knew about internal scams to manipulate earnings and hide losses so Enron would appear financially robust.

"I was aware of material non-public information" during that time span, he softly told U.S. District Judge Kenneth Hoyt during a hearing in Federal Court in Houston.

Delainey agreed to pay \$4.25 million, his profits from his admitted insider trading, to the U.S. Justice Department. In a separate deal, he agreed to pay \$3.74 million to the Securities and Exchange Commission. He was freed on his own recognizance.

Delainey worked his way up Enron's corporate ladder after joining its operations in Canada in 1994. He later was appointed chief executive officer of Enron North America and moved on to head Enron Energy Services.

Prior to attending university, where he specialized in finance, he had attended Holy Cross High School.

In fact, he was on the same 1983 Holy Cross team as Saskatchewan Liberal Leader David Karwacki. Reached Monday afternoon on his campaign bus, Karwacki recalled his high school years with Delainey, but said he lost track of his former teammate after university years and did not realize Delainey ended up working for Enron.

Longtime U of S commerce Prof. Colin Boyd, who has specialized in ethics in business research, pointed out that U of S commerce courses have long had an ethics component to them.

Boyd said it was interesting Delainey had pleaded guilty to insider trading and not to the actual massive financial fraud that had been perpetrated at Enron. He said there is no evidence that it was Delainey who cooked up the financial schemes that tried to hide the extent of Enron losses in energy trading.

Delainey faces up to 10 years in prison and a \$1-million fine.

In early March 2002, Delainey donated \$10,000 to the Ex-Enron Employee Relief Fund Account, one of several funds established to help laid-off Enron workers.

The Houston indictment alleges higher-than-expected profits from Enron North America, the company's once-envied trading unit, were set aside to mask volatility so the unit would appear to grow smoothly, up to 20 per cent each year.

Those reserves also were used to hide hundreds of millions of dollars in losses at Enron Energy Services, the company's failed retail energy unit and millions more in uncollectible receivables accumulated during the California power crisis of 2000 and 2001.

Delainey ran the retail energy unit from February 2001 until he left the company in March 2002.

"This misuse of reserves in order to manipulate Enron's earnings results was discussed and approved among Enron's and Enron North America's senior commercial and accounting

managers," the indictment said.

Prosecutors also allege:

- Enron managers inflated values of assets to appear to have met earnings targets;
- Managers used improper accounting methods to structure transactions to avoid booking losses and writedowns;
- Managers manipulated accounting to hide losses on a 1997 contract to supply energy on demand to the Tennessee Valley Authority.

The indictment did not identify the other managers and U.S. government prosecutor Sam Buell of the Justice Department's Enron Task Force declined to say who could be charged next.

"Enron company executives engaged in widespread and pervasive fraud to manipulate the company's earnings results," Buell said.

"The events of today show the truth will come out about Enron and its collapse."

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