

August 16, 2002

Arthur Andersen's license revoked in Texas

(AUSTIN) -- At a special meeting on August 16, 2002, the Texas State Board of Public Accountancy revoked Arthur Andersen LLP's license to practice public accountancy in the State of Texas.

The revocation was presented to the Board in the form of an agreed consent order. The ground for discipline recited in the order was the firm's conviction by jury verdict on felony obstruction of justice charges in June 2002.

"The Board's revocation of Andersen's license is the severest sanction available under the *Public Accountancy Act* for the firm," said K. Michael Conaway, the Board's presiding officer. "Although it is tragic that a firm with Andersen's proud history in Texas should be brought so low, the firm's actions in the Enron case clearly warrant this result."

The Board's order also expressly resolves all of the Board's claims concerning the firm's work for Enron, Inc. On May 23, 2002, in a notice of hearing filed with the State Office of Administrative Hearings, the Board charged that Andersen had failed to follow generally accepted auditing standards and generally accepted accounting principles in attest work it performed for Enron between 1997 and 2002. Enron's financial statements for those years were materially misstated, in part because the company used certain "special purpose entities" to record debt that should have been booked to Enron's financial statements. The Board also alleged that Andersen lacked objectivity, integrity, and independence in the performance of these services. Andersen denied the charges.

The Board opened its investigation in November 2001 after Enron announced it would restate its financial statements. The firm's work for the Houston-based energy company thereafter quickly became the focus of intense media and public scrutiny. Enron and its accounting practices were the subject of more than 30 Congressional hearings and investigations by the SEC and other government agencies.

Enron's accounting practices, including the use of the special purpose entities, has been under investigation by the SEC since October 17, 2001. Andersen had audited Enron's or its predecessor's books since 1985. In the Fall of 2001, Andersen was aware both of the accounting treatment given several issues material to Enron's financial statements and of the controversial nature of many of these treatments.

In October 2001 after learning of the SEC's inquiry into Enron's accounting practices, Andersen began to destroy records of its work for Enron in the firm's office in Houston and in other offices across the nation and the world. This destruction was done with the knowledge and at the instruction of the main office of the firm. In March 2002 the firm was indicted for obstruction of justice based on the document destruction and was convicted by a jury after a full trial in June 2002.

Andersen, founded in 1916, became one of the world's largest accounting firms and was often identified as the best accounting firm in the United States. The firm had been licensed in Texas since 1945 and operated six offices around the state. Andersen was licensed in all 54 licensing jurisdictions. As of August 16, 2002, only the Texas Board has revoked Andersen's license.

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