ONE HUNDRED SEVENTH CONGRESS

Congress of the United States

House of Representatives

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July 12, 2002

President George W. Bush
The White House
1600 Pennsylvania Avenue, NW
Washington, D.C. 20500

Dear Mr. President:

On July 9, 2002, you delivered a speech to business leaders that focused on the exploding number of corporate scandals. In that speech, you said that "[c]orporate officers who benefit from false accounting statements should forfeit all money gained by their fraud."[1] You went on to say that "[a]t this moment America's greatest economic need is higher ethical standards." I commend you for speaking out. These are important words that provide moral clarity during a difficult period.

Unfortunately, at a time when senior managers have taken billions of dollars from their companies, no corporate executive has stepped forward with meaningful personal action to set a standard of honor and conduct for others to follow. Honorable words are nice, but what our nation needs is honorable actions. Without that, it's unlikely that America will ever achieve the "higher ethical standards" you spoke about earlier this week. I am writing to ask that you consider setting a powerful example for our nation's senior executives and that you call on them to follow this example.

As you know, serious concerns have been raised about the enormous sums you, Vice President Cheney, and Secretary of the Army Thomas White received from the corporations that the three of you previously ran.

In your case, you served as a director of and consultant to Harken Energy Corporation after it bought your oil company, Spectrum 7, in 1986. Although Harken consistently lost money, the company was able to offset most of these losses in 1989 with profits from the sale of a subsidiary at a high price to a group of Harken insiders, who borrowed the money for the purchase from Harken.[2]

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[1]*Bush's Speech on Wall Street*, New York Times (July 10, 2002).

[2]Paul Krugman, *Everyone Is Outraged*, New York Times (July 2, 2002).

The Securities and Exchange Commission (SEC) subsequently disputed the accounting treatment of this transaction and forced Harken to restate its 1989 earnings. This practice of selling assets to insiders was later employed by Enron to inflate its revenues.

On June 22, 1990, you sold 212,140 shares of Harken stock, about two-thirds of your Harken portfolio, at a price of $4.125 per share for a total sale of $848,560.[3] At the time, you served on the audit and fairness committees of Harken's board of directors and reportedly were aware of the company's financial condition.[4] As a company director, you were required by federal law to disclose this stock sale to the SEC within a few weeks, but failed to do so. In fact, the SEC did not receive notice that the shares had been sold until almost eight months after the sale.[5] Less than two months after you sold your shares, Harken reported a large loss of $23 million in quarterly earnings, and the stock price immediately dropped to a new low of nearly $2 per share – almost half of what the price was when you sold your block of Harken shares.[6]

In your speech this week, you stated: "I challenge compensation committees to put an end to all company loans to corporate officers." Yet, while you were a director of Harken, you received loans from Harken similar to the kinds of loans you have criticized other executives for accepting. According to press accounts, you borrowed $180,000 from Harken in 1986 and again in 1988 in order to purchase Harken stock.[7] Moreover, you were apparently given a below-market interest rate and were not personally liable for repaying the loan.

In Vice President Cheney's case, the SEC has begun investigating accounting practices at Halliburton during his tenure as CEO from 1995 until 2000.[8] In 1998, Halliburton reportedly changed

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[3]*Bush's Son Misses Deadline for Reporting "Inside" Sale*, Wall Street Journal (Apr. 4, 1991).

[4]*Richards Wants Bush To Reveal Documents from SEC Inquiry*, Dallas Morning News (Oct. 11, 1994).

[5]*Memo Cited Bush's Late SEC Filings; White House Dismisses Suggestions of Wrongdoing in Bush's Time in Oil Business*, Washington Post (July 3, 2002).

[6]*Article Questions Sale of Stock by Bush Son*, New York Times (Mar. 9, 1992).

[7]*Bush Took Oil Firm's Loans as Director*, Washington Post (July 11, 2002); *Bush Calls for End to Loans of a Type He Once Received*, New York Times (July 11, 2002).

[8]*Halliburton Reports SEC Investigation of Accounting Practice*, Halliburton Press Release (May 28, 2002).

its accounting practices without public notice to allow the company to increase the revenue it was reporting on its financial statements.[9] The change, which the company acknowledged a year later, allowed the company to recognize revenue from unsettled claims relating to disputed construction costs. The accounting change allowed the company to increase its revenues by $89 million in the fourth quarter of 1998, representing more than half of the company's pretax operating income of $177 million.

In August 2000, the Vice President sold $35 million worth of Halliburton stock at a profit of $18.5 million, when the stock price was over $52 per share.[10] In the past year, however, the stock has hit a low of $8.60 per share and is now selling at around $14 per share.

Secretary of the Army Thomas White worked at Enron for 11 years in several high-level positions. Prior to joining the Administration, Secretary White served as vice chairman of Enron Energy Services (EES), where he made over $31 million in compensation and stock sales in 2001. As the second-in-charge of EES, Secretary White oversaw a division that has been criticized for using questionable revenue assumptions to inflate its profits and mislead Enron shareholders.[11] In addition, EES's profitability hinged on a financial deal it made with an off-balance-sheet partnership controlled by former Enron CFO Andrew Fastow. Several former EES employees have stated that Secretary White knew about and approved of the questionable accounting and financial practices at EES.[12] The SEC and the Justice Department are conducting an investigation into these practices.

All three cases have raised significant questions that go beyond technical paperwork requirements. Moreover, the gains received clearly had no relation to the companies' performance. At a minimum, for instance, an unfortunate appearance has been created by the lucrative sale of your stock while you served on Harken's audit committee, Harken's use of misleading accounting techniques, and the subsequent collapse of the stock price.

To date, when it has become clear that executives at Enron, WorldCom, and other companies profited while their company's value declined, the executives have refused to take any voluntary action

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[9] *Under Cheney, Halliburton Altered Policy on Accounting*, New York Times (May 22, 2002).

[10] *Cheney Cashed in Halliburton Options Worth $35 Million*, Wall Street Journal (Sept. 20, 2000).

[11] *Ex-Workers Say Unit's Earnings Were "Illusory,"* New York Times (Jan. 25, 2002).

[12] *Ex-Enron Staff Tie Army's White to Unit's Deception*, Dow Jones Energy Service (Mar. 11, 2002).

to return compensation or accept personal responsibility. Instead, they are hiding behind creative accounting schemes to rationalize windfalls and are trying to use the legal system to protect their ill-gotten gains. Our country desperately needs a corporate role model who individually demonstrates the difference between right and wrong and the difference between accepting gains that are deserved and those that are undeserved.

For that reason, you have a rare opportunity to exemplify the standards our nation needs. If you donate all or a portion of the profits from the sale of your Harken stock to an appropriate charity focused on the needs of displaced workers, it would be a more effective reform than almost any legislation Congress could pass. Given the unique position of moral authority you hold, you would be sending an unmistakable signal to all executives that actions – not just words – are needed at this critical time.

Additionally, Vice President Cheney could provide an extraordinary example of personal responsibility by donating all or a portion of the profits from the exercise of his stock options in August 2000. Finally, Secretary White could join you by donating all or a portion of his 2001 Enron-related income.[13]

I realize these steps would represent a considerable personal sacrifice for you, Vice President Cheney, and Secretary White. The reality, however, is that the integrity of our financial markets is shaken, and the American people are understandably facing a crisis of confidence in America's business leaders. Despite all the rhetoric we have heard over the past few months, no one in corporate America has made himself or herself personally accountable in any meaningful way. The example of personal responsibility you could provide would serve as benchmark to executives to be accountable for their individual actions and would reassure the American people that real change has begun.

Thank you for considering this request.

Sincerely,

Henry A. Waxman
Ranking Minority Member

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[13] *See* Financial Disclosure Form of Thomas E. White, Office of Governmental Ethics Form SF 278 (May 4, 2001); Letter from Secretary White to Rep. Waxman (Jan. 22, 2002).