

As has been our custom for the December issue, we send holiday greetings and good wishes for 2002 to our business partners. Looking back on 2001, the events of September 11 cast a shadow over everything, and will inevitably and appropriately mute year-end festivities. While nothing is untouched by 9/11 - particularly the insurance industry - there were other issues during the past year which are worth mentioning as they affect our corner of the universe.



The IPO "Laddering" Saga

Running almost coincident with the whole year, the issue of investment bank practices during the IPO boom pervaded D&O liability discussions. Maybe those huge post-offering stock price jumps were due less to the invisible hand of market forces than to the careful manipulation of interested parties that had the means and incentive to finesse the process?

What is certain is that there have been over 1,000 lawsuits filed with laddering allegations and that the investment banking firm CSFB has provisionally agreed to pay a \$100 million penalty to settle the SEC investigation of their company. This story will continue in 2002.

The Collapse of Enron

It is a sad fact that it often takes a crisis or tragedy to propel change. The Stock Market crash of 1929 led directly to the forming of the U.S. Securities and Exchange Commission. The terrible Triangle Shirtwaist fire in 1910 resulted in labor laws for the protection of New York factory workers, and the Tylenol-related poisonings in 1982 revolutionized the way consumer goods are packaged.

So it might be with Enron, whose capitalization has dropped from over \$77 billion to \$500 million and which has gone from Wall Street darling to bankruptcy petitioner with around \$30 billion of debt. The huge task of unraveling the details is just beginning, but

already voices are being raised for reform of corporate accounting practices.

Congress has seized upon the issue and is holding hearings to find out what happened. The CEO of Enron's outside auditors, Joseph Berardino, conceded to a Congressional committee that ... "the accounting profession will have to reform itself." The SEC chairman, Harvey L. Pitt, has also spoken out with a list of issues that need addressing, stating that, "Our current reporting and financial disclosure system has needed improvement and modernization for some time." Change appears ensured: how soon and how radical remain to be seen.

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CUG DIRECTORY

PRESIDENT

Marty Perry 312.750.8806 | mperry@cug.com

UNDERWRITING

Tracy Burns 312.750.8977 | tburns@cug.com
 Jim Crockett 312.750.8979 | jcrockett@cug.com
 Clancy Foley 312.750.8960 | cfoley@cug.com
 Frank Kastelic 312.750.8968 | fkastelic@cug.com
 Diane Vasti 312.750.8809 | dvasti@cug.com

MAIN LINE 312.750.8800

WEB SITE: WWW.CUG.COM

CLAIMS

Mike Early 312.750.8804 | mearly@cug.com
 Joanne Heniades 312.750.8803 | jheniades@cug.com
 Vivian Yamaguchi 312.750.8807 | vyamaguchi@cug.com

MARKETING

Peter Woan 312.750.8805 | pwoan@cug.com

ACCOUNTING

Terry Johnson 312.750.8808 | tjohnson@cug.com

FACSIMILE 312.750.8965



CHICAGO UNDERWRITING GROUP, INC.

211 West Wacker Drive, Suite 300
Chicago, Illinois 60606-1217

ADDRESS CORRECTION REQUESTED