Remarks to Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises Hearing: "The Long and Short of Hedge Funds: Effects of Strategies for Managing Market Risk"

I first want to congratulate the Chairman, this committee, and its staff for the initiative they have taken in reviewing activities of short sellers and their relationship to the plaintiff's bar. For too long, their activities have flown below the regulatory radar screen. These include abusive tactics of the short sellers, lack of timely information on their activities and their unholy alliance with the plaintiff's bar. The result has been, in numerous cases, the manipulation of a stock downward and consequent loss by the affected company of access to capital markets, reduction in employment and shareholder value and a reduction in the Gross National Product. I want to make clear I am not including the majority of hedge funds who pursue legitimate hedging positions to achieve balanced portfolios. Instead, I have been following broker-dealers and short-sellers, for over 15 years, who seek to depress stock prices by disseminating false information about a company. This issue must be put in the context of the sparse, untimely short-selling data available to companies, the public and regulatory authorities. I am here not as an advocate for a specific client but for those clients who over the past 15 years have suffered from abusive short attacks coordinated with securities class-action law suits.

Thus the SEC's recent announcement of a review of hedge funds and short sellers should be applauded. The Wall Street Journal describes the industry as being "huge and lightly regulated." While there are obviously legitimate successful funds, those that use aggressive short-selling tactics demand a far higher level of scrutiny.

Some short sellers have long been known to use questionable tactics to depress prices and thereby manipulate the market. We studied a short seller who falsely accused a company of money laundering and organized crime ties to the FBI then tipped the press and TV news people of the "FBI's investigation." The media called and was told the bureau couldn't confirm or deny the story. Publication followed that falsely reported the allegations and investigation. Another short seller posed as a journalist to interview a company's vendors, clients, and analysts regarding the supposed impending loss of a crucial contract, license of permit or the threat of an imminent bankruptcy, all fabricated issues and designed to deflate the stock's price.

With the advent of instant, inexpensive communications through the Internet, the spread of false damaging information can infect Yahoo, Raging Bull or Silicon Investor chat sites, and a host of related web sites. A company's failure to monitor these sites can be a disastrous omission. In one matter, a short-seller posed as the chairman of a company predicting that quarterly results would be 50% less than expected. As a result, the company lost $400 million in net worth in just two weeks.

A company was charged with having used Arthur Andersen as its auditor overvaluing assets purchased in private sales. The company was able to counter-attack effectively and its stock did not decline drastically. At the same time, multiple class action security lawsuits were filed only to be dismissed later by a judge.

The risks and dangers posed by the short-selling community in this information age are exacerbated by weak reporting regulations. Specifically, information regarding short positions is limited to the monthly reporting of aggregate holdings. As someone once said, that's too little, too late. How ironic in these days of Sarbanes Oxley, and the call for more transparency that this monthly reporting standard still governs. What good was a monthly report to the CEO who discovered in March that his short position had escalated from February's 900,000 to 14 million in 30 days.

Long curious about this absence of reporting information, I have asked a number of knowledgeable securities attorneys why more data is not made available. None knew. I asked if 13d filing requirements or restrictions on trading on insider information applied to short positions. The answer, "That's a good question."

Thus my conclusion is this is an area of trading that has simply been below the regulatory radar screen. Fortunately this Committee and the SEC are making an effort to review this sector to identify these kinds of issues.

The activities I have described are exacerbated by what I believe is a close unholy alliance between the short sellers and the plaintiff's bar. For example, certain short sellers have joined in a non-profit Hedge Fund Association "to unite the hedge fund industry and add to the awareness of the advantages and opportunities in hedge funds." Included on the board of directors, as representing hedge fund professionals is plaintiffs' attorney Randall Steinmeyer of the Milberg Weiss law firm. Click on the firm's name and you enter the firm's web site, which lists all current cases and past settlements, and victories of which there are many. (See Exhibit 1)

We have observed a strong correlation between companies subject to short-selling attacks and the rate at which those companies become defendants in class action lawsuits brought by plaintiffs' attorneys. In some cases, this is more than coincidence: there have been instances of collusion and communication between the short sellers and the plaintiff's attorneys.

In the seminal, well-documented Dynegy case, Dynegy employee, Ted Beatty believed he had learned of questionable trades and bank financing known as "Project Alpha." After the Enron disclosures, Ted Beatty told an acquaintance at Steadfast Capital, a short-selling hedge fund in New York City, that the power industry was dealing in questionable transactions. Shortly thereafter, Steadfast took a million dollar short position against Dynegy, which was arguably a trade made on inside information in violation of the law.

After Beatty left Dynegy, he received an email from Steadfast saying accounting issues at Dynegy would "make investor's fears go crazy and take the stock into a tailspin." In an April 3, 2002 article to which Beatty contributed, the Wall Street Journal raised questions about Project Alpha and Dynegy's financial reports. Based on conversations he had with principals of Steadfast, Beatty believes they knew in advance that the article was to be published, and increased the fund's short position in Dynegy beforehand.
To Steadfast's surprise, Dynegy stock went up slightly and the short sellers pressed Beatty to provide more details and documents relating to Dynegy's accounting. Beatty balked and provided only a summary for fear of a threatened lawsuit from Dynegy.

Allegedly in response to these concerns, Beatty was introduced to a Steadfast investor and principal, as well as another short-seller, who made it clear they wanted to enlist Beatty as the 'point man' to personally disseminate the Dynegy information to regulatory agencies, credit rating agencies and journalists.

Beatty believes the short sellers wanted him to be the one to disseminate the information to make use of his credibility and because they wanted to conceal their own role and remain in the background.

To induce Beatty to disseminate the documents and information, the short sellers promised to effect personal legal representation and protection for Beatty via an introduction to Milberg Weiss.

John Stout, the Steadfast investor, then got another short-seller Tyler Burke, of Trenton Capital, on the phone and Beatty reiterated that he needed personal legal representation. Stout said Beatty should speak with Randall Steinmeyer of the San Diego office of Milberg Weiss.

On April 15, 2002, Steinmeyer called Beatty and asked to see the documents, indicating he could help the Beattys with their legal issues. Steinmeyer also said he was unhappy and frustrated about the Journal article's lack of impact on the Dynegy share price and that the reporters didn't understand the materials they had been given. Steinmeyer, in fact, called a Journal reporter and "berated him for the soft article."

In subsequent calls, Beatty continued to press Steinmeyer on providing legal assistance, but he instead continued to seek details about Dynegy and Project Alpha.

Beatty did provide the attorney with details and documents, at which time Milberg Weiss flew Beatty to San Diego for a meeting. At some point, Milberg Weiss paid approximately $7000 to Beatty for the information although they had promised "unlimited" consulting work at $250 an hour or a six-figure income, promises that were never kept.

Beatty learned that after he transmitted Dynegy documents to Steinmeyer the short-sellers had obtained them. Beatty believes that Steinmeyer was the conduit that provided the documents to the short-sellers. The Journal's second story on Dynegy appeared on May 9, 2002 based on the information provided by Beatty.

Again, at the request of short- seller Tyler Burke of Trenton Capital, Beatty contacted and provided information on Dynegy to the Internal Revenue Service, Standard and Poor's rating agency (which lowered Dynegy credit rating based on his information}, Moody's and Bloomberg wire service.

In addition, at the urging of both the short-sellers and Milberg Weiss, Beatty met with the Fort Worth SEC office. He was accompanied by a local attorney suggested by Steinmeyer who later also filed suit against Dynegy.

The Dynegy stock price finally declined after the SEC announced an informal inquiry and the next day Milberg Weiss filed their class action suit against Dynegy.

Beatty received a number of phone calls from Trenton Capital boasting of the profits they received from their short selling. Steinmeyer in fact told Beatty that short sellers earned profits of $150 million on short sales of Dynegy between April and May 2002.

On November 25, 2002, the Wall Street Journal published a follow-up article, captioned "Whistle Blower Reels From Action's Fallout." This article described Ted Beatty's role as a whistleblower and detailed the Beatty's dealings with Randall Steinmeyer, Jack Pitts, John Stout and Tyler Burke.

When the Wall Street Journal was preparing the November 2002 article, it contacted Randall Steinmeyer and asked him how he knew how much the hedge funds had profited on Dynegy short sales. Steinmeyer immediately called the Beattys, furious and concerned that they had disclosed his relationship with short sellers. Steinmeyer told the Beattys that he did not want anyone to know about his ties to short sellers.

Steinmeyer told the Beattys that if the article ran with the revelation of Steinmeyer's and Milberg Weiss' ties to short sellers, the Beattys should not expect to have any further relationship or contact with the law firm.

The Wall Street Journal article ran[1] and noted Steinmeyer's connection to Steadfast but omitted mention of him knowing how much short sellers profited on Dynegy. After the article was published, Milberg Weiss terminated its relationship with the Beattys.

In sum, the Dynegy case stands as a litany of excesses-trading on material proprietary corporate information, inducing a current and later former employee to provide corporate information and documentation by promising employment which never materialized, misleading him into thinking he was being provided with personal legal representation when in fact the lawyer was interested only in obtaining information he could use in a class action suit and to assist the short sellers. If short sellers are acting in coordination with the plaintiff's bar, with tacit assurances that securities litigation will eventually be filed, inquiries must be launched to determine if insidious market manipulation is involved. Only then will the playing field be level.

I suggest the inquiry this committee and the SEC are pursuing will disclose an historical pattern of comparable incidents that have damaged American corporations, in many cases unfairly. While short selling is legal, more timely information on changes in short positions and the application of strictures such as 13d and insider trading now applicable to long investors should be equally applicable to short positions and will help curb the abusive practices clients have suffered over more than a decade.

I again thank the Committee for focusing on this vitally important issue for the health of our markets and to improve confidence in our economic system.

[1] See article attached below.

Dow Jones Interactive

Informer's Odyssey: The Complex Goals And Unseen Costs Of Whistle-Blowing --- Dynegy Ex-Trainee Encounters Short-Sellers and Lawyers, Fears Being Blackballed --- Seeking Justice and a Payday By Jathon Sapsford and Paul Beckett

11/25/2002
The Wall Street Journal
A1 (Copyright (c) 2002, Dow Jones & Company, Inc.)

Last January, Dynegy Inc. didn't give Ted Beatty the promotion he felt he deserved. So in February, the management trainee resigned, taking with him documents that suggested questionable accounting at the Houston energy company. His plan was to find another job and then expose the wrongdoing.

Part of that has gone as planned. Mr. Beatty and his wife, Maren, have watched as his documents, including details of a complex Dynegy deal called Project Alpha, led to the resignations of high Dynegy officers and ricocheted across the industry, prompting investigations of several other big energy traders. Dynegy has agreed to a fine and begun selling off assets in an effort to stay viable. It has been poetic justice for the Beattys, who say they are motivated by a desire to see right prevail.

But the rest of Mr. Beatty's plan has gone awry. He soon came to believe, as he tried to find a new job that the ex-employer he was seeking to expose was blackballing him and even breaking into his home. Mr. Beatty also found himself submerged in a financial-world subculture that has flourished amid this year's corporate scandals, one of plaintiffs' lawyers, regulators and short-sellers. All hoped to take Mr. Beatty's information and benefit from it, in different ways. Some, he says, assured him his assistance would earn him big money. But no such payout has materialized, and now, unemployed and in financial stress, he is feeling betrayed. "They all said they wanted to help me," he says. "I was dumb. I fell for it."

While every case is distinct, Mr. Beatty's venture into whistle-blowing is illustrative of the complex motives and unseen hazards that often lurk when insiders set out to air corporate secrets. Without a regular source of income, the Beattys made brazen, though unsuccessful, efforts to profit from what they knew. They lost money trying briefly to bet against Dynegy's stock. They asked regulators to hire Mr. Beatty to help them investigate the energy industry. They sought a reward from the Internal Revenue Service for exposing tax avoidance at Dynegy. Finally, Ms. Beatty even approached Dynegy's own board about hiring her husband, to help it root out other problems.

Still unable to find a job, Mr. Beatty blames not so much the weak economy and energy-sector layoffs as his former employer. In August, the Beattys became so sure they were being watched and harassed that they loaded a rented van and

moved to a small town in the Midwest. It's all far from the ending they expected when Mr. Beatty decided to take on the company.

"What did it accomplish?" asks his father, Jerry Beatty, an administrator at the Iowa Supreme Court in Des Moines. "I have a lot of reservations about what he did because I'm thinking about his family and security and employment. It wouldn't be so bad if it was just himself, but he's got three children and a wife."

Dynegy declines to comment on Mr. Beatty's actions, citing its "policy to protect the right to privacy of any current or former employee." But it says it never threatened him or sought to blackball or otherwise hurt him. "Dynegy denies taking any action to negatively hamper or influence the future opportunities for Mr. Beatty," says David Byford, a company spokesman. He adds that Dynegy is "disappointed Mr. Beatty didn't take advantage" of internal mechanisms for employees to report any concerns confidentially.

Ted and Maren Beatty met in 1998 at a pool in Iowa where Mr. Beatty, just out of the Navy, was killing time before starting work on an M.B.A. The two shared a love of swimming, hit it off and were married a year later. When Mr. Beatty, now 31, finished business school at the University of Texas in 2000, he joined Dynegy.

The Beattys soon ran into financial trouble because of a failed business venture, a swimming school they opened in their spare time. In September 2001, they filed for bankruptcy.

But at Dynegy headquarters in Houston, Mr. Beatty seemed to be doing well as he rotated through departments. One evaluation rated his work "outstanding," he says. An engineer with a blunt, rigid manner, he was unimpressed by some of his colleagues, who he says chafed at his habit of pointing out flaws in their work. "The people I dealt with weren't that smart," Mr. Beatty says of his superiors. "The fact that I could do their job, and they didn't want me to, bothered me." One year ago, after Dynegy briefly moved to take over troubled Enron Corp., Dynegy publicly portrayed itself as above the kind of questionable deals that brought down its larger cross-town competitor. It also said energy trading on DynegyDirect, its small rival to EnronOnline, had risen 20% since Enron's crisis began, in a "flight to quality."

Mr. Beatty, who had rotated through DynegyDirect, was skeptical. He still had a password for the system, so he took a look. What he saw seemed odd: The volume increase was based on four huge trades. Even stranger, these were two pairs of simultaneous trades that canceled each other out. They provided no apparent economic benefit but made volume look much bigger.

He printed out the trading records and took them to his boss, Anthony Carrino, a divisional vice president. "Keep quiet," he says Mr. Carrino responded. Mr. Carrino, who has left Dynegy, didn't return a call seeking comment.

A few weeks later, Mr. Beatty was among management trainees invited to lunch with Dynegy's president, Stephen Bergstrom. The group chatted about the turmoil from Enron's failure, and then Mr. Bergstrom casually mentioned that Dynegy was

beginning to restrict access to many of the internal files on its shared computer drive. He added that the process wasn't finished yet, according to Mr. Beatty. Mr. Bergstrom, who has left Dynegy, declined to comment. Mr. Beatty, already suspicious because of the trades he'd discovered, was curious about what the files might contain. When he looked, he found nearly impenetrable descriptions of a highly complex arrangement involving special-purpose vehicles and bank financing. It was Project Alpha, a deal that exaggerated cash flow from operations and cut taxes but was all but impossible for outsiders to fathom from Dynegy's public reports.

Mr. Beatty says he went to Mr. Carrino and was again told to keep quiet. He did so, Mr. Beatty says, but grew queasy about Dynegy, beginning to feel that company posters extolling integrity were hypocritical.

In January, that unease grew when he learned he wouldn't get a management post that he thought he'd been promised, which he expected would pay him more than $100,000 yearly. Instead, he says he was told his $84,000 salary would rise just $1,000. He complained to human resources. "I know I am a valuable person and my worth is much more than the offer you have given me," his Jan. 10 letter said. "I have been set back approximately 10 years professionally and monetarily." His complaint made little difference.

A month later, disgusted and demoralized, Mr. Beatty left Dynegy -- taking along the documents on the trades and Project Alpha. He went to Colorado to pursue job leads with utilities, "just hoping to start fresh on a new job."

Mr. Beatty had been sharing some of his thoughts about Dynegy with an old Navy buddy, Jack Pitts. Mr. Pitts worked at a New York investment fund, Steadfast Capital that since December had been "short" Dynegy's stock that is, betting that its price would drop.

On Feb. 27, Mr. Pitts wrote in an e-mail to Mr. Beatty that any sign of dubious accounting at Dynegy would "make investors' fears go crazy and take the stock into a tailspin." He also e-mailed Steadfast colleagues that "I think my friend Ted can really help us on Dynegy."

As Mr. Beatty recalls it, Mr. Pitts said that Steadfast Capital could help expose questionable dealing at Dynegy, simultaneously offering Mr. Beatty an outlet and Steadfast a potential profit. At one point, Mr. Beatty adds, Mr. Pitts half-jokingly told his friend he'd be famous once the story got out, maybe making the cover of Time magazine. Mr. Pitts, through a spokesman, declined to comment.

**Mr. Beatty also says Steadfast Capital promised to hire him as a "consultant."
The investment fund acknowledges it made money betting against Dynegy shares but says, "Steadfast denies ever having a consulting arrangement, verbal or written, with Mr. Beatty."**

Then the Beattys jumped into the market themselves. Ms. Beatty says that in March she invested roughly $8,000 in "put" options on Dynegy, giving her the

right to sell the stock at a set price. The puts' value would rise if the stock fell -- a likely outcome if Project Alpha became known.

The Beattys say they felt uneasy about the move but did it because they needed money. "We felt like we had no other choice," Ms. Beatty says.

But "those options sat like a ton of bricks in our stomachs. They just added to the pressure we were under," she adds. Worried about violating insider-trading rules, they dumped the puts after just a few days. But because Dynegy shares had risen, not fallen, in the interim, the puts' value was now less. "We lost $2,400," Ms. Beatty says.

Mr. Beatty, in the meantime, had begun contacting newspapers, including The Wall Street Journal, offering to tell what he knew about Project Alpha. He initially asked whether he would be paid for his information. Told no, he agreed to talk about it anyway.

He soon heard from Dynegy. Ms. Beatty says an assistant general counsel of Dynegy, Cristin Cracraft, left messages for the couple saying "you'd better watch out" and "this isn't a game." They also got a letter from her saying Mr. Beatty was violating Dynegy employees' ethics code by disclosing confidential information, and warning that "Dynegy will be pursuing legal action in response to your conduct." Ms. Cracraft didn't return phone calls seeking comment. On April 3, The Wall Street Journal published a front-page article disclosing Project Alpha, based on Mr. Beatty's documents as a starting point and fleshed out with extensive interviewing of experts to make sense of the documents and corroborate them. For that article, the Journal agreed to maintain the Beattys' anonymity; since then, however, the Beattys have given express permission for their identity to be disclosed.

The article said that Dynegy, while acknowledging Project Alpha's financial benefits, contended its main purpose was to provide a stable source of natural gas. A "disgruntled former employee" had mischaracterized the complicated transaction, Dynegy's chief financial officer wrote later on a company Web site. The price of Dynegy's stock barely moved.

Steadfast Capital then arranged a phone call between Mr. Beatty and John Stout, a Steadfast investor. Mr. Beatty says Mr. Stout promised introductions to people in the financial community who would help "get the story out."

Mr. Stout doesn't recall saying that. He says he was just trying, at Steadfast's request, to find Mr. Beatty legal representation for his troubles with an angry Dynegy. The investor adds that he tried to arrange financial relief for Mr. Beatty by introducing him to people who could help him seek an IRS reward for exposing tax avoidance. "I was helping a friend of mine [at Steadfast] help a friend in need," says Mr. Stout.

Mr. Beatty says he did apply to the IRS, so far with no result. He says Mr. Stout's contacts also put him in touch with credit-rating agencies and other journalists. As for the lawyer Mr. Stout recommended, that person showed less interest in

helping Mr. Beatty with his Dynegy problem than in getting hold of the documents, Mr. Beatty says.

The lawyer was Randall Steinmeyer from Milberg Weiss Bershad Hynes & Lerach LP, a New York firm that files many shareholder lawsuits. Mr. Beatty gave him the Project Alpha documents. Soon after, Milberg Weiss filed a shareholder suit against Dynegy. The suit in U.S. District Court for the Southern District of Texas alleged that Dynegy, through Project Alpha, had "inflated the price of the company's stock in order to pursue an accelerated securities sale program." Dynegy says it will fight the suit.

Mr. Beatty says Mr. Steinmeyer told him that there might be consulting work for him over the course of the suit, which could be years. "He told me I'd end up making more money than he did," Mr. Beatty says. Mr. Steinmeyer denies saying this. Milberg Weiss has paid the Beattys about $9,250 for sporadic consultant work and continues to ask Mr. Beatty questions about his documents at times. But Mr. Beatty was expecting full-time employment.

Mr. Beatty says he won't get anything from a damage verdict or settlement in the suit because he isn't a Dynegy shareholder. He wonders if it has been worth being so helpful to people such as Mr. Pitts, Mr. Stout and Mr. Steinmeyer: "They all said they wanted to help me and they asked for the documents to help me -- or that's what they said."

In April, Mr. Beatty landed some consulting work at a Colorado utility, Platte River Power Authority. He impressed executives there and particularly hit it off with a project engineer, Bill Emslie, who, like him, had served on a Navy submarine. Mr. Emslie says he was sympathetic when told what had happened at Dynegy. "If he made known things that were being done that were not straight-shooting business arrangements, they need to be exposed. I applaud him for that," Mr. Emslie says.

Though Mr. Beatty discussed a permanent job at Platte River, none materialized. Mr. Beatty suspected Dynegy was blackballing him in the industry. Platte River's Mr. Emslie doubts that, saying, "He's probably carrying baggage with him from the job." Platte River executives say his whistle-blowing didn't make them uneasy, it was just that there were no appropriate openings.

In part to restore her husband's name, Maren Beatty began working the phones, asking Standard & Poor's and Moody's Investors Service if they wanted to speak with her husband about Dynegy. The credit-rating services declined. Then in late April, Dynegy disclosed that the SEC had begun an informal inquiry into its finances. The company also said that after consulting with the SEC, it had decided to reverse Project Alpha's effect on its cash flow.

The stock plunged 30% in a single day, delivering rich payouts to those who'd sold it short. Suddenly Mr. Beatty's documents were having an impact -- and the couple got nervous. Ms. Beatty says the pressure made them "probably totally paranoid."

Two days after word of the SEC inquiry, the Beattys woke up in their home outside Denver at about 3:45 a.m., both hearing what sounded like someone inside the house opening and closing drawers. They called the police and waited outside while officers inspected their home. "It was absolutely frightening," Ms. Beatty says.

Mr. Beatty made clear what he thought had happened. "I believe this was done by my previous employer Dynegy in Houston," he said, according to a police report filed with the Larimer County Sheriff's Office. "I have the documents at home that I took from the company. The company knows I have them." The sheriff's office concluded nothing had been taken. The case is in suspension, pending any further leads. Dynegy's Mr. Byford calls the notion that the company was behind a home break-in "absolutely absurd." About a week later, Mr. Beatty flew to Texas for a meeting with an SEC investigator. After a long meeting discussing his information about Dynegy, Mr. Beatty asked if the agency would hire him to do research on the industry. Rebuffed, he again felt betrayed. "The SEC was the worst in terms of people not being helpful after they get your information," he says. An SEC spokesman says the agency generally doesn't hire people for specific cases or pay for information.

Pressure on Dynegy grew. On May 9, The Wall Street Journal reported that the SEC was looking into "round trip" trades that served only to raise Dynegy's trading volume. Later that month, the U.S. Attorney in Houston subpoenaed Dynegy documents on trading and Project Alpha. And Dynegy announced it would reverse Alpha's tax benefits and revise 2001 earnings 12% lower as a result. In late May, Dynegy's board asked Chief Executive Chuck Watson to resign. Round-trip-trade revelations also led to resignations of senior executives at some other energy traders, including CMS Energy Corp. and Reliant Resources Inc.

But Mr. Beatty still didn't have a job. Increasingly anxious about money, his wife now took a radical step: In July, she contacted Dynegy itself about work. In a phone conversation with Charles E. Bayless, head of the Dynegy board's audit committee; Ms. Beatty complained that Dynegy had told investors and employees it would pursue her husband vigorously. Ms. Beatty then said he had evidence of other questionable practices at the company. According to a recording of the call, she asked if Dynegy's board would hire Mr. Beatty as a "consultant" so he could help the company find those other problems. An e-mail from Mr. Bayless makes clear the board considered doing so, but it ultimately declined. "We would be subject to criticism for doing anything that looked like we were paying a potential witness," he e-mailed the Beattys. Ms. Beatty says, "We had no intentions to blackmail the company. We just needed a job."

In mid-August, the Beattys say, they began getting mysterious messages they took as threats. They got anonymous one-word e-mails saying "Stop" and "Quit." Soon after that, the family rented a truck and started packing. In September, the SEC filed a civil securities-fraud case alleging Dynegy had presented "materially misleading information" to the public on Project Alpha and the round-trip trades. It also accused Dynegy of misleading investors by saying that a "disgruntled former employee" -- a reference to Mr. Beatty -- had mischaracterized Project Alpha.

Dynegy simultaneously settled the case by agreeing to pay a $3 million penalty, neither admitting nor denying the allegations.

People familiar with the matter say the SEC didn't press for a larger fine because Dynegy investors had already been punished enough. The shares, above $30 in March, now trade at around $1. Meanwhile, in October, the company said it would leave energy trading and refocus on power generation, natural-gas liquids and regulated utility businesses. "Dynegy is working hard to move forward," the company's Mr. Byford says.

The Beattys find the SEC action gratifying, in a way. Today, Ms. Beatty is working on a book about their experience, while her husband continues to search for steady work. At times, Mr. Beatty regrets ever deciding to take on Dynegy. "Sometimes I wish I never heard of Project Alpha," he says.

..