

# Enron: The Good, The Bad, The Lessons

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## Abstract

*The recent bankruptcy of Enron provides many opportunities for learning in all business disciplines. Beyond the obvious questions, such as “How could a company as large as Enron fail?” and “Why didn’t Arthur Andersen provide adequate assurance?” lies a host of additional equally interesting questions. Why didn’t external financial analysts detect problems earlier? Could the SEC and other regulators have done more to bring problems to light? Why was Sherron Watkins a lone voice in asking for an explanation?*

*Beyond the immediate Enron debacle lies additional questions. How can we detect other companies in similar difficulty? What changes can we expect in accounting and auditing standards? What changes have occurred or can we expect in the oversight of businesses and auditors?*

*This paper will provide a timeline of Enron developments, an analysis of the above questions, and additional discussion questions and teaching resources to foster critical thinking in the classroom.*

## Introduction

*G*iven the revelations, reports, evaluations, accusations, and denials generated by Enron’s collapse, it is difficult to grasp what happened and its implications. This paper takes a two-fold approach. First, it examines Enron’s collapse from multiple viewpoints with an eye to providing materials that can be used to generate debate and discussion. Second, a timeline of events in Enron’s history is provided. The time line starts with a broad overview of Enron’s founding and early development, followed by the major events in Enron’s rapid rise and the details of its sudden collapse.

## How could a company as large as Enron fail?

Simply stated, “Enron robbed the bank, Arthur Andersen provided the getaway car.<sup>1</sup>” For the more academic reader, the following example will enlighten:

*Two Enron auditors walk into a bar. The bartender asks them if capitalism failed Enron or Enron failed capitalism. First auditor says, “Capitalism is when you have two cows. You sell one cow and buy a bull. Your herd multiplies and the economy grows. You sell the herd and retire on the income.” Second auditor says, “Enron capitalism is when you have two cows. You sell three of them to your publicly listed company, using letters of credit opened by your brother-in-law at the bank. You then execute a debt/equity swap with an associate general offer so that you get all four cows back, with a tax exemption for five cows. You then transfer the milk rights of six cows via an intermediary to a Cayman Island company secretly owned by the majority shareholder of your publicly listed company who sells the rights to all seven cows back to your publicly listed company. The Annual Report to Shareholders says the company owns eight cows, with an option on one more.”<sup>8</sup>*

Actually, Enron created 3500–4000 Special Purpose Entities (SPEs). Many of these SPEs were partnered with LJM, which CFO Andrew Fastow held interests in. Although government regulations require consolidation of all corporate investments greater than 50%, consolidation of SPEs is only required for interests over 97%. Thus, Enron was not required to consolidate the SPEs.

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*Readers with comments or questions are encouraged to contact the authors via email.*

Enron then transferred risky and poorly performing assets to these SPEs. Revenue was recognized for the total amount of the transfer. Losses were borne by the SPEs. However, the SPEs were capitalized with notes payable from Enron and promises of Enron stock to cover losses. The 3% owners had nothing at stake. In essence, Enron was recognizing cash flow from operations that had to be covered by equity issuance in the future.<sup>6</sup>

Enron was then able to report glowing results on its financial statements, which increased the stock price. (Note: Enron executive's bonuses were tied to stock price.) As long as the stock was increasing in value, the scheme worked. However, if the stock price dropped, not only did the SPE stack of cards collapse, other problems arose also. Enron had 4 billion dollars of debt that became due if Enron's credit rating dropped.

When the off balance sheet financing using the web of SPEs was exposed, the stock price went in to free-fall resulting in Enron's bankruptcy.

### **Why didn't Arthur Andersen provide adequate assurance?**

Critics note that Arthur Anderson (AA) was too involved with the affairs of Enron to be independent. In 2000, half of their revenues from Enron were for consulting. AA was intimately involved in the creation of the partnerships used to dress the financial statements. Technically, AA did not violate the accounting rules. AA hid behind the regulations that do not require consolidation of SPEs with outside ownership of 3%. Their focus appears to be on defendability in a lawsuit rather than the overriding principles. AA violated the audit standard of representational faithfulness that requires the statements "fairly represent the financial position and results of operations."

AA also ignored its own "Ten Commandments of Risk Management" which it released with much fanfare in 1997. Consider Commandment One: "Understand your profits. Large profits you don't understand are more dangerous than losses you do." Or, Commandment Eight: "Respect business quality. Volume is no substitute for value."<sup>2</sup> In contrast, Enron with AA's aid was adding risk rather presenting fairly.

Some suggest that the SPE's were so complex that even the auditors were baffled. An internal memo at AA indicates that this was not the case. On February 6, 2001, Michael, AA accountant, wrote to David Duncan, engagement manager, and Thomas Bauer, documenting a meeting regarding Enron. The memo indicates that AA was well aware of the nature and risk of Enron transactions and debated whether to keep them as a client. The following excerpts from the memo are particularly relevant:

*Significant discussion was held regarding the related party transactions with LJM including the materiality of such amounts of Enron's income statement and the amount retained 'off balance sheet'.*

*We discussed Enron's reliance on its current credit rating to maintain itself as a high credit rated transaction party.*

*We discussed Enron's dependence on transaction execution to meet financial objectives, the fact that Enron often is creating industries and markets and transactions for which there are no specific rules which requires significant judgment and that Enron is aggressive in its transaction structuring.*

*Ultimately, the conclusion was reached to retain Enron as a client citing that it appeared that we had the appropriate people and processed in place to serve Enron and manage our engagement risks.*

*We discussed whether there would be a perceived independence issue solely considering our level of fees.<sup>3</sup>*

*Clearly, AA was aware of the problems and risk involved with Enron.*

### **Could the SEC and other regulators have done more to bring problems to light?**

In 2000, half of Arthur Andersen's \$52 million in fees from Enron were consulting. (This despite having

spun off its consulting arm as Accenture.) That same year, Arthur Levitt, then chairman of the Securities Exchange Commission (SEC) proposed a regulation that would have prevented Arthur Andersen from performing the dual roles of auditor and consultant. Levitt's efforts were defeated by lobbying by those that would stand to lose the most, the auditing firms. Levitt reported to the New York Times that he received 10 or 11 calls from Capital Hill threatening SEC funding he did not back off the proposed restriction. He settled for a compromise under which the firms would disclose how much they earned from non-audit services to each firm they audited.

Harvey Pitt, current SEC chairman, has been widely criticized because as a lawyer for accounting firms he helped to defeat several reforms. It is not surprising given his defense of the status quo that he has been slow to propose any meaningful changes. He has said that he does not think a formal ban on doing consulting work for audit clients is necessary. Pitt came to reforms reluctantly. Now, he wants the financial statements written in plain English, because "the current system of disclosure is designed to avoid liability not to inform anybody".

Pitt's most controversial proposal is to end the notion that there is one correct version of the accounts. He wants to shift the emphasis to the processes used to derive numbers. Already he has required the auditors to identify the five assumptions that make the biggest difference and show what the results would be if different assumptions were used.<sup>4 5</sup>

### **Why didn't external financial analysts detect problems earlier? How can we detect other companies in similar difficulty?**

While potshots abound at AA's closeness to client and the complexity of transactions, there are still indications that something was amiss. A notable few cast a critical eye on Enron. But, they were either censured or simply ignored. In March, 2001, Bethany McClean wrote "Is Enron Overpriced?" and noted that the "lack of clarity raises a red flag about Enron's pricey stock."<sup>6</sup>

Bethany McLean was not the only one outside Enron whose assessment of the energy giant was not favorable. Chung Wu a broker for UBS Paine Webber sent a message to clients on August 21, 2001, warning of Enron's deteriorating financial situation and advised they should "take some money off the table." That afternoon, an Enron executive sent Paine Weber executives a stern message requesting "Please handle this situation."<sup>33</sup>

Within three hours, Mr. Wu was fired. Paine Weber then retracted Mr. Wu's assessment and sent an optimistic report predicting higher rather than lower stock prices.<sup>33</sup> Enron continued its decline from its then worth of \$36. Within months, Enron was in bankruptcy court and the stock was all but worthless.

A part of this can be laid at the feet of investors themselves. When the markets are bullish, investors are not trying to avoid the sluggards but instead are trying to pick the rising stars. When the markets turn bearish, investors tend to tune out. Consequently, financial analysts tend to focus on finding companies they can recommend. Problematic companies tend to fall off their radar. Journalists' attention is drawn to the drama of political issues and dulled by the tedium of regulatory issues. In addition, the financial reporters in their more candid moments will admit that too much negative reporting is apt to hurt ad revenues. Even when a reporter such as Jodie Allen tried to follow her suspicions concerning Enron, she either got the runaround or those she called simply stonewalled.<sup>7</sup> It is hard to write a piece about questions that are not answered.

Mike Gasior noted three items that should have alerted investors much sooner:

- The huge reliance on "energy trading" for profits. These trading activities accounted for about 80% of Enron's earnings.
- The acceleration of large, unrealized, non-cash gains into their current earnings even though it was hugely likely that none of these gains would actually materialize.
- The now famous partnerships and special purpose vehicles, which hid debt and were controlled by company insiders.<sup>8</sup>

In addition, a look at revenue generated per employee at other companies of similar size or similar number of employees, shows that this should have been discovered earlier. As noted in the following table, Enron's employees supposedly generated \$5 million each in revenues for the company. Texaco's revenue's per employee is roughly half as much and Microsoft's employees generated less than \$610,000 each.

**Enron Supermen: Revenue Per Employee Compared to Similar Companies<sup>9</sup>**

Company	2000 Revenue (In Billions)	Employees	Revenue Per Employee
Enron	100.8	19,000	\$5,235,800
Texaco	50.1	19,000	\$2,682,000
Exxon Mobil	206.0	103,000	\$1,996,000
Goldman Sachs	33.0	19,000	\$1,737,400
Chevron	46.5	36,000	\$1,308,900
Dell Computer	31.9	38,000	\$833,700
Microsoft	23.8	39,000	\$609,800
Citigroup	111.8	238,000	\$470,800
Phillip Morris	63.3	140,000	\$450,600
AT&T	65.4	151,000	\$417,600
IBM	88.4	312,000	\$283,500

#### **Why was Sherron Watkins a lone voice in asking for an explanation?**

As is common in a firm with a powerful, domineering CEO, fear of retribution is the overwhelming reason for silence. Although Enron had been rated highly as a place to work, in reality, it appears to have attributes similar to the popular 'Survivor' show. Each year their "rank and yank" system resulted in the firing of the lowest rated employees. Employees who crossed Skilling and Fastow were often found at the bottom of the ranking list and unemployed. Sherron Watkin's memo to Lay came immediately after Skilling left on August 14, 2001. She testified at Congressional hearings that fear of Skilling had kept her silent until he left.<sup>10</sup>

She later testified that many were aware of the huge losses. They truly believed that accounting "magic" was making it work and did not think it was a cover-up.<sup>4</sup>

In fact, Sherron Watkins was not alone. Two weeks later, August 29, 2001, Margaret Ceconi, a laid-off manager for Enron Energy Services (EES), sent a ten-page email to Enron Chairman Kenneth Lay with the request it be forwarded to the Board of Directors. She began with, "One can only surmise that the removal of Jeff Skilling was an action taken by the board to correct the wrong doings of the various management teams at Enron." She went on to describe deals and restructurings made in an attempt to hide EES losses of \$500 million and noted the losses could go as high as \$1 billion. As though to make sure she was not misunderstood, she stated, "EES knowingly misrepresented EES' earnings." The memo ends with, "You are potentially facing Shareholder lawsuits, Employee lawsuits...Heat from Analysts and newspapers. The market has lost all confidence.... And based on all the early departures this year of senior management that has cashed out...., you have a very tough job ahead."<sup>19</sup>

#### **What changes have occurred or are expected to occur in accounting and auditing standards?**

The Enron scandal itself has already brought several hidden financial issues out into the open, with audit firms taking a stronger stand with clients. Enron's fiasco has contributed to a flurry of financial disclosures from other companies: Adelphia, Global Crossing, Krispy Kreme Doughnuts, IBM, Qwest Communications, and Tyco have all come forward with detrimental disclosures.<sup>11</sup>

Many CPA firms and the AICPA are scrambling to restore public confidence. For example, Ernst and Young is emphasizing that "no client is too big to say 'no'."<sup>12</sup>

On 2/1/2002, AICPA's Board notified members that they approved a resolution to support prohibitions on auditors of public companies from providing financial systems design and implementation, and internal audit outsourcing in order to restore the public's confidence in the financial reporting system.<sup>12</sup> AICPA is promising to promote a new "reporting mode that is suitable to Information Age companies" and to work with the SEC to strengthen regulation of the profession.<sup>5</sup> They do not extend this resolution to private corporations who would have different reporting needs. Reporting needs of private companies and their auditors are very different and should not be subjected to the same restrictions on non-audit services. This is a major effort on their part to restore public confidence by placing ads in major newspapers across the country. Advertisements in the Wall Street Journal, New York Times, Washington Post, and USA Today that we believe will begin the process of restoring confidence.<sup>5</sup>

James G. Castellano, chairman of the American Institute of Certified Public Accountants, testified before the House Energy and Commerce Committee regarding reform of the accounting profession. He called for the following changes:

- **Report a broader "bandwidth" of information.** A modernized financial reporting model must provide greater disclosure to investors about plans, opportunities, risks, uncertainties, and the drivers of future success. Financial reports should address off-balance sheet activity, liquidity issues, other risks and uncertainties, forward-looking information, non-financial performance indicators, unreported intangibles and other important information.
- **More frequent reporting.** Economic change has moved swiftly. The annual and quarterly reporting regime must keep pace with that change, recognizing that real-time information is now available to investors on the Internet.
- **Address consolidation accounting.** Mr. Castellano encouraged FASB to revise current accounting rules for special purpose entities, such as those used by Enron, to deter accounting abuses.
- **New audit standard.** Mr. Castellano described a proposed new auditing standard that would likely result in significant change in auditor performance and thereby improved the likelihood that auditors will detect material misstatements due to fraud in a financial statement audit. An exposure draft of this new standard, he said, will be issued for public comments by month's end with the expectation of issuing a final standard this year.
- **Require reports on internal control.** Company management should be required to make an analysis and assertion as to the effectiveness of the company's internal control systems. The auditor should be required to report separately on the effectiveness of the management assertion.<sup>13</sup>

#### **What changes can we expect in oversight of businesses and auditors?**

Many proposals have been made for changes. For example, Business Week called for regulations that:

1. Enact self-regulation with teeth
2. Bar consulting to audit clients
3. Mandate rotation of auditors
4. Impose more forensic auditing
5. Limit auditor's moves to companies
6. Reform the audit committees
7. Clean up the accounting rules<sup>14</sup>

Former SEC Chairman, Levitt suggested several areas that needed reform:

1. First, the way Wall Street analysts are compensated needs to be made more public. If an analyst's firm also did lucrative investment banking for a company in which the analysts were making buy and sell recommendations. Levitt said such analysts should disclose how closely his or her salary was tied to such investment banking business.
2. Second, the way a company's board of directors is compensated and given perks, such as being allowed to travel on corporate aircraft, needs to be overhauled.

3. Third, financial accounting rules must be changed to give a better picture of the real financial situation of companies.<sup>1</sup>
4. In addition the Financial Accounting Standards Board (FASB) should be revamped so that its very lifeblood – its funding – is not beholden to the accounting firms it's supposed to oversee.<sup>1</sup>

In July 2002, many of the proposed changes were incorporated in the Sarbanes-Oxley Act:

1. A five-member public oversight board was created to register public accounting firms, set audit standards, conduct inspections of accounting firms, conduct investigations, disciplinary proceedings, and impose sanctions.
2. Auditors are prohibited from performing non-audit services, such as bookkeeping, system design, and internal audits. Tax services are allowed if approved by the Audit committee.
3. The lead audit partner and review audit partner must be rotated off an audit every 5 years.
4. The CEO and CFO must prepare statements to accompany the audit report, stating that financial statements and disclosures fairly represent the financial condition of their company. (Note: Violation must be knowing and intentional to give rise to liability.)
5. If financial statements must be restated, the CEO and CFO must repay bonuses and incentive-based or equity-based pay received during the following 12 months.
6. Officers and directors may not purchase or sell stock during pension fund blackout periods.
7. It is unlawful for any officer or director to manipulate or mislead the auditor for the purpose of misleading financial statements.
8. The financial statements must report all material adjustments made by the auditor.
9. Financial statements must disclose all material off-balance-sheet financing and other relationships with unconsolidated entities.
10. SEC shall issue rules that pro-formas may not be misleading.
11. Personal loans to executives are prohibited.
12. Securities exchange associations must adopt conflict of interest rules for research analysts who recommend equities in their reports.<sup>34</sup>

### **Other suggestions**

Should boards of directors be more independent, and not share in company ownership? Many think so. However, one watchdog group foresaw a problem at Enron for the opposite reason. In early 2001, the group recommended against Enron because its director-ownership was very low compared to other companies.

Should the government take over the auditing function? Ernst & Young replies, "We don't think so. On that matter, we agree with the statement that Securities and Exchange Commission Chairman Harvey Pitt made the other day: 'Of one thing I am certain, People who are unhappy with audits today will be downright despondent if the government were to undertake the job.'" <sup>17</sup>

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## **Enron Timeline**

In 1985, Enron started as Houston Natural Gas.

1985 July - Enron is formed when Houston Natural Gas merged with InterNorth, a gas provider in Nebraska, to operate a natural gas 37,000-mile pipeline. In less than two decades, Enron grew from a small Midwestern gas pipeline company into the world's largest energy trader with a pipeline business on the side.<sup>20,22,24</sup>

1986 - Former Exxon executive, Kenneth Lay, becomes chief executive officer of Enron.<sup>22</sup> Enron begins operating its Northern Natural Gas Pipeline, a 64,000-mile pipeline linking the Great Lakes with Texas.<sup>22</sup>

1987 - Enron discovers that oil traders in New York have overextended the company's accounts by almost \$1 bil-

lion. The company ultimately works this loss down to \$142 million. This leads to Enron developing a myriad of services to help reduce the risk of price swings for everything from gas to advertising.<sup>29</sup>

1988 - Enron opens its first overseas offices in England to take advantage of the country's privatization of its power industry. -In what became known as the "Come to Jesus" meeting, executives are informed the strategy is to also pursue unregulated markets.<sup>29</sup>

1989 - Jeffrey Skilling joins the company. Enron launches its Gas Bank, a program under which buyers of natural gas can lock in long-term supplies at fixed prices. The company also begins to offer financing for oil and gas producers.<sup>29</sup>

1992 - Enron acquires Transportadora de Gas del Sur, Enron's first pipeline presence in South America and the start of a push to expand on the continent.<sup>29</sup>

1993 - Teesside power plant in England begins operation, a big success for the Enron's international strategy.<sup>29</sup>

1994 June - Enron trades its first unit of electricity.<sup>24</sup>

1995 - Enron Europe establishes a trading center in London, marking the company's entry into European wholesale markets. Europe is one of the company's prime growth markets.<sup>29</sup>

1996 - The Federal Energy Regulatory Commission initiates the deregulation of energy markets.<sup>22</sup> Construction begins on the \$2 billion Dabhol power plant in India. The project would be plagued with political problems throughout its construction.<sup>29</sup>

1996 Dec. - Skilling is elected president and chief operating officer (CFO). He continues in his role as chairman and CEO of Enron Capital & Trade Resources.

1997 - To expand its electricity business, Enron buys Portland General Electric Corp. Enron Energy Services (EES) is formed to provide commercial and industrial energy management services.<sup>29</sup>

### **The Meteoric Rise Of Enron: 1998-2001**

1998 - Enron acquires Wessex Water and enters the water and waste waterforms market through its Azurix subsidiary. Azurix manages and owns utilities primarily in South America, North America, the United Kingdom, and Canada.<sup>22</sup>

1999 - Enron forms its broadband services unit. The first phase of the Dabhol project begins operations.

- One-third of Azurix is sold to the public in an initial public offering. After an early rise, shares fall sharply as the year goes on and the problems facing the company become apparent.
- Enron Online is formed to trade commodities globally by allowing Enron's customers to view prices and enter transacts in real-time. Enron Online quickly becomes the largest e-business site in the world. "
- Enron Energy Services turns its first profit in the fourth quarter.<sup>21, 22, 24, 29</sup>
- Enron's Azurix subsidiary begins operation of its pipeline from Bolivia to Brazil.<sup>22</sup>
- Enron has foreign investments and assets valued over \$20 billion and subsidiaries operating in over 50 countries.<sup>22</sup>

1999 Spring - The Houston Astros' new ballpark, is named "Enron Field."<sup>22</sup>

2000 Jan. - Fortune magazine ranks Enron No. 24 among the "100 Best Companies to Work for in America."<sup>22</sup>

2000 Sept. 10 - Enron Chairman Lay contributes more than \$290,000 to George W. Bush's election campaign.<sup>24</sup>

2000 Dec. - Enron announces that president and COO Skilling will take over as chief executive in February. Lay

will remain as chairman.<sup>20</sup> Annual revenues reach \$100 billion, more than double the year before, reflecting the growing importance of trading. Its annual report claims to have tripled its revenues since 1998. Shares hit a record high of \$84.87 making Enron the country's seventh most valuable company.<sup>21, 22, 29</sup>

2001 Jan. 3 - Lay is one of the 474 people Bush names to advise his presidential transition team.<sup>24</sup>

2001 Feb. 5 - In a meeting and subsequent e-mail, some senior personnel of the public accounting firm Arthur Anderson LLP discuss dropping Enron as a client.<sup>31</sup>

2001 Feb. 6 - Lay hands the chief executive position to Skilling, who served as Enron's president and COO since 1997. Lay remains chairman.<sup>22, 24</sup> *"Our corporate culture...is driven by smart employees who continually come up with new ways to grow our business."* Kenneth Lay, after Enron wins Fortune's 'Most innovative company' award.<sup>21</sup>

2001 Mar. - *"Enron remains largely impenetrable to outsiders. How exactly does Enron make its money? Details are hard to come by...Analysts don't seem to have a clue."* Fortune reporter, Bethany McLean<sup>6</sup>

2001 April - Enron discloses it is owed \$570 million by bankrupt California utility Pacific Gas & Electric Co.<sup>29</sup> According to the Center for Responsive Politics, the Lays have contributed almost \$883,000 to candidates and parties since 1989. Ninety percent of the donations went to Republicans<sup>22</sup>

2001 May 19 - Congress begins putting President Bush's energy plan into legislation.<sup>24</sup>

2001 May - Prices for natural gas soar in California<sup>22</sup>, one of the first states to begin deregulation of energy. California politicians accuse Enron Corp., owner of the Transwestern Pipeline in California, of manipulating market prices for natural gas.<sup>22</sup> Vice-Chair Clifford Baxter complains of the "inappropriateness" of the Enron's Partnership deals. He is one of three executives to do so.<sup>31</sup>

2001 June 5 - Karl Rove divested his stocks in energy, defense and pharmaceutical companies. Rove owned holdings worth more than \$100,000 in each Enron, Boeing, General Electric and Pfizer.

2001 June 30 - The White House acknowledges Rove was involved in shaping the administration's energy policy at a time when he owned equities in energy companies.

2001 June - Sherron Watkins was assigned to work for Chief Financial (CFO) Officer Andrew Fastow, where she learned that Raptor, a partnership with suspicious bookkeeping run by Fastow, had lost \$700 million. She later testified, *"I was highly alarmed by the information I received. I continued to ask questions and seek answers, primarily from former coworkers in the global finance group or the business units that hedged assets with Raptor. I never heard reassuring explanations. I was not comfortable confronting Mr. Jeffery Skilling or Andrew Fastow with my concerns. To do so I believe would have been a job-terminating move."*<sup>25</sup>

### **A Sudden Collapse July 2001-??**

2001 July - New CEO Skilling is hit in the face with pie by a protester who blamed Enron for California's energy crisis. California consumer groups and politicians accused Enron of price gouging during California's power shortage. Enron stock drops to \$42.93.<sup>22</sup>

2001 July - As the California power crisis provokes rolling blackouts, Pacific Gas and Electric Company files for bankruptcy amid skyrocketing costs.<sup>22</sup>

2001 Aug. 14 - CEO Skilling, after running the company for just six months, resigns for "personal reasons." Jeffrey Skilling had helped transform the company from a natural gas pipeline company to a global marketer and trader of energy. Lay resumes as CEO.<sup>20, 22, 24</sup> Lay reassures saying, *"We have the strongest and deepest talent we have ever*



*had in the organization, our business is extremely strong, and our growth prospects have never been better."* <sup>21</sup> In addition, Lay offers to answer employees' questions, even anonymous ones. <sup>30</sup>

2001 Aug. 15 - Enron employee Sherron Watkins sends letter to Lay warning of accounting irregularities that could pose a threat to the company. <sup>21</sup> The first page of what subsequently became a seven-page memo was the initial response to a request from Lay. <sup>30</sup>

2001 Aug. 20 & 21 - Lay sells 93,000 shares for a profit of \$2,000,000. <sup>31</sup>

2001 Aug. 22 - Sherron Watkins met with Mr. Lay for a half an hour. She testified that she urged Mr. Lay to find out who caused the Raptor losses. <sup>25</sup>

2001 Aug. 29 Margaret Ceconi sends Lay a ten-page email detailing problems at EES including knowing misrepresenting earnings. <sup>19</sup>

2001 Sep. 26 - "*My personal belief is that Enron stock is an incredible bargain at current prices and we will look back a couple of years from now and see the great opportunity that we currently have.*" Kenneth Lay, reported comments on Enron's intranet chat site. <sup>21</sup>

2001 Oct. 12 - An in-house lawyer at Andersen e-mails the lead partner in the firm's Houston office to remind him of the firm's document-destruction policy. <sup>24</sup>

2001 Oct. 15 - Lay talks to Commerce Secretary Don Evans while Evans is in Russia leading a trade mission. Commerce officials say the call dealt with an Enron energy project in India and did not cover Enron's financial troubles. <sup>20</sup>

2001 Oct. 16 - Enron reports a \$638 million third-quarter loss, compared to a net profit of \$292-mil for the same period a year earlier. The report included \$1.01 billion in charges; including \$35 million related to investment partnerships formerly headed by Fastow, Enron's CFO. It also disclosed a \$1.2 billion reduction in shareholder equity. <sup>20, 23, 24, 29</sup>

2001 Oct. 17 - Enron's reported losses prompt the Securities and Exchange Commission (SEC) to seek additional information. <sup>24</sup>

2001 Oct. 21 - Lay exercises Enron share options worth just under \$1.48m. <sup>21</sup>

2001 Oct. 22 - Enron acknowledges an SEC inquiry into a possible conflict of interests related to the partnerships setup by Mr. Fastow. Shares of Enron sank more than 20 percent on the news. <sup>21</sup> "*I cannot imagine Enron's attorneys or accountants would allow it to do something illegal. These challenges do not last for a solid company, and we think Enron is one.*" Donato Eassey, Merrill Lynch analyst <sup>21</sup>

2001 Oct. 23 - In a conference call, Lay tries to reassure investors and defends Fastow's work. <sup>21</sup> Andersen accelerates destruction of documents relating to the Enron audits. The destruction continues until Nov 8 when a subpoena arrives from the (SEC). <sup>21</sup>

2001 Oct. 24 - Fastow is ousted as CFO due to questionable business transactions and partnerships. Jeff McMahon takes over as CFO. <sup>22</sup>

2001 Oct. 26 - Lay calls Federal Reserve Chairman Alan Greenspan to provide information. <sup>24</sup>

2001 Oct. 28 - Lay talks by telephone with Treasury Secretary Paul O'Neill to inform O'Neill of the financial problems facing the company. <sup>20</sup>

2001 Oct. 29 - Lay talks by telephone with Commerce Secretary Don Evans. A Commerce spokesman says Lay asked Evans if he could do anything to influence a decision by Moody's Investors Service to downgrade Enron's credit rating. Evans, after talking to the general counsel at the Commerce Department, determines it would not be appropriate to intervene in a decision by a private credit rating agency, according to Commerce spokesman Jim Dyke.<sup>20</sup>

2001 Oct. 31 - The SEC upgrades its inquiry to a formal Enron starts its own investigation.<sup>22, 23</sup>

2001 Nov. 8 - Lay again talks with Treasury Secretary Paul O'Neill to discuss Enron's financial troubles. According to O'Neill spokeswoman Michele Davis, Treasury officials could detect no ripple effects in financial markets from Enron's troubles and O'Neill did nothing to help the company.<sup>20, 22</sup>

2001 Nov. 8 - Enron files documents with SEC revising its financial statements for 1997 through 2000 and the first three quarters of 2001 to account for \$586 million in losses, in large part due to losses with suspect partnerships. It is also disclosed that Fastow made \$30 million in fees and profits from his involvement with the outside partnerships.<sup>20, 22, 24, 29</sup>

2001 Nov. 8 - Andersen receives a federal subpoena for documents related to Enron.<sup>24</sup> Enron announces it must pay a \$690 million in debt, with another \$6 billion due next year.<sup>22</sup> Signs that Enron was withdrawing from its market-making activities in the gas and power markets became clearly visible as the company posted significantly fewer bids and offers on Enron Online (EOL), the company's online trading platform. Trading also shifted from EOL to Intercontinental Exchange (ICE), whose online trading system was "indeed experiencing increased volumes this week," a spokeswoman said.<sup>23</sup>

2001 Nov. 9 - Dynegy Inc. announces an agreement to buy its much larger rival, Enron. The \$7.8-billion merger agreement formed a new company in which Dynegy would own 64% and Enron 36%. Dynegy would exchange 0.2685 of a Dynegy share for each share of Enron. Chairman and CEO of Dynegy, Chuck Watson, would retain his position in the new company.<sup>23</sup> Enron discloses that it overstated its earnings by \$567 million since 1997. Two company officials are fired Enron's stock closes at \$8.63 per share, an 89 percent drop since the beginning of the year.<sup>29</sup>

**\*Note:** While Platts Global Energy values the proposed transaction at \$7.8-Billion, AP and WP give a value of \$8 billion, the BBC says the is worth "more than \$8 billion in shares." and the NewsHour agives \$10 billion. In addition, the Lehrer Newshour is alone in stating that Dynegy had agreed to pay back of \$13 billion in debt and that Dynegy's major shareholder Chevron Texaco would make an immediate infusion of \$1.5 billion. Only Platts Global Energy gives the ratio for exchange of stock, the resulting ownership percentages, or who will head the combined firm.<sup>20, 21, 23, 24</sup>

2001 Nov. 10 - Standard and Poor (S&P), a major credit rating agency, lowered its long-term credit rating on Enron from BBB to BBB-, while it placed Dynegy on credit watch following the announcement of a pending merger with Enron.<sup>23</sup>

2001 Nov. 13 - Lay turns down a \$60.6 million severance payment that would be triggered at the completion of the Dynegy deal.<sup>24</sup>

2001 Nov. 19 - Enron restates its third-quarter earnings and discloses it is trying to restructure [obtain financing for] a \$690 million obligation that could come due Nov. 27.<sup>20</sup>

2001 Nov. 19 - Enron said its declining share price and lowered credit rating were likely to effect its Q4 results.<sup>23</sup>

2001 Nov. 19 - S&P downgrades Enron's debt to "junk status," triggering Dynegy to withdraw its purchase offer. [See Nov. 28th]<sup>22</sup>

2001 Nov. 20 - Concerns about Enron's ability to weather its spiraling financial problems send the company's stock down nearly 23 percent to its lowest level in nearly 10 years.<sup>20</sup>

2001 Nov. 21 - Enron reaches an agreement to extend the \$690 million debt payment by three weeks.<sup>20, 24</sup>

2001 Nov. 26 - Enron shares fall 15 percent, to \$4.01.<sup>20</sup>

2001 Nov. 27 - Dynegy and Enron were locked in renegotiations talks as Dynegy attempted to better its deal due to Enron's sinking share price.<sup>23</sup>

2001 Nov. 28 - Dynegy announced it had terminated merger talks with Enron claiming Enron's "*breaches of representations, warranties, covenants and agreements in the merger agreement, including the material adverse change provision*" as reasons for calling off the deal. Trading in Enron shares were halted for a short while as they fell below \$3. S&P downgraded Enron to a single-B-minus.<sup>23</sup>

2001 Nov. 28 - Enron shares plunge below \$1 - the stock experiences the heaviest single-day trading volume in history for firm listed on the New York Stock Exchange and the NASDAQ<sup>21</sup>

2001 Nov. 29 -The Dynegy deal collapses.<sup>24</sup> The SEC investigation is expanded to include Andersen.<sup>23</sup> S&P removes Enron from its S&P 500 index due to "lack of representation". The California-based technology company NVIDIA replaces Enron.<sup>23</sup>

2001 Nov. 30 - Enron announces the layoff of almost all of its 1,400 its European head office staff in London.<sup>23</sup> Enron closes at 26¢<sup>31</sup>

2001 Dec. 2 - Enron files for chapter 11 Bankruptcy Code protection in the US Bankruptcy Court for the Southern District of New York. This is the largest Chapter 11 filing in U.S. history.<sup>20</sup> Enron also filed a \$10-billion lawsuit against Dynegy. The lawsuit alleges a breach of contract (wrongful termination of merger) by Dynegy over its aborted takeover of Enron. Enron's suit is also an attempt to halt Dynegy's takeover of Enron subsidiary Northern Natural Gas pipeline.<sup>22, 23</sup> As the collapse unfolds, Enron bars its employees from selling the company shares in 401(k) retirement plans.<sup>21</sup>

2001 Dec. 3 - Enron announces the layoff of 4,000 employees, most of them in the company's Houston office. Many of these employees had lost up to 90 percent of their 401(k) retirement savings as Enron's shares took a nose-dive that month. The company announces Nov. 30 layoffs in its European and Asian operations.<sup>22, 23</sup> Enron's two major investors, Citibank and J.P. Morgan, provide up to \$1.5 billion debtor-in-possession emergency financing funding.<sup>22, 24</sup>

2001 Dec. 4 - A group of oil and gas companies, including Shell, filed a motion to move Enron's bankruptcy case from New York City to Houston, Enron's headquarters.

2001 Dec. 6 - Enron discloses that it had paid \$50 million to 75 of its most successful traders in attempt to prevent them from leaving company as it planned to merge with Dynegy.<sup>22</sup> Enron also reveals that several days before it filed for bankruptcy, the company gave nearly 500 bonuses of up to \$55 million.<sup>22</sup> An employee revealed all of Enron India's 200 staff received their termination notices earlier in the week.<sup>23</sup>

2001 Dec. 8 - Amalgamated Bank, a New York bank mostly owned by unions, files suit against 29 Enron executives and board members, including Wendy L. Gramm, wife of Sen. Gramm, and Lord John Wakeham, former UK Secretary of State for Energy, Dr. Charles E. Walker, former Deputy Secretary of the Treasury. The bank alleges the Enron officials artificially inflated the company's stock value, gaining millions of dollars based on fraudulent financial records, before the company's stock plunged. The suit requests that a federal judge freeze bank accounts containing over \$1 billion of 29 Enron executives and board members, stressing that the company illegally froze employees' 401(k) savings, which were largely invested in Enron's stock.<sup>22</sup>

2001 Dec. 10 - The Labor Dept. launches an inquiry into Enron's handling of employee retirement pensions, notably the company's temporarily freezing employee 401(k) assets; nearly 70 to 90 per cent of laid off employees lost their retirement savings from Enron's stock crash.<sup>22</sup> The SEC also begins investigation into the role of Enron's independent auditors, Andersen.<sup>22</sup> Enron made its first lay-offs in its core power and gas trading operations at its Houston, Texas office.<sup>23</sup>

2001 Dec. 11 - Enron Japan and its three subsidiaries filed for bankruptcy in Tokyo in accordance with the Japanese bankruptcy law. The court will open a trial to investigate if the case meets the country's guidelines for bankruptcy.<sup>23</sup>

2001 Dec. 12 - House Financial Services Committee hears testimony on Enron's financial deterioration from officers from the SEC, accounting firm Andersen, and members from the AFL-CIO, and Thompson Financial. Lay, the Chair and CEO of Enron, refuses to attend the hearing, but plans to testify in front of Congress on Feb. 4, 2002.<sup>22</sup> Andersen CEO, Joseph Berardino, testifies that Enron may have committed "*illegal acts*" in its financial accounting practices, sparking a criminal investigation by the Justice Department.<sup>22</sup>

2001 Dec. 13 - Enron's Singapore companies filed for bankruptcy. PriceWaterhouseCoopers was appointed provisional liquidator. The companies closed their trading positions.<sup>23</sup> Enron's subsidiaries in Singapore owe about \$100-mil (\$55.55-million) to creditors.<sup>23</sup>

2001 Dec. 18 - Senate Commerce, Science, and Transportation Committee begins testimony on the collapse of Enron. Enron shareholders, former employees, and representatives from Andersen, Enron's independent auditors, provide statements. Enron Chair, Lay, does not attend.<sup>22</sup>

2001 Dec. 18 - Sen. Byron Dorgan (D-N.D.), head of the Subcommittee on Consumer Affairs, and Sen. Fritz Hollings (D-S.D.) request that the Federal Trade Commission launch an investigation into Enron's allegedly fraudulent accounting practices and illegal business strategies that ultimately caused 4,000 employees to lose their pension savings.<sup>22</sup> Senator Byron Dorgan (Democrat-North Dakota), chairman of the Commerce Committee's consumer affairs subcommittee, said. Former CEO Skilling and ex-CFO Fastow will also be invited to attend.<sup>23</sup>

2001 Dec. 19 - A Federal bankruptcy judge in New York approved the auction of the assets of Enron's commodity trading operation's. The potential buyer must be able to revive trading operations.<sup>23</sup>

2001 Dec. 20 - Enron's former CFO, Fastow, met with the SEC and asked that it cancel an SEC application filed with a federal court in Washington would force him to meet with SEC.<sup>23</sup>

2001 Dec. 21 - The New England Power Pool asked the Federal Energy Regulatory Commission to approve a deal changing Enron's to a day-by-day real-time payment system beginning 21<sup>23</sup>

2001 Dec. 28 - AltaGas Services and TransCanada Energy, a unit of TransCanada Pipeline announce completion of a \$135-mil purchase of Enron Canada Power Corp.'s capacity.<sup>23</sup> Enron wins approval in a New York bankruptcy court to sell its power generation assets in Canada and its wind projects in west Texas.<sup>23</sup>

2001 Dec. 31 - American Electric Power completes the \$175-mil acquisition of California-based Enron Wind's 160-MW Indian Mesa Wind Power Project in West Texas. Enron Wind is not part of Enron's Dec. 2, 2001 bankruptcy filing.<sup>23</sup>

2002 Jan. 2 - Governmental Affairs Committee Chairman Joe Lieberman, D-Conn., and Permanent Subcommittee on Investigations (PSI) Chairman Carl Levin, D-Mich., said they plan to initiate a full-scale probe into the collapse of Enron. The probe will also look into whether government agencies could have done more to prevent Enron's fall in Nov. and Dec. and whether or not the federal government failed to protect Enron's employees and affected businesses.<sup>22,23</sup>

2002 Jan. 3 - Senator Joseph Lieberman (D-Conn.) chairs the full Governmental Affairs Committee that heads the

investigation of the White House's involvement in the collapse. Top executives and directors of Enron are subpoenaed by the Senate committee.<sup>24</sup> Enron's Energy Services group, the retail service division of Enron Corp, won approval from the New York bankruptcy court to terminate almost 700 contracts to supply power and gas to businesses and local and state governmental entities across the US. EES is evaluating more than 25,000 additional retail power and gas contracts.<sup>23</sup>

2002 Jan. 4 - Enron and Dynegy settle their dispute over the ownership of the Northern Natural Gas Pipeline after Enron agrees to turn over the pipeline to Dynegy at the end of January.<sup>22</sup> Creditors of Enron's three Singapore companies appoint PricewaterhouseCoopers as official liquidators.<sup>22</sup>

2002 Jan. 7 - The US trading book and what remains of Enron's energy trading business will be auctioned Jan 10, the UK daily the Financial Times reported. Citigroup, Union Bank of Switzerland and JPMorganChase are all expected to place bids, the report said.<sup>23</sup>

2002 Jan. 8 - Enron is continuing its gas and power trading in Latin America, a company spokesman said. The company has decided to keep the trading operations because they "add value to assets Enron owns" in the region.<sup>23</sup> BP bid \$25-mil for Enron's IT support systems, back office and administrative functions.<sup>23</sup> The Philippines' Private Sectors Assets and Liabilities Management Corp began due diligence on the bankrupt Enron Corp's local subsidiary.<sup>23</sup>

2002 Jan. 9 - The US Department of Justice opened a criminal investigation into Enron's allegedly illegal financial disclosures, investments, and its pension policy with a prosecutors from Houston, New York and San Francisco.<sup>20, 22</sup> Enron executives met with US Vice President Dick Cheney or members of his energy task force at least six times last year, including one meeting on Oct. 10, a week Enron began its slide into bankruptcy, the White House revealed in a letter released by Representative Henry Waxman. The California Democrat, who last month instructed the minority staff of the House Government Reform Committee's Special Investigation Division to probe Enron's financial collapse, wrote to the vice president again Jan. 8 seeking more information about the meetings with Enron executives.<sup>23</sup>

2002 Jan. 10 - Attorney General John Ashcroft and his Chief of Staff, David Ayres, recused themselves from the investigation since Enron had contributed to Ashcroft's failed 2000 senatorial bid<sup>22</sup> as does the 100-strong team of federal investigators in Houston.<sup>21</sup> A federal judge in Houston deals a blow to plaintiffs in a civil suit requesting a freeze on bank accounts of Enron executives and board members.<sup>22</sup> The White House discloses Lay sought the administration's help shortly before the company collapsed.<sup>20</sup> The company's auditor, Andersen, says it destroyed a "significant but undetermined number" of Enron-related records.<sup>20, 23</sup>

2002 Jan. 11 - A federal bankruptcy judge ruled late that Enron's chapter 11 case would stay in New York. Creditor groups, including Texas state officials, had sought to move the venue to Houston, Texas, where Enron's is based.<sup>23</sup>

2002 Jan. 11 - UBS Warburg was announced as the winning bidder for Enron's trading unit.<sup>23</sup> The SEC said it would widen its Enron investigation to include the destruction of documents Enron's chief auditor, Andersen.<sup>23</sup>

2002 Jan. 12 - US Internal Revenue Service opened an into whether Enron's accounting snafus was reflected in its tax returns.<sup>23</sup> The Justice Department names Joshua Hochberg, head of its fraud division, as acting attorney to oversee the criminal investigation into Enron.<sup>21</sup>

2002 Jan. 15 - The New York Stock Exchange suspended trading in Enron shares and announced it was investigating whether to delist the company citing the "*expected protracted nature*" of Enron's Chapter 11 case. Enron shares closed Jan. 13 at 67 cents/share after a high in August 2000 of \$90.75/share.<sup>23</sup>

2002 Jan. 16 - Federal Energy Regulatory Commission (FERC) Chairman Pat Wood (a bush appointee and former energy regulator from Texas, said he would testify before the Senate Energy and Natural Resources Committee at the end of the month on the collapse of Enron and its impact on energy markets. Wood also said it was likely FERC

would have to review some aspects of UBS's plan to acquire Enron's power and gas trading operations.<sup>23</sup> A federal judge in Houston set a hearing for Jan 22 on a request for a temporary restraining order designed to prevent Enron auditor Andersen from destroying any potential evidence related to Enron's finances. The motion was brought by attorneys for the Florida State Board of Administration and the New York City Pension Funds.<sup>23</sup> Andersen, the lead auditor of bankrupt Enron, said Tuesday it had fired David Duncan, the lead audit partner, and put three other partners on leave, as part of its investigation into destroyed Enron-related documents. The company also said it planned to change management in its Houston office.<sup>21, 23</sup>

2002 Jan. 17 - Enron said it had terminated its relationship with Andersen, the company's longtime accountant and auditor. *"While we had been willing to give Andersen the benefit of the doubt until the completion of that investigation, we can't afford to wait any longer in light of recent events, including the reported destruction of documents by Andersen personnel and the disciplinary actions taken against several of Andersen's partners working in its Houston office,"* Enron said.<sup>23</sup> The California Attorney General Bill Lockyer asked the San Francisco Superior Court to hold Enron in contempt of court for failing to turn over documents sought in the state's investigation of power pricing practices related to the energy crisis in California. The court decided the company must appear Feb 20 before the court to show why it should not be held in contempt.<sup>23</sup>

2002 Jan. 18 - A New York bankruptcy judge approved the cash-to-buyer sale of Enron's energy and commodity trading operations to Swiss bank giant UBS. The deal is structured as a 20-year licensing agreement, with the first 10 an exclusive right to Enron systems. UBS will give Enron a 10-year 33% royalty on net profits, climbing to 45% in year seven. But UBS can buy out Enron's stake at 5.75-times its share of earnings in year three to five.<sup>23</sup> Enron's lawyers disclosed that the current mark-to-market value of "open" positions in Enron's large "book" of trading contracts was about \$1.3-billion.<sup>23</sup> Enron's financial advisor, Blackstone Group Senior Managing Director Steve Zelin, confirmed at a US Bankruptcy Court hearing that Enron would pay UBS \$35-mil under the proposed deal. Zelin said \$6-mil will cover employment contracts for the 600 or so workers who would move with the shuttered trading operation, and another \$29-mil for Enron to lease back its software. Creditors in the bankruptcy case objected to the deal on the ground that Enron traders at UBS might be able to *"trade against"* Enron's existing "book" with their past knowledge.<sup>23</sup>

2001 Jan. 22 - Enron said in a statement that since Oct. 25 Enron had notified employees in no uncertain terms that they were to preserve all documents and materials. The statement was released in response to an ABC News report that a former Enron executive said the company continued to shred documents at its Houston, Texas, HQ until at least last week, against court orders issued late October.<sup>23,24</sup> An Enron attorney said the US Federal Bureau of Investigation was reviewing the destruction of Enron documents, which might have been taking place as late as this week.<sup>23</sup>

2002 Jan. 23 - Enron announced that Lay had resigned as chairman of the board and CEO of Enron Corp. Lay, also retired as an Enron employee, but he will remain on the company's board of directors. *"This was a decision the board and I reached in cooperation with our creditors' committee,"*<sup>23</sup> The CEO of Enron's chief accounting firm, Andersen, and the chairman of the SEC will join Enron CEO, Lay, in testifying before the House Financial Services Committee Feb 4-5, the panel said.<sup>23</sup> Three oil companies, Shell, TotalFinaElf and Gaz de France, joined the fray to buy the collapsed Enron Corp's 65% stake in Dabhol Power Co. The local firms preparing to bid for the power generator are Tata Power, BSES and Gas Authority of India Ltd.<sup>23</sup>

2002 Jan. 24 - The Senate Governmental Affairs Committee Chairman, Joseph Lieberman, (Dem.-Conn.) said his panel would focus on whether trading in energy futures and derivatives should be further regulated. Lieberman said the committee would question whether the SEC, the Labor Department, the Commodity Futures Trading Commission and the Federal Energy Regulatory Commission did everything they could to protect the public.<sup>23</sup> David Duncan, the former Andersen lead auditor for the Enron account, who allegedly destroyed documents related to Enron's bankruptcy, invoked his Fifth Amendment right and refused to testify during a brief appearance before the House of Representatives' Energy and Commerce Committee.<sup>23</sup> PriceWaterhouseCoopers said Enron Europe's liabilities were in excess of \$1-billion, but little more than \$100-million is likely to be realized through settlement of outstanding contracts.<sup>23</sup>

2002 Jan. 25 - The Severed Enron Employees Coalition, a coalition of more than 400 current and former Enron employees, filed a class action suit in a bid to recoup "staggering" losses suffered by participants in the bankrupt company's 401(k) retirement plan. The coalition named Lay, Skilling, Fastow, Andersen, and Northern Trust Co, the trustee of the 401(k) plan, as defendants.<sup>23</sup> The White House requested the General Services Administration determine whether Enron and its fired lead auditor, Andersen, are fit to perform work for the federal government.<sup>23</sup> Congressman investigating the collapse of Enron asked former chairman Lay for information about a revolving multi-million dollar line of credit he had with the Enron. The House Energy and Commerce committee is also seeking the dates and amounts of Enron loans to other Enron executives and how the loans were repaid and when.<sup>23</sup> Former Enron vice chairman J. Clifford Baxter was found dead in Sugarland, Texas, after apparently committing suicide. He was named in a letter by an Enron whistleblower, Sherron Watkins, as one of the executives asking questions "consistently and constantly" about the company's accounting practices. He had left the firm abruptly in May 2001, after reportedly clashing with Skilling over the firm's accounting practices.<sup>21, 23</sup> Four petitions were filed in the Mumbai high court (India) challenging various aspects of the embattled Dabhol power project, 65% owned by the bankrupt Enron Corp.<sup>23</sup> US Vice President Dick Cheney says he is willing to go to court, in order to keep secret details of meetings with Enron officials. Amid suspicion that Enron had been able to influence government energy policy, he had been asked to disclose: what individuals or groups met with the vice-president's task force, when they met, and what they talked about.<sup>21</sup> The GAO asserts it is only asking for basic information about those meetings, not the substance of the meetings. Because Cheney was not acting as the vice president when he chaired the meetings but was acting as the director of President Bush's energy policy task force, the GAO further asserts its right to the information.<sup>32</sup>

2002 Jan. 28 - Lay's wife defends him in a "coached" television interview.<sup>24</sup>

2002 Jan. 28 - President Bush denied that Enron received special treatment by the panel that prepared the administration's national energy policy proposal under Vice President Dick Cheney.<sup>23</sup> Enron's bankruptcy led to cancellation of a natural gas-fired factory that would have produced 1.8-million mt/yr of steel slabs for export from Mozambique. Enron was the only confirmed shareholder of the steel.<sup>23</sup>

2002 Jan. 29 - Attorneys for former Enron CEO Lay asked a federal judge in Houston to prevent plaintiffs suing Lay in US court from filing similar actions in Texas state courts.<sup>23</sup> US senators from the Northwest and California raised concerns that Enron might have inflated forward electricity prices in the West, and questioned the validity of long-term power contracts signed last year in the region. The senators pointed to the drop in forward prices in the West after Enron filed for bankruptcy in Dec. of last year.<sup>23</sup> Leaders of the US House of Representatives' Energy and Commerce Committee asked Andersen CEO Joseph Berardino to provide any details of consulting services Andersen provided to Enron, its executives or partnerships since Jan 1, 1997 with respect to LJM, the partnership set up to keep bad investments and debt off Enron's books.<sup>23</sup> James Newsome, the chairman of the US Commodity Futures Trading Commission (CFTC), told a key congressional panel that the Enron collapse deserves "study and recommendations." Newsome noted that the laws governing the CFTC keeps the agency from regulating over-the-counter energy trades, but the commission retains anti-fraud and anti-manipulation authority.<sup>23</sup> Enron appointed Stephen Cooper its interim CEO and chief restructuring officer. Cooper is the managing partner of Zolfo Cooper, a corporate recovery and crisis management firm, and "has more than 30 years experience leading companies through operational and financial reorganization,"<sup>23</sup> Enron president and COO Lawrence Whalley resigned on Tuesday and accepted a position with UBS Warburg, a large Swiss investment bank that recently purchased Enron's trading unit. Whalley will be replaced by CFO, Jeff McMahon, while Treasurer Ray Bowen fills McMahon's shoes.<sup>21, 23, 28</sup> The Australian arm of Enron is to be placed in liquidation, the company's voluntary administrator Sims Lockwood said. "Placing the company into liquidation would enable its electricity derivatives book to be finalized quickly, ensuring that creditors would participate in distribution in a shorter timeframe, rather than having to wait a number of years for contracts to crystallize."<sup>23</sup>

2002 Jan. 30, the Cooper, company's interim CEO, said, "The results of an internal investigation into the circumstances of Enron's spectacular collapse into bankruptcy will be complete in a matter of days adding the energy trader will do whatever it takes to fix the myriad problems. "The ultimate goal is to preserve as many jobs as possible within the context of the reorganized entity," The Company also is searching for a new auditor to replace Andersen.<sup>23</sup>

2002 Jan. 31 - Minutes of an Enron board of directors meeting show the board backed moving debt off of the com-

pany's books.<sup>24</sup> US House Energy and Commerce Committee said Michael Kopper, a former Enron officer, has been subpoenaed to appear before the subcommittee.<sup>24</sup> Lord Wakeham resigned as chairman of the UK's Press Complaints Commission (PCC) to answer questions surrounding his role in the Enron collapse. Wakeham was a member of Enron's audit committee and a non-executive director. He has been summoned to appear before US Congressional hearings as probes continue into the decline of the US energy marketer.<sup>24</sup> California Governor Gray Davis asked the FERC to investigate whether bankrupt energy marketer Enron may have manipulated the wholesale power market during the state's energy crisis that began in late 2000. Davis said the request was prompted by media reports describing advice Enron officials gave federal policy makers on the California's problems.<sup>24</sup> Dynegy closed the acquisition of Northern Natural Gas from failed-merger partner Enron and named Dan Dienstbier as president of NNG.<sup>23</sup> The US Trustee's office in New York scheduled a meeting Jan 31 among various creditors of Enron trading unit Enron North America (ENA) to consider requests for a separate creditor committee for ENA.<sup>23</sup>

2002 Feb. 1 - The Justice Department instructs the White House to preserve any documents related to its dealings with Enron. The White House agrees to comply.<sup>24</sup>

2002 Feb. 2 - A report prepared by a special committee of Enron's board of directors is released. The report details management failures in supervising partnerships.<sup>24</sup>

2002 Feb. 3 - Former Enron Chairman Lay withdrew from his scheduled Feb 4 appearance before the US Commerce Committee, a meeting which was then canceled. Lay also declined to appear before the House Financial Services Committee on Feb 4.<sup>24</sup> Andersen hires former Federal Reserve Chairman Paul A. Volcker to head an independent oversight board to review the company's auditing policies and procedures.<sup>24</sup>

2002 Feb. 4 - Dynegy filed a motion with the US Bankruptcy Court in New York to have Enron's \$10-billion lawsuit against Dynegy removed from the larger bankruptcy case and moved to Houston.<sup>23</sup> Lay announced his resignation from the Enron Corp board of directors.<sup>23</sup>

2002 Feb. 5 - Reversing an earlier stance, Federico Verisoli, president of Enron Argentina, announced the company is selling its Argentine natural gas and power trading operations, along with a gas-fired power plant.<sup>22</sup> Houston Astros filed a motion in US Bankruptcy Court for the Southern District of New York to void the deal naming their stadium Enron Field. Court documents show Enron to be current on all its financial obligations under the deal.<sup>23</sup> The US House of Representatives' Financial Services Committee served former Enron Chairman and CEO Lay, a subpoena to appear before the panel Feb 14.<sup>23</sup> The Enron Europe group, had liabilities of more than \$2-billion, Neville Khan of administrator PriceWaterhouseCoopers said.<sup>23</sup> Sempra Energy Trading, the wholesale energy trading subsidiary of Sempra Energy, said it had completed its acquisition of London-based Enron Metals Ltd. for a cash price of approximately \$145-mil.<sup>23</sup>

2002 Feb. 6 - Bala Dharan, professor of accounting at Rice University in Houston, in testimony before the US House Committee on Energy and Commerce recommended certain mark to market accounting changes for the electricity industry. He recommended that forecasted cash flows beyond two or three years should be presumed to have a low level of confidence of collectibility.<sup>23</sup> The SEC defended their past regulatory actions regarding Enron. Commissioner Isaac Hunt told a Senate panel that the SEC rightly gave Enron an exemption from the Public Utility Holding Company Act in 1994 and 1997.<sup>23</sup> Former Enron CEO Skilling is expected to testify when he appears before the US House Energy and Commerce Committee Feb 7, a panel spokeswoman said. "*Skilling is coming in voluntarily and he is expected to testify,*" she said.<sup>23</sup> Venezuelan state energy company PDVSA would be interested in taking over Enron's stake in its Accroven III & IV NGL complex, PDVSA Gas president Nelson Nava said. "*They are processing our gas and this is a project that has already been financed so it would not be too costly. If they decided to sell, we would be interested,*" Nava said. Enron International has a 49.25% stake in the \$430-mil three plant NGL complex which was constructed beside PDVSA's existing cryogenic plants.<sup>23</sup>

2002 Feb. 7 - Representative Henry Waxman (Democrat-California) asked the Bush Administration to identify all its appointees or their spouses who worked for Enron as employees, consultants or advisors, or were recommended for appointment by Enron. "In order to learn more about how Enron tried to influence both the political process and



public policy, it is important to obtain a complete list of all appointees who have done work for Enron in the past," Waxman wrote the White House.<sup>23</sup> Enron's general counsel for corporate development Jordan Mintz, now president and COO of Enron Jeff McMahon and former Enron president and CEO Skilling each testified before the US House Energy and Commerce subcommittee.<sup>23</sup> Former Enron CFO Fastow, former managing director of Enron Global Finance Michael Kopper, Enron's chief risk officer Richard Buy and Enron's chief accounting officer Richard Causey all declined to testify or answer questions before a subcommittee of the US House of Representatives' Energy and Commerce Committee, invoking their Fifth Amendment.<sup>23</sup> Richard Buy, Enron's chief of risk assessment said in a prepared testimony read by Michael Peterson before a House Energy & Commerce subcommittee that neither he nor his department were responsible for assessing Enron's overall risk profile. Buy said Enron's board of directors asked RAC to examine related party transactions between the company and LJM2, one of the partnerships in which former CFO Fastow had an ownership interest.<sup>23</sup> Jordan Mintz, an in-house lawyer at Enron. He detailed conversations in which he raised red flags about the growing number of improperly leveraged partnerships. "I was concerned that the process and the procedures that had been put in place by the board weren't being adhered to at the level that I thought would substantiate arm's-length dealing and fairness."<sup>27</sup> Enron official Jeffrey McMahon said he also questioned the structure of the partnerships. He said he told then-CEO Skilling about a partnership known as LJM, which put Fastow in the dual role of representing both the LJM Partnership and Enron itself. "I said there were several conflicts that I thought he needed to be aware of that were going on because of this. Enron employees were negotiating against LJM representatives, and yet they all reported to Mr. Fastow. I saw that as a major conflict. His parting words to me were that he understood all my concerns and he would remedy the situation."<sup>27</sup> Skilling repeatedly told the panel he was unaware of financial improprieties blaming the company's meltdown on a lack of confidence by investors.<sup>27</sup> The contents of the London office, computer systems, furniture, catering and gym equipment and specially-commissioned artwork, are to be auctioned off at the end of this month.<sup>23</sup>

2002 Feb. 12 - Former Enron CEO Lay appears before congressional hearing.

2002 Feb. 13 - The U.S. Federal Energy Regulatory Commission said Wednesday it will investigate whether Enron Corp. and other firms manipulated California's electricity market last year.<sup>26</sup>

14 February 2002 - Sherron Watkins testified before the Energy & Commerce Committee that she believed Mr. Skilling and Mr. Fastow, along with two very well respected firms, duped Lay and the board. Rep. James Greenwood asked her opinion of former CEO Shilling's testimony the previous week that he lacked knowledge or had not understood the transactions. She choose to quote Shilling himself, "If it doesn't make any sense, don't believe it."<sup>25</sup>

### **Classroom Resources**

C-Span in the Classroom Viewing Guide [www.c-span.org/classroom/enron.asp](http://www.c-span.org/classroom/enron.asp)

O.S.C.A.R. Online Supercenter for Accounting Resources [www.mhhe.com/catalogs/irwin/oscar/enron.mhtml](http://www.mhhe.com/catalogs/irwin/oscar/enron.mhtml)

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