

Marquette University

Mission Week 2007: A Brief History of Enron

What is Enron?

Enron Corporation was an American energy company that was established in 1986, after a merger between InterNorth and Houston Natural Gas, and was based in Houston, Texas. Before its bankruptcy in late 2001, Enron employed around 21,000 people and was one of the world's leading electricity, natural gas, pulp and paper, and communications companies, with claimed revenues of \$111 billion in 2000. *Fortune* named Enron "America's Most Innovative Company" for six consecutive years. It achieved infamy at the end of 2001, when it was revealed that its reported financial condition was sustained mostly by institutionalized, systematic, and creatively planned accounting fraud.



1986

Enron is created and within the first year reports a loss of 14 million.

1996

CFO Andrew Fastow begins committing crimes by creating off-book entities to cover up the increasing debt. (It is believed that this was the beginning of the complex and questionable accounting practices that lead to Enron's demise.)

1997

Andrew Fastow creates “Chewco,” named for the Chewbacca character in *Star Wars*, in an effort to hide debt and inflate profits.



1998

- Enron is named Most Innovative Company by *Fortune Magazine* for 3rd year in a row.
- In March, Lynn Brewer begins her job as an executive in charge of managing the contract briefing group at Enron.
- Enron enters into several capital-intensive ventures that turn into financial disasters.
- Andrew Fastow becomes CFO of Enron

1999

Enron's board of directors waives conflict of interest rules in order to allow Andrew Fastow to run private companies that do business with Enron. He creates "LJM," named for his wife and sons, that buys poorly performing Enron assets. In reality, LJM is used to hide debt and inflate profits for Enron in order to prop up its stock price.



2000

- Enron CEO Ken Lay files fraudulent annual 10-K, a required report by federal securities laws which provides a comprehensive overview of the company's business and financial conditions and includes audited financial statements.
- Jeffrey Skilling signs fraudulent letters to Arthur Andersen, LLP an accounting firm, about financial data.
- Enron CEO Ken Lay begins selling Enron shares.

2001

- At the beginning of the year, Jeffrey Skilling commits securities fraud by omitting bad news and lying to investors through a false presentation.
- In February Enron executives get bonus checks for millions of dollars, when Enron is named “Most Innovative Company in America” for the sixth consecutive year by *Fortune Magazine*.
- Arthur Andersen auditors internally question the LJM partnerships.



2001 Continued

- Jeffrey Skilling takes over as chief executive in February, and Ken Lay remains chairman.
- *Fortune Magazine* publishes article, "Is ENRON Overpriced?" written by Bethany McLean, the first publication to openly question the company's dealings
- Large amounts of Enron shares are sold at a very quick rate beginning in April.
- Citing "personal reasons," Skilling resigns as CEO at the beginning of August after only six months in the position. Lay replaces him, stating "Absolutely no accounting issue, no trading issue, no reserve issue, no previously unknown problem issues" is involved.
- Things start to spiral downward, and other companies that are partnered with Enron start to get suspicious.
- Andrew Fastow is forced to leave Enron at the end of October, when Enron announces a third quarter loss of \$618 million.
- At the beginning of December Enron declares bankruptcy leaving hundreds of jobless in Houston and more in partnerships around the city.



2002

- The U.S. Justice Department confirms reports that it has begun a criminal investigation into Enron's bankruptcy.
- Cliff Baxter, Skilling's chief deal maker and trusted confidant who briefly served as CEO of Enron North America, kills himself in his car when details of what happened start coming out.

2003

- Enron files its bankruptcy reorganization plan.
- *The Smartest Guys in the Room—The Amazing Rise and Scandalous Fall of Enron*, the book written by Bethany McLean and Peter Elkind, is published.



2004

- A judge gives initial approval to Enron's plan for bankruptcy reorganization.
- Andrew Fastow and his wife Lea Fastow, both accept a plea agreement. Andrew Fastow will serve a ten-year prison sentence and forfeit \$23.8 million. Lea Fastow, former Assistant Treasurer for Enron, will serve a five-month prison sentence and a year of supervised release, including five months of house arrest. Both provided testimony against other Enron corporate officers.
- Former Enron CEO Ken Lay is indicted by a United States federal grand jury on unnamed charges.

2005

- Enron trial begins
- Spring-*The Smartest Guys in the Room* documentary film is released illustrating the scandal and based on the book by Bethany McLean and Peter Elkind. It is later nominated for an Academy Award.



2006

- Kenneth Lay is found guilty by a jury on six counts and by a judge on four other counts in a separate bench trial, and Jeffrey Skilling is found guilty of 19 of 28 counts.
- Before sentencing, Kenneth Lay dies of heart attack in Aspen, Colorado at the age of 64.
- Andrew Fastow's ten-year prison sentence is reduced by four years. US District Judge Ken Hoyt said the 44-year-old former Enron chief financial officer had given 'exceptional' assistance to prosecutors, had pledged to help victims and had shown remorse, and his wife had gone to prison for a year.
- All of Lay's convictions are officially vacated because he died before the appeals could be heard.
- Jeffrey Skilling is sentenced to 24 years, 4 months in prison.





Ken Lay was the founder and CEO of Enron and was later chairman. He started the company in 1986 after a merger between InterNorth and Houston Natural Gas which he helped initiate. In 2006 he was tried and found guilty for his company's practices but charges were officially vacated when he died before sentencing.



Jeff Skilling was the president and chief operating officer at Enron and served as CEO from February to August 2001. He was later convicted of federal felony charges relating to Enron's financial collapse, and was sentenced to 24 years and four months in prison.



Andy Fastow came to Enron in 1990 where he was the senior vice president of Enron Capitol Management, before becoming CFO in 1998. He is one of the key figures behind the complex practice of off-balance sheet special purpose entities, limited partnerships which Enron controlled, which were used to conceal massive losses. He is currently serving a reduced prison sentence of six years.





Lynn Brewer is a former Enron executive who began noticing something wrong when she discovered bank fraud in the Bammel Storage Facility deal. She is now an internationally recognized speaker on issues of ethical literacy. She also serves as Chairperson of the International Society of Ethics examiners, an international membership organization open to ethics professionals who share a common vision.



Alex Gibney is the director of the Academy Award nominated documentary, *The Smartest Guys in the Room*, based on the book by Bethany McLean and Peter Elkind. He has written, produced, and directed numerous films.



Bethany Mclean is a *Fortune* senior writer and a former investment banking analyst for Goldman Sachs. Her March 2001 article in *Fortune*, “Is Enron Overpriced?” was the first in a national publication to openly question the company’s dealings. She also co-wrote the book *The Smartest Guys in the Room—The Amazing Rise and Scandalous Fall of Enron*, which was later made into an Academy Award nominated documentary.

