

Enron at a Glance

THE STORY OF ENRON'S DOWNFALL is an example of how a handful of top executives at one company took advantage of a systemic lack of corporate accountability and cheated tens of thousands of workers and investors out of millions of dollars.

Enron's business model, like its top management, was essentially parasitic – instead of producing energy, Enron bought resources from others and then manipulated the prices for resale.

In order to gain favorable deregulation rules to allow for further price manipulation, Enron employees and executives donated heavily to both political parties, eventually gaining extensive access to Vice President Cheney's energy task force. In May 2001, the task force recommended many proposals favorable to Enron.

But as real profits continued to elude the company, top executives created an elaborate accounting maze to hide the problems – more than 3,000 partnerships, including almost 900 in tax-sheltered countries, all ready to absorb losses off Enron's books. These transfers boosted Enron's reported earnings and sent its all-important stock value sky-high.

The company's \$25 million "outside" auditor, Arthur Andersen, signed off on this highly questionable scheme; Andersen was also taking in \$27 million a year in consulting business with Enron.

Enron's demise began when its stock began to fall last year. Many of Enron's deals had been financed in stock, with a promise for huge payouts to investors if Enron's stock fell too low. And by September 2001, the stock had fallen to \$34 a share, investors had to be paid off, and Enron had to restate its earnings accordingly downward by more than \$600 million. That sent the stock price down further, which in turn forced Enron to pay off other similar deals, eventually spiraling the company to its December bankruptcy.

But while many top executives and their friends made millions selling Enron stock before the collapse, ordinary employees, who on average had invested 62 percent of their 401(k) plans in Enron stock, lost a combined \$1.2 billion. Many lost almost all of their retirement savings. During a crucial period between late October and early November when Enron stock lost almost 70 percent of its value, employees were prevented from selling the stock because of a "change in retirement plan administration."

Now a dozen congressional committees are investigating what went wrong with Enron. Some company executives, like former CEO Jeffrey Skilling, have pled ignorance of any wrongdoing. Others, like former chairman Ken Lay, have refused to testify altogether.

"There were failures at many levels and by many people: a flawed idea, self-enrichment by employees, inadequately designed controls, poor implementation, inattentive oversight, simple (and not so simple) accounting mistakes and overreaching in a culture that appears to have encouraged pushing the limits."

— report of Enron's Special Investigation Committee

Taking \$tock



At Enron, the focus was on the stock price. Employees were encouraged to load up their portfolios with company stock, and many did. But while top executives were enriching themselves by selling their overvalued company stock, they assured employees that the same stock was still a "great bargain." Between October 19 and November 13, employees were prevented from selling their stock due to a "change in retirement plan administration." During this period, Enron announced that the SEC had opened an inquiry and that the company had overstated profits by \$586 million over five years. The stock, once valued at almost \$90 a share, plunged from \$26.05 a share to \$9.98 a share while employees were forced to hold their stock.

\$1.2 billion: Amount 20,000 Enron employees lost in their 401(k) plans as company stock fell from almost \$90 to pennies a share.

\$1.1 billion: Amount a handful of executives made in sales of Enron stock prior to the company's demise.

\$30 million: Former CEO Jeffrey Skilling's profit from Enron stock sales in 2001.

\$30 million: Former CFO Andrew Fastow's profit from the partnerships he created.

\$475,042: Former chairman Ken Lay's annual estimated pension, not including \$12 million in pre-paid life insurance. Lay sold \$25.3 million worth of Enron stock in 2001.

No Accounting for cent\$



Enron utilized a confusing accounting system to shuffle its debt into thousands of partnerships, creating an illusion of profitability. This scheme was approved by its auditor, Arthur Andersen. Unfortunately, investigators will have a difficult time unraveling these partnerships, as many key documents have already been shredded by Enron and Andersen. Enron also took advantage of corporate welfare in any way it could, bilking taxpaying citizens out of millions of dollars.

\$586 million: Amount by which Enron overstated its earnings over five years.

3,000: Approximate number of partnerships used to shelter Enron's debt.

\$25 million: Andersen's compensation as Enron's auditor in 2001.

\$27 million: Andersen's compensation as Enron's consultant in 2001.

\$1 billion: Minimum estimate of debt accumulated by Enron since 1997.

\$625 million: Value of tax deductions Enron received from stock options between 1996 and 2000.

4: Number of the last five years during which Enron paid no income tax.

Influence for \$ale



\$5.95 million: Donations Enron and its employees made to federal candidates since 1989, 74% to Republicans, 26% to Democrats.

\$5 million: Donations Andersen and its employees made to federal candidates since 1989.

\$623,000: Amount Enron's employees donated to George W. Bush's 2000 campaign, making Enron Bush's largest single funding source.

5th: Andersen's rank on Bush's list of corporate campaign donors.

71 and 187: Number of current senators and house members, respectively, who have received Enron money.

As a result of their generosity, **Enron** officials got plenty of access to the White House, including the opportunity to advise privately Vice President Cheney on the nation's energy policy. **Andersen**, meanwhile, should be happy with the appointment of Harvey L. Pitt as chairman of the Securities and Exchange Commission. Pitt was once Andersen's lawyer.

Timeline:

<p>1985: Enron is created from a merger between Houston Gas and InterNorth.</p>	<p>April 14, 2001: Enron is ranked 7th in the Fortune 500 with \$100.8 billion in annual revenue.</p>	<p>Aug. 14 2001: CEO Jeffery Skilling resigns, citing personal reasons. Ken Lay takes his place.</p>	<p>Oct. 16 2001: Enron reports a \$618 million 3rd quarter loss and \$1.2 billion loss in shareholder equity.</p>	<p>Nov. 8, 2001: One week after the SEC begins a formal investigation, Enron reveals \$586 million in losses over 5 years.</p>	<p>Dec. 2, 2001: Enron files for the largest bankruptcy in U.S. history, firing 4,000 employees. Its stock becomes virtually worthless.</p>
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