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Part 1. Context (20 points)

Most trace the origins of Enron to the merger of InterNorth and Houston Natural Gas in 1985. Ken Lay vision for the future of Enron relied on rapid, global deregulation of natural gas and energy sector. Because of the slow pace of deregulation and the volatility in the price of natural gas, the combined company was barely making ends meet. In June of 1990, Jeff Skilling began as a consultant for Enron, during that time; Enron began a market for buying and selling natural gas as commodity. He eventually joined the company's board on the condition Enron adopt 'mark-to-market' accounting. By June of 1991, the Securities and Exchange Commission had approved 'mark-to-market' accounting; this type of accounting was extremely subjective and allowed the company to book all future profits from a deal as soon as an agreement was signed. In 1996, Skilling took over as COO, Enron soon began signing deals to build new energy plants and provide natural gas globally, created a Broadband and Energy Services division. These ventures, while impressing Wall Street, lost millions of dollars for Enron. The company was able to hide debt using Special Purpose Entities, moving Enron debt off their balance sheets. These hide debt while propping the losses against the company's stock price. As Enron's losses mounted, it became more and more difficult to maintain the illusion of financial success.

In early 2001 Fortune Magazine report Bethany McLean, was one of the first to ask questions about how exactly Enron made its money. Soon investors asking this same question and became increasingly critical of the company's balance sheet. This caused the stock price to begin sliding downward, this fall triggered payback provisions in SPE deals. Enron's financial unwinding, , lead to credit downgrade by rating agencies as well restatement of past financial statements (showing massive losses). This triggered the repayment of more debt obligations by Enron's creditors. By August of 2001, Enron began to lay off employees in its EES division, shortly after Skilling sold massive quantities of his Enron stock and abruptly resigns. A combination of these factors, and an investigation by the Securities & Exchange commission pushed the stock price to under one-dollar by November of 2001 and into Chapter 11 Bankruptcy by December. Fastow, Skilling and Lay as well as other top Enron Executives were indicted on multiple counts of fraud facing various prison sentences. At the time, Enron was the largest and most expensive corporate bankruptcy in history.

Key People

- **Ken Lay**: Chairmen of the Board, CEO, Founder of Enron
- **Jeffrey Skilling:** CEO, Considered father of the final iteration of Enron
- **Andy Fastow:** CFO of Enron, created Special Purpose Entities storing Enron's debt off their balance sheet
- **Sharron Watkin:** Whistle blower, first to report wide spread accounting profits
- **Lou Pai:** CEO of Enron Energy Service, one of the greatest loss marker at Enron, slow most shares in Enron and left with most about of money.
- **Rich Kinder:** Fmr COO, pasted over for promotion to CEO.
- **Amanda Martin:** Former lawyer at Vinson and Elkins, Executive at Enron
- **Rebecca Mark:** CEO of Enron International, later (Enron's failed attempt to enter Water industry) Azurix Inc.
- **Vince Kaminski:** employee in risk management division, openly opposed and strongly cautioned against Enron's practices.
- **Bethany Mclean:** Reporter for Fortune Magazine who was among the first to raise questions about Enron's financial statements
- **Tim Belden:** Energy trader on Enron's West Coast trading desk, first devised strategies to take advantage of California's Deregulated Energy Market.
- **Ken Rice:** "Companies Chief Deal Maker," committed suicide during the collapse of Enron

Citations

- *Smartest Guys in the Room,* Gibney, Alex, Documentary Film, (2005)
- *Smartest Guys in the Room,* McLean, Bethany, Print, (2004)
- PBS Independent Lens: Enron Timeline, (http://www.pbs.org/independentlens/enron/timeline.html)