Adverse Media Monitoring Report

2023-01-18

Enron

True Positive

Overview

Search parameters

Name	Type	Year of birth	Location
Enron	**Company**	—	**—, United States**

High-risk countries

—

Keywords

ACCUSE · ARREST · BRIBE · CONVICT · CORRUPT · COUNTERFEIT · CRIME · EMBEZZLEMENT · FRAUD · GUILT · ILLEGAL · INDICTMENT · INVESTIGATION · KICKBACK · MONEY LAUNDERING · NARCOTIC · PENALTY · SANCTION · SENTENCED · EVASION · TERRORIST · THEFT · TRAFFICKING · VIOLATION · ACUSAR · ARRESTAR · SOBORNO · CORRUPTO · CRIMEN · FRAUDE · CULPA · ILEGAL · CONTRAGOLPE · LAVADO DE DINERO · MULTA · SENTENCIADO · TERRORISTA · ROBO · FALSIFICACIÓN · MALVERSACIÓN · ACUSACIÓN · INVESTIGACIÓN · NARCÓTICO · SANCIÓN' · EVASIÓN · TRÁFICO · VIOLACIÓN

Article Language(s)

Any

Source

Google API

Business process

https://demo-qa.workfusion.com/workfusion/secure/business-process/edit/70d855d4-4e06-4b0e-9ad0-96b1a9f1856d

Batch ID

70d855d4-4e06-4b0e-9ad0-96b1a9f1856d

Transaction ID

9b904172-29ec-4b7c-abf9-4c7cc4a563b4

Overview of search results

High-risk countries found in the search results

—

Keywords found in the search results

fraud — 156 · investigation — 86 · sentence — 58 · conspiracy — 58 · guilty — 58 · criminal — 57 · bankruptcy — 56 · prison — 55 · indictment — 44 · trial — 40 · collapse — 40 · debt — 37 · alleges — 28 · attorney — 27 · problems — 25 · insider trading — 23 · scandal — 22 · convicted — 22 · illegal — 21 · disclosure — 20 · crimes — 20 · laws — 18 · sentencing — 18 · convictions — 17 · verdict — 16 · investigate — 16 · allegations — 15 · scandals — 14 · alleged — 14 · conviction — 14 · violation — 14 · securities fraud — 13 · police — 13 · disclosures — 13 · resigned — 12 · defendants — 12 · fine — 12 · defendant — 12 · defraud — 11 · investigations — 11 · corruption — 10 · penalties — 10 · fraudulent — 10 · imprisonment — 10 · indicted — 10 · litigation — 10 · investigators — 9 · manipulation — 9 · violations — 9 · wire fraud — 9 · attorneys — 8 · arrested — 8 · penalty — 8 · abuse — 7 · resignation — 7 · crime — 7 · problem — 6 · money laundering — 6 · collapsed — 6 · sentences — 6 · sentenced — 6 violating — 6 liquidity — 6 manipulating — 5 extremely — 4 manipulate — 4 investigated — 4 violated — 4 misconduct — 4 abuses — 4 bubble — 4 violate — 4 resigns — 4 fraudulently — 4 fake — 4 plaintiffs — 4 author — 4 sued — 4 grand jury — 4 incarceration — 4 killed — 4 bank fraud — 4 disqualified — 2 improperly — 2 accusation — 2 authorized — 2 unlawfully — 2 manipulated — 2 felony — 2 offenses — 2 investigating — 2 investigative — 2 authorities — 2 prohibited — 2 fines — 2 wrongdoing — 2 criminals — 2 inmates — 2 probes — 2 convict — 2 lawsuits — 2 preceding — 2 imposed — 2 defending — 2 imposes — 2 owes — 2 authority — 2 resigning — 2 sanctions — 2 deceive — 2 kickbacks — 2 deceptive — 2 unlawful — 2 death — 2 lawsuit — 2 prisoner — 2 inmate — 2 indictments — 2 impose — 2 imposing — 2 corrupt — 2 abusive — 2 debts — 2 fraudsters — 2 bankrupt — 2 convicts — 1 co conspirators — 1

Reviewers

Thompson Anna Thompson, Auto

Reviewer Comment

n/a

Summary - 20

[Enron turned obscure businesspeople into household names. Here's where they are now]

2021-12-02 · Needs Investigation (Score 1.00) · Auto cnbc.com

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

Enron turned obscure businesspeople into household names. Here's where they are now

... He too declined to be interviewed, but he provided a statement on the 20-year anniversary of Enron's bankruptcy ...

... Another former Enron executive who has parlayed her experience into a speaking and consulting career said that from what she has seen, Fastow still doesn't get i ...

[Former Enron Chief Financial Officer Andrew Fastow Pleads Guilty to Conspiracy to Commit Securities and Wire Fraud, Agrees to Cooperate with Enron Investigation Former Assistant Treasurer Lea Fastow Agrees to Plead Guilty]

Needs Investigation (Score 1.00) · Auto archives.fbi.gov

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

Former Enron Chief Financial Officer Andrew Fastow Pleads Guilty to Conspiracy to Commit Securities and Wire Fraud, Agrees to Cooperate with Enron

[The Enron Trial: The Indictment]

Needs Investigation (Score 0.94) · Auto famous-trials.com

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

The Enron Trial: The Indictment

... These and other schemes alleged in the indictment quickly unraveled, and on Dec. 2, 2001, Enron filed for bankruptcy, making its stock, which less than a year earlier had been trading at over $80 per share, virtually worthless ...

... Thirty-one defendants have been charged to date, including 21 former Enron executives. Eleven defendants have been convicted to date, including former CFO Andrew Fastow and former Treasurer Ben Glisan. To date, the Enron Task Force has restrained more than $161 million in proceeds derived from criminal activity ...

[Former Enron CEO Jeffrey Skilling Resentenced to 168 Months for Fraud, Conspiracy Charges]

2013-06-21 · Needs Investigation (Score 0.89) · Auto justice.gov

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

Former Enron CEO Jeffrey Skilling Resentenced to 168 Months for Fraud, Conspiracy Charges

... Former Enron Chief Executive Officer Jeffrey K. Skilling has been resentenced to 168 months in prison on conspiracy, securities fraud, and other charges related t the collapse of Enron Corporation ...

... The fraud scheme eventually unraveled and Enron filed for bankruptcy in December 2001, making its stock virtually worthless ...

[Former Enron CEO Skilling's sentence cut to 14 years]

2013-06-21 · Needs Investigation (Score 0.88) · Auto reuters.com

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

Former Enron CEO Skilling's sentence cut to 14 years

... Under the deal, more than $40 million of Skilling's fortune, which has been frozen since his conviction in 2006, will be distributed to victims of Enron's collapse ...

... A graduate of Southern Methodist University and Harvard Business School, Skilling had been a star McKinsey & Co consultant when he caught Lay's eye in 1990 and joined Enron ...

[Enron Chiefs Guilty of Fraud and Conspiracy (Published 2006)]

2006-05-25 · Needs Investigation (Score 0.81) · Auto nytimes.com

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

Enron Chiefs Guilty of Fraud and Conspiracy (Published 2006)

... Mr. Lay, the company's founder, was the public face of Enron. Known for his close ties to President Bush's family, he built Enron into a symbol of civic pride and envy here in its hometown of Houston and throughout the financial world ...

... The "lies and choices" theme transformed the case into a test of credibility between the former chief executives and the more than half a dozen witnesses from inside Enron who testified for the government ...

[Enron Scandal: The Fall of a Wall Street Darling]

Needs Investigation (Score 0.77) · Auto investopedia.com

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

Enron Scandal: The Fall of a Wall Street Darling

... The amount that shareholders lost in the four years leading up to Enron's bankruptcy ...

... Enron no longer exists. It sold its last business, Prisma Energy, in 2006 ...

[Timeline: Enron]

2006-01-30 · Needs Investigation (Score 0.75) · Auto theguardian.com

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

Timeline: Enron

... **1989** Enron begins trading natural gas ...

... **1990** Jeff Skilling joins Enron ...

[Retired FBI Agent In Charge Of Enron Investigation Keeps The Case Alive]

2018-05-02 · Needs Investigation (Score 0.73) · Auto houstonpublicmedia.org

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

Retired FBI Agent In Charge Of Enron Investigation Keeps The Case Alive

... Remember Enron ? ...

... Could there be another case like Enron today? ...

A Look Back at the Enron Case

Needs Investigation (Score 0.67) · Auto fbi.gov

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

A Look Back at the Enron Case

... Investigators emerged from a 2002 search of Enron headquarters in Houston with more than 500 boxes of evidence. ...

... SSA Anderson said it was the thousands of victims, hard-working employees who lost their pensions, and the desire to hold accountable those responsible for the failure of Enron, that motivated agents, analysts, and others on the Enron Task Force to press ahead on the massive case. ...

U.S. Department of Labor Announces Settlement With Former Enron Executive Jeffrey Skilling

Needs Investigation (Score 0.66) · Auto dol.gov

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

U.S. Department of Labor Announces Settlement With Former Enron Executive Jeffrey Skilling

... **Washington** - The U.S. Department of Labor today announced a settlement agreement with former Enron executive Jeffrey K. Skilling resolving the department's action against him. Under the agreement, Skilling will drop his opposition to a previous $85 million settlement, waive his right to benefits from Enron's pension plans and be permanently barred from serving in a fiduciary capacity to any employee benefit plan governed by the Employee Retirement Income Security Act (ERISA) in the future ...

... On June 26, 2003, the Labor Department sued Skilling and others for mismanagement of the plans in violation of ERISA. The department alleged that Skilling failed to properly oversee the fiduciaries appointed to run Enron's plans and failed to correct misstatements about Enron's financial condition made by Kenneth Lay to plan participants ...

U.S. Department of Justice Case Highlights

Needs Investigation (Score 0.65) · Auto justice.gov

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

U.S. Department of Justice Case Highlights

... Former Enron Chief Accounting Officer Richard Causey Pleads Guilty to Securities Fraud (12-28-05) ...

... Former Enron Chairman and Chief Executive Officer Kenneth L. Lay Charged with Conspiracy, Fraud, False Statement (7-7-04) ...

SEC Charges Kenneth L. Lay, Enron's Former Chairman and Chief Executive Officer, with Fraud and Insider Trading

Needs Investigation (Score 0.63) · Auto sec.gov

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

SEC Charges Kenneth L. Lay, Enron's Former Chairman and Chief Executive Officer, with Fraud and Insider Trading

... "From the very beginning, our mandate has been to hold accountable those who contributed to the false portrayal of Enron as a viable, thriving entity. As Enron's Chairman and Chief Executive Officer, Mr. Lay was an engaged participant in the on-going fraud, and must therefore be called to account for his actions," said SEC Enforcement Division Director Stephen M. Cutler ...

... The Commission acknowledges the assistance of the Enron Task Force ...

[The Rise and Fall of Enron](journalofaccountancy.com)

2002-04-01 · Needs Investigation (Score 0.61) · Auto journalofaccountancy.com

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

The Rise and Fall of Enron

... In February 2001 Lay announced his retirement and named Skilling president and CEO of Enron. In February Skilling held the company's annual conference with analysts, bragging that the stock (then valued around $80) should be trading at around $126 per share. ...

... Kenneth Lay resigned as Enron's CEO, under pressure from creditor groups. Lay, Skilling and Fastow still have much to explain. In addition, Enron's board of directors, and especially the audit committee, will be in the "hot seat" and rightfully so. ...

Enron: History of Human Rights Abuse in India

2002-01-24 · Needs Investigation (Score 0.60) · Auto hrw.org

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

Enron: History of Human Rights Abuse in India

... In 1999, Human Rights Watch charged in a 166-page report, " The Enron Corporation: Corporate Complicity in Human Rights Violations ," that Enron subsidiaries paid local law enforcement to suppress opposition to its power plant south of Bombay ...

... The World Bank repeatedly refused to finance the project because it was "not economically viable," but the U.S. government extended between $290 million and $300 million in loan guarantees to Enron for its investment in Dabhol ...

CFTC Press Release 4762-03

Needs Investigation (Score 0.59) · Auto cftc.gov

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

CFTC Press Release 4762-03

... **CFTC CHARGES ENRON WITH PRICE MANIPULATION AND OTHER ILLEGAL ACTS** ...

... **Enron and Former Enron Vice President Charged With Manipulating Prices in Natural Gas Market; Enron Charged Further With Operating an Illegal, Undesignated Futures Exchange and Offering Illegal Lumber Futures Contracts Through Its Internet Trading Platform** ...

SEC Settles Enforcement Proceedings against J.P. Morgan Chase and Citigroup

Needs Investigation (Score 0.55) · Auto sec.gov

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

SEC Settles Enforcement Proceedings against J.P. Morgan Chase and Citigroup

...

Citigroup Agrees to Pay $120 Million to Settle SEC Allegations that It Helped Enron and Dynegy Commit Fraud

...

... The Commission's investigations relating to Enron and Dynegy are continuing ...

Information Released in Enron Investigation

Needs Investigation (Score 0.53) · Auto ferc.gov

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

Information Released in Enron Investigation

... Enron Email (Enron Email, Enron Email Re-released (additional email data)), Enron Email PST, Enron Email PST Re-released (additional PST email data) - Database consisting of 92% of Enron's staff emails ...

... Data sets or Enron online databases may be ordered directly from FERC'S Public Reference Room on a hard drive ...

[How the Enron Scandal Changed American Business Forever]

Needs Investigation (Score 0.49) · Auto time.com

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

How the Enron Scandal Changed American Business Forever

... While lack of trust in the market is a direct consequence of Enron's mega fraud, the indirect consequences of government actions also seem to have hurt Main Street USA ...

... "Now smaller investors are shut out and all the big economic profits go to venture capitalists and the like," Wright says. That, in many ways, is the legacy of Enron .

[Enron Scandal Executives, 20 Years Later: Where Are They Now ...]

True Positive · Thompson Anna Thompson bloomberg.com

Conspiracy, insider trading and securities fraud charges

Enron Scandal Executives, 20 Years Later: Where Are They Now ...

Dec 2, 2021 ... He was convicted by a Houston jury in 2006 of conspiracy, securities fraud, making false statements to auditors and insider trading. His prison ...

Report Explanation

Case Status: the recommendation based on the analyst''s findings. Possible values are Further investigation needed, True positive or False Positive. This is listed under the entity name.

High-Risk Countries: shows flagged countries which were found within the article(s). Note that additional countries that were not found within the articles may have been used in the screening.

Keywords: shows keywords found within the article(s) that are commonly associated with a True Positive alert. Note that additional keywords that were not found within the article(s) may have been used in the screening.

Article Title: the name of the article returned by the search parameters. Clicking the name of the article title in the Summary section will navigate you to the full text of the article in the article details section.

Article Status: a risk-based category assigned to an article. Possible values are "Needs Investigation", "False Positive", "True Positive". Articles that were not dispositioned as "False Positive" by the model are automatically assigned "Needs Investigation" unless a human team member changes the status during the review process.

Score: a model-based assessment that determines the relevance of the entity and a risky activity and/or crime. It is given on a 0.00 to 1.00 scale, with 1.00 being the most relevant.

Reviewer: the name and ID of the final analyst who reviewed the article and updated its status and/or comment. Possible values are the name and ID of analysts at your organization or "Auto" if it was processed automatically by the digital worker Evelyn. It is possible for different articles to be reviewed by different analysts within the same case.

Comment: articles are first analyzed by the machine learning model. If the model dispositioned the article as False Positive, you''ll see the reasoning listed here. You''ll also find comments made by analysts during their manual review in this section.

Enron turned obscure businesspeople into household names. Here's where they are now

2021-12-02 · Needs Investigation (Score 1.00) · Auto cnbc.com

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

trial · fraud · prison · investigation · attorney · conspiracy · guilty · sentence · bankruptcy · defendants · verdict · convicted · arrested · convictions · corruption · crime · criminal · defendant · felony · fine · illegal · indicted · investigate · investigated · investigators · problems · sentenced · sentences · sentencing

Enron turned obscure businesspeople into household names. Here's where they are now

The sudden collapse of Enron, culminating in what was then the largest bankruptcy filing in U.S. history on Dec. 2, 2001, changed thousands of lives, damaged investor confidence to the core and made household names out of previously obscure businesspeople.

Many were dragged in front of congressional committees and berated in seemingly endless hearings. Some were later indicted, arrested and paraded in front of cameras in handcuffs as part of a national catharsis. Twenty years later, the last of the Enron defendants have completed their prison sentences, paid their restitution and have sought to move on with their lives.

Even now, few of the dozen or so people we spoke to for this article were willing to speak publicly about their time at Enron. Several said they saw "no upside" in re-associating themselves with the company, preferring instead to keep a low profile. More than one said that even two decades later, recounting the experience is deeply emotional. One former executive said he would need time to "decompress" after an hour-and-20-minute phone conversation about Enron — most conversations with Enron alumni are long.

All the former company leaders CNBC spoke with still recall their time at Enron fondly, as do many of the thousands of employees who may still blame them for the collapse of what all seem to agree was a special place to work.

Former Enron chairman Kenneth Lay (C) leaves the Bob Casey U.S. Courthouse after the day's proceedings in his fraud and conspiracy trial, April 26, 2006, in Houston, Texas.

Enron's founder and chairman, Kenneth Lay, did not survive the scandal. Not long before Enron's collapse, he was riding high — a local hero in Houston who had been rumored to be in line for a post in the new George W. Bush administration. Lay had deep ties to the Bush family, nicknamed by the second President Bush as "Kenny Boy."

Convicted on 10 felony counts in 2006 — a verdict that he said at the time left him "shocked" — Lay died of a heart attack six weeks later while awaiting sentencing. Because he never had the chance to appeal the verdict, his convictions were vacated by the court.

Lay's daughter Elizabeth, an attorney who worked on his defense team, and son Mark, a former Enron vice president who still works in the energy industry, recalled what they said were multiple firsts at Enron under their father's leadership, in areas including renewable energy, environmental stewardship, and support for minorities and disadvantaged people.

"The model was simple, hire the smartest people you could find, give them capital and manage the back office for them so they could build new markets," they said in a statement to CNBC.

Former Enron CEO Jeffrey Skilling testifies before the Senate Committee on Commerce, Science and Transportation February 26, 2002 on Capitol Hill in Washington DC.

Former CEO Jeffrey Skilling, the one-time McKinsey consultant who developed Enron's "asset-light" business model focusing on market-making businesses like natural gas trading instead of traditional pipelines, completed a 12-year prison term in 2019 . His sudden resignation after just six months as CEO in 2001 triggered some of the first suspicions about problems at Enron.

Skilling, who declined to comment for this story, served the longest sentence of any Enron defendant, convicted alongside Lay on 19 counts including fraud, conspira and insider trading. He has consistently maintained his innocence, but he dropped his remaining appeals in 2013 as part of an agreement with the Justice Departmen that led to his early release from prison.

He was originally sentenced to 24 years, but a federal appeals court ruled the sentence was excessive and sent the case back to the trial judge for resentencing. In 2013, Skilling and the DOJ agreed to jointly recommend a 14-year sentence in exchange for Skilling dropping his remaining appeals. With good behavior, that meant Skilling was released after approximately 12 years.

Today, Skilling is back in Houston, where he is working on a start-up firm in the energy industry, Veld Applied Analytics. According to its website , the company is developing "sophisticated analytical tools to establish and monitor valuation" of oil and natural gas assets.

Richard Causey, the former chief accounting officer who was slated to go on trial alongside Skilling and Lay but agreed to plead guilty just weeks before the trial began, served nearly five years in prison and was released in 2011. Today, he too is back in Houston, where he operates a niche financial consulting business. Causey also declined to comment.

> Ethics needs to be taught like a skill that's like accounting, where you're really going through all the different dilemmas that might cross your desk.

One of the few former Enron executives willing to discuss their experiences is Andy Fastow, former chief financial officer. Fastow, who created some of Enron's most notorious off-balance-sheet transactions and made millions in the process, eventually pleaded guilty to two fraud counts. He was a star prosecution witness against Skilling and Lay, and served five years in prison.

He too declined to be interviewed, but he provided a statement on the 20-year anniversary of Enron's bankruptcy.

"I believe that what I did was wrong, was unethical, and was illegal. I take full responsibility for my actions. I am ashamed and embarrassed every day of my life. To those who were hurt by my actions, directly or indirectly, I apologize. I don't expect you to accept my apology, but you deserve to hear it," he wrote.

Former Enron chief financial officer Andy Fastow is escorted from the Bob Casey Federal Courthouse in Houston, Texas by U. S. Marshals after his fourth day of testimony for the government in the fraud and conspiracy trial against Jeff Skilling and Ken Lay Monday, March 13, 2006.

Since his release from prison in 2011, Fastow has worked the lecture circuit, and has also given unpaid talks to business groups, fraud investigators and college classes. Often, he displays his Federal Bureau of Prisons identification card in one hand and a "CFO of the Year" trophy he once won in the other. His message: ever though companies and executives may believe they are following the rules, they could still be breaking the law like he did. Fastow says misleading deals like the ones he did at Enron are still common in business, and still celebrated.

"You can follow all the rules, and yet still be committing fraud. That should make everyone very uncomfortable," Fastow said in an excerpt from one of his speeches posted online by the BigSpeak Speakers Bureau , where the going rate for a Fastow speech is listed at $10,001-$20,000.

Enron's Vice President of corporate development Sherron Watkins (L) watches as former President and CEO of Enron Corporation Jeffrey Skilling (R) testifies before the Senate Committee on Commerce Science and Transportation February 26, 2002 in Washington, DC.

Another former Enron executive who has parlayed her experience into a speaking and consulting career said that from what she has seen, Fastow still doesn't get it.

"The CFO of the Year award is the same information as investors and employees, while the Department of Justice has subpoena power and could get to the root of the transaction, so that's a misrepresentation," said former Enron Vice President Sherron Watkins in an interview. "I am conflicted about his message because he is talking about principles over specific rules. It gives a good message, but he acts like he was a victim of the ambiguity and the accounting rules when in fact he looks for the ambiguity in the rules to force a result that he wants."

Watkins, who at one time reported to Fastow, brought her concerns about Enron's accounting to Lay soon after Skilling's resignation. When her memo to Lay became public during the congressional investigation, she gained fame as the "Enron whistleblower."

After testifying before Congress and in the trial of Skilling and Lay in 2006, Watkins became a speaker and a corporate consultant, although she said the consulting work never really took off.

"I think companies are fine hearing my story, one-way communication. I've never been hired for two-way communication," she said. "For whatever reason, I make them uncomfortable."

Today, she still gives speeches, and she teaches, serving as executive in residence at Texas State University .

"Ethics needs to be taught like a skill that's like accounting, where you're really going through all the different dilemmas that might cross your desk," she said.

While Watkins is typically billed as a whistleblower, she never took her concerns outside the company. She said that is because there was not much of a mechanism for employees to do so in 2001. She takes pride in the fact that there are now protections for corporate whistleblowers, including the Securities and Exchange Commission's robust Office of the Whistleblower created following the 2008 financial crisis.

"They've already given out over a billion dollars of rewards in the 10 years it's been operating," she said.

U.S. Assistant Attorney and Enron Lead Prosecutor Leslie R. Caldwell speaks with the media October 16, 2002 in Houston, Texas.

While the most prominent Enron executives have kept a low profile over the past 20 years, some members of the government team that investigated the collapse saw their own careers skyrocket.

Soon after Enron's collapse, amid public outrage, and a determination that the U.S. attorney's office in Houston had too many Enron-related conflicts of interest (as di then-Attorney General John Ashcroft, who recused himself from the investigation), the George W. Bush administration formed an Enron Task Force to investigate the company.

The first director of the task force was Leslie Caldwell, who had cut her teeth prosecuting organized crime in Brooklyn, New York, and brought many of the same tactics to the Enron investigation.

Caldwell, who obtained the indictments of Fastow and Skilling, and secured the pivotal guilty plea from Fastow, would go on to head the Justice Department's crimina division in the Obama administration. Today, she heads the white-collar defense practice as a partner at Latham & Watkins in San Francisco.

In an interview, Caldwell said she is proud of the task force's work, which she said has helped make a lasting impact on corporate accountability.

"It led to a change in culture at a lot of companies around the country. Compliance, which used to be kind of a back-office function that nobody really paid attention to, became huge," she said. "I also think it's sent a very strong message about corruption in leadership ranks and how that's really something to be avoided at all costs."

Her successor as Enron Task Force director, Andrew Weissmann, would go on to become a top prosecutor in former FBI Director Robert Mueller's investigation of Russian interference in the 2016 election. Today, he is on the faculty at New York University, and is a legal analyst for NBC News.

Weissmann was followed as director by Sean Berkowitz, who was the lead prosecutor in the Skilling and Lay trial. Now the global chair of the complex commercial litigation practice at Latham & Watkins in Chicago, he has represented high-profile white-collar defendants including "Full House" actress Lori Loughlin in the Operation Varsity Blues college admission scandal.

A deputy director of the task force, Kathryn Ruemmler, would go on to become White House counsel in the Obama administration. Today, she is general counsel at Goldman Sachs .

Disclosure: Comcast is the parent company of both NBC News and CNBC.

Former Enron Chief Financial Officer Andrew Fastow Pleads Guilty to Conspiracy to Commit Securities and Wire Fraud, Agrees to Cooperate with Enron Investigation Former Assistant Treasurer Lea Fastow Agrees to Plead Guilty

Needs Investigation (Score 1.00) · Auto archives.fbi.gov

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

investigation criminal guilty prison sentence fraud collapse conspiracy sentencing attorney fraudulent wire fraud allegations bankruptcy convicted corruption criminals defendant fraudulently impose imprisonment incarceration indictment investigate manipulate penalty prohibited violated violation

Former Enron Chief Financial Officer Andrew Fastow Pleads Guilty to Conspiracy to Commit Securities and Wire Fraud, Agrees to Cooperate with Enron Investigation Former Assistant Treasurer Lea Fastow Agrees to Plead Guilty

Deputy Attorney General James B. Comey, Assistant Attorney General Christopher A. Wray of the Criminal Division, Enron Task Force Director Leslie R. Caldwell, and FBI Director Robert Mueller announced today that Andrew S. Fastow, the former chief financial officer (CFO) of Enron Corporation, has pleaded guilty to two counts of conspiracy to commit securities and wire fraud and is cooperating with an ongoing criminal investigation into Enron's collapse. Fastow, the highest-level defendant to be charged to date in the Enron investigation, entered his plea today before Judge Kenneth Hoyt at U.S. District Court in Houston, Texas. Under the terms of a plea agreement, Fastow will cooperate fully with the government's investigation, serve a 10-year prison sentence on the two counts to which he's pleading guilty, and forfeit more than $29 million. The remaining 96 criminal charges against Fastow from a May 2003 indictment are pending, and will be dismissed if the government determines that Fastow has cooperated fully and truthfully. In addition, former Enron Assistant Treasurer Lea W. Fastow, Andrew Fastow's wife, has agreed to plead guilty to filing a false joint tax return for 2000, in which she failed to report income from a partnership related to Enron. She is expected to enter the guilty plea before Judge David Hittner at federal court in Houston later today. "As one of the masterminds behind a massive fraud scheme, Andrew Fastow constructed an elaborate wall of deceit—shielding the reality of Enron's failing business from the watchful eye of shareholders and the investing public," said Deputy Attorney General James B. Comey, the head of President Bush's Corporate Fraud Task Force. "Today's plea tears that wall down. Using Mr. Fastow's cooperation, w will continue to tear the wall down by prosecuting each person to which the evidence and the law leads us." "The Andrew Fastow plea and cooperation agreement opens wide a window into the fraudulent practices of Enron's senior management," stated Assistant Attorney General Christopher A. Wray. "Fastow's prison sentence demonstrates once again that we will uncover fraudulent conduct by corporate officials, and the consequences will be serious." FBI Director Robert Mueller said, "Today's plea agreements are a significant milestone in an intensive two-year investigation. The FBI and our partners on the Enron Task Force will continue our effort to uncover the full extent of criminal conduct that contributed to Enron's collapse. Corporate criminals should be on notice that no matter how complex or intricate thei schemes, they are going to be held accountable for their actions."

"The forfeiture of more than $29 million in personal assets by the Fastows, a sum only a few Americans will earn in their lifetime, speaks to the magnitude of their criminal activities," stated Internal Revenue Service Commissioner Mark W. Everson. "Our investigation substantiated that the Fastows filed multiple false tax returns, and, through her plea agreement announced today, Mrs. Fastow, an MBA and former assistant treasurer at Enron, acknowledges the Fastows' willful criminal conduct." **Andrew Fastow Pleads Guilty; Agrees to Serve 10 Years in Prison** Fastow pleaded guilty to two counts of conspiracy, in violation of 18 U.S.C. § 371. The charges carry a maximum statutory sentence of 10 years in prison, followed by three years of supervised release. As part of his plea agreement, Fastow agreed to serve 10 years in prison and to cooperate fully with the government's ongoing criminal investigation of the collapse of the Enron Corporation. As part of the plea agreement, Fastow admitted that he and other members of Enron's senior management conspired in wide-ranging schemes to fraudulently manipulate Enron's publicly reported financial results. Fastow also admitted participating in schemes to enrich himself at the expense of the company and its shareholders. Specifically, Fastow admitted that he conspired with senior management to cause Enron to enter into improper transactions with the LJM entities, which were under Fastow's control. And he admitted to engaging in self-dealing transactions to enrich himself and others in connection with the so-called Southampton transaction which involvec the $30 million buyout by Enron of an entity called LJM Swap Sub, LP, which Fastow controlled. In engaging in these transactions, Mr. Fastow admitted that he violat his duty of loyalty and honest services to Enron's shareholders. Fastow's sentencing is scheduled for April 19, 2004. **Lea Fastow to Plead Guilty; Agrees to Serve Five Months in Prison** Lea W. Fastow is scheduled to enter her guilty plea today before Judge David Hittner of the U.S. District Court in the Southern District of Texas. Under the applicable U.S. Sentencing Guidelines, Fastow faces an estimated range of imprisonment of 10 to 16 months. The parties have agreed to recommend to the court a sentence at the low end of this range, which would allow the court to impose a "split" sentence of five months incarceration and five months of home confinement as a condition of supervised release. As part of her plea agreement, Fastow admitted that from December 1997 through 2000, she failed to report as income a total of $204,444.34 in proceeds that her family received from an Enron "special purpose entity" known as RADR. Fastow admitted that she knew that this money was derived from RADR and that her husband had been prohibited from investing in RADR. To hide the fact that it was taxable income, the money was disguised as "gifts" to the Fastow family, through checks made payable to Fastow, her husband Andrew and their children. To avoid triggering the law's requirement that gifts in excess of $10,000 to another person be reported to the Internal Revenue Service, most of these checks were made payable in amounts of $10,000 or less and in the names of different members of the Fastow family. Although she knew that the payments represented income that should have been reported on their joint federal income tax returns, Fastow concealed the income from the Fastows' accountant and intentionally failed to report the income on their join federal income tax returns for the years 1997 through 2000. Fastow admitted that she signed these income tax returns under penalty of perjury and caused them to b filed with the Internal Revenue Service. Fastow faces sentencing at a date to be determined. Enron, at one time the seventh-ranked company in the United States wit stock trading as high as $80 per share in August 1999, filed for bankruptcy protection on Dec. 2, 2001 and its stock became virtually worthless. The investigation into Enron's collapse is being conducted by the Enron Task Force, a team of federal prosecutors supervised by the Justice Department's Criminal Division and agents fro the FBI and the IRS Criminal Investigation Division. The Task Force also has coordinated with an received considerable assistance from the Securities and Exchange Commission. The Enron Task Force is part of President Bush's Corporate Fraud Task Force, created in July 2002 to investigate allegations of fraud and corruption at U.S. corporations. Twenty-six individuals have been charged to date, including 19 former Enron executives. With today's pleas, seven people and Arthur Andersen LLP have been convicted as a result of the ongoing investigation. In addition, the Enron Task Force has restrained more than $93 million in proceeds derived from criminal activity. The Task Force investigation is continuing.

The Enron Trial: The Indictment

Needs Investigation (Score 0.94) · Auto famous-trials.com

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

indictment fraud alleges conspiracy criminal problems alleged investigation allegations attorney convicted defendant defendants fraudulent grand jury indicted money laundering wire fraud bankruptcy corruption fines guilty imposed investigate prison sentence investigations trial

The Enron Trial: The Indictment

Superceding Indictment Against Kenneth Lay, Jeffrey Skilling, and Richard Causey (July 7, 2004)(65 pages, pdf)

FBI Press Release

Former Enron Chairman and Chief Executive Officer Kenneth L. Lay Charged With Conspiracy, Fraud, and False Statements

WASHINGTON, D.C. - Deputy Attorney General James B. Comey, Assistant Attorney General Christopher A. Wray of the Criminal Division, FBI Director Robert Mueller, and Enron Task Force Director Andrew Weissmann announced today that a federal grand jury in Houston has indicted former Enron Corp. Chairman and Chief Executive Officer Kenneth L. Lay on charges of conspiracy, securities fraud, wire fraud, bank fraud and making false statements.

A superseding indictment returned by the grand jury in Houston Wednesday, and unsealed today, charges Lay, 62, of Houston, with conspiracy to commit securities fraud, four counts of securities fraud and two counts of wire fraud, one count of bank fraud and three counts of making false statements to a bank. The superseding indictment joins Lay as a defendant in a case pending against former Enron CEO Jeffrey K. Skilling and former Enron Chief Accounting Officer Richard Causey. Causey was originally indicted in January 2004, and Skilling was added to the case in February 2004. The new indictment also adds a money laundering conspiracy count and four counts of money laundering against Causey in connection with fraudulent hedging vehicles, and expands certain factual allegations against Causey in connection with the securities fraud conspiracy. The case is pending before U.S. District Judge Sim Lake in Houston, Texas.

Lay surrendered this morning to FBI agents in Houston and the indictment was unsealed. Lay had an initial appearance this morning before Magistrate Judge Mary Milloy.

"The indictment charges that Lay, Skilling, Causey and others oversaw a massive conspiracy to cook the books at Enron and to create the illusion that it was a robust growing company with limitless potential when, in fact, Enron was an increasingly troubled business kept afloat only by a series of deceptions," said Deputy Attorney General James B. Comey, who heads the President's Corporate Fraud Task Force. "These charges demonstrate the Department's commitment to the rule of law, its commitment to the principle that no one is above the law, and its commitment to unravel even the most complex of fraudulent schemes."

"This indictment alleges that every member of Enron's senior management participated in a criminal conspiracy to commit one of the largest corporate frauds in American history," said Assistant Attorney General Wray. "Kenneth Lay is charged with abusing his powerful position as Chairman of the Board and CEO and repeatedly lying in an effort to cover up the financial collapse that caused devastating harm to millions of Americans. The progress of this investigation shows that the Department of Justice will work tirelessly to hold corporate America to the high standards imposed by federal law."

"The collapse of Enron was devastating to tens of thousands of people and shook the public's confidence in corporate America," said FBI Director Mueller. "The FBI and our partners on the President's Corporate Fraud Task Force responded with a concerted effort to uncover the truth and to bring those responsible to justice. The charges against Ken Lay, Jeffrey Skilling and Richard Causey take us one step closer to restoring the public confidence in our financial markets."

The indictment alleges that at various times between at least 1999 and 2001, Lay, Skilling, Causey and other Enron executives engaged in a wide-ranging scheme to deceive the investing public, the U.S. Securities and Exchange Commission and others about the true performance of Enron's businesses. The alleged scheme was designed to make it appear that Enron was growing at a healthy and predictable rate, consistent with analysts' published expectations, that Enron did not have significant write-offs or debt and was worthy of investment-grade credit rating, that Enron was comprised of a number of successful business units, and that the company had an appropriate cash flow. It had the effect of inflating artificially Enron's stock price, which increased from approximately $30 per share in early 1998 to over $80 per share in January 2001, and artificially stemming the decline of the stock during the first three quarters of 2001.

The indictment alleges that Lay had a significant profit motive for participating in the scheme. As stated in the indictment, between 1998 and 2001, Lay received approximately $300 million from the sale of Enron stock options and restricted stock, netting over $217 million in profit, and was paid more than $19 million in salary and bonuses. During 2001 alone, Lay received a salary of over $1 million, a bonus of $7 million and $3.6 million in long term incentive payments. Additionally, during the period of August 21 through Oct. 26, 2001, Lay sold 918,104 shares of Enron stock to repay advances totaling $26,025,000 he had received from a line of credit extended to Lay by Enron.

As a part of the alleged scheme, unrealistic and unattainable earnings goals were set for Enron, based on analysts' expectations rather than on actual or reasonably achievable business results. When, as expected within the company, Enron consistently fell short of those goals, Lay, Skilling, Causey and others allegedly orchestrated a series of accounting gimmicks designed to make up the shortfall between actual and predicted results. Enron then announced publicly that it had met c exceeded analysts' expectations when, as Lay, Skilling and Causey allegedly knew, it made its numbers only by engaging in fraud. The indictment also alleges that Lay, Skilling and Causey made false and misleading representations about Enron's finances and business operations to analysts, at press conferences, in SEC filings and elsewhere.

Lay is principally charged for his conduct during the third quarter of 2001. As the indictment alleges, upon Skilling's abrupt departure from Enron in August 2001, Lay resumed his position as CEO of the company, intensified his oversight of Enron's day-to-day operations, and took control as leader of the conspiracy. Starting in August, according to the indictment, Lay was briefed extensively about mounting and undisclosed financial and operational problems, including overvaluation of Enron's assets and business units by several billion dollars. As a result of these and other issues confronting Enron, Lay privately considered a range of potential solutions, including mergers, restructurings, and even divestiture of Enron's pipelines, assets that Lay considered to be the crown jewels of the company. However, th indictment alleges he failed to disclose Enron's problems to the investing public and affirmatively misled the investing public about Enron's financial condition, while falsely claiming that he was disclosing everything that he had learned.

For example, the indictment states that during August 2001, Lay participated in Management Committee meetings at which reports were presented showing earnings shortfalls in virtually every Enron business unit, totaling approximately $1 billion. During early September 2001, Lay attended a Management Committee retreat in the Woodlands, Texas, at which the serious problems besetting Enron, including underperforming business units and troubled assets, were further discussed. Among other things, executives discussed the need to take in the third quarter of 2001 at least a $1 billion charge and that Enron had committed an accounting error in the amount of $1.2 billion.

The indictment alleges that throughout the remainder of September 2001, Lay engaged in a series of high-level meetings to discuss the growing financial crisis at Enron and the likely impact on Enron's credit rating. Among other things, Lay knew that the total amount of losses embedded in Enron's assets and business units was, at a minimum, $7 billion. Lay also knew that Enron's auditors had changed their position concerning the accounting treatment of four off-balance sheet vehicles called the Raptors, which required Enron to determine in short order whether an acceptable alternative methodology existed or whether, instead, Enron would have tc restate its earnings and admit the error.

Despite knowing these negative facts, on Sept. 26, 2001, in an online forum with thousands of Enron employees, many of whom were investors in Enron stock, Lay allegedly stated that Enron was going to "hit [its] numbers." Lay allegedly created the false impression that his confidence in Enron's stock was such that he had increased his personal ownership of Enron stock in the past two months as a sign of his belief in what he was espousing. As the indictment alleges, during the prior two months, Lay actually purchased $4 million in Enron stock while also selling $24 million in Enron stock through nonpublic transactions.

The indictment states that in the weeks leading up to Enron's third quarter earnings release on Oct. 16, 2001, Lay determined that Enron could not publicly report a loss in excess of $1 billion without triggering negative action by Enron's credit rating agencies. Lay thus artificially capped Enron's losses to that amount. Also during this time, Lay learned that changes to the accounting rules governing goodwill (i.e., the difference between what Enron paid for an entity and the book value of that entity's net assets) would require Enron to disclose impairments to certain of its assets, including its interest in Wessex Water, a business located in Bath, England. In order to hide the impact of asset impairment, Lay allegedly claimed, falsely, that Enron was committed to engaging in a "water growth strategy," which would have required Enron to expend between $1 billion and $28 billion in capital investments in the water industry. Lay allegedly knew that Enron had no intention of pursuing such a strategy and did not have the capital to support it.

According to the indictment, on Oct.16, 2001, when Enron announced losses of approximately $1 billion, Lay allegedly sought to minimize the import of the reported losses by falsely describing the losses as "nonrecurring," that is, a one-time or unusual earnings event. Enron also disclosed the same day an approximate $1.2 billior reduction in shareholder equity, which Lay again sought to minimize by falsely attributing it to the unwind of the Raptor vehicles, rather than to an accounting error.

According to the indictment, on October 12, Lay misled a representative of a national credit rating agency about the need to take additional writedowns and the extent of Enron's goodwill problems. On both October 16 and 23, Lay told the investing public that Enron had determined that its goodwill impairment was up to $200 million. However, he failed to disclose the impact on Enron of an additional goodwill impairment of up to $700 million in connection with Wessex. Also on October 23, Lay allegedly espoused faith in Elektro, a Brazilian power plant which Enron carried on its books as worth in excess of $2 billion. In fact, as Lay allegedly knew, Elektro was overvalued by up to $1 billion. Lay also allegedly distributed materials at the road shows that misleadingly described the value of the international portfolio as $6.5 billion. In reality, as Lay knew, this vastly overstated the true value of the international assets by billions of dollars.

These and other schemes alleged in the indictment quickly unraveled, and on Dec. 2, 2001, Enron filed for bankruptcy, making its stock, which less than a year earlie had been trading at over $80 per share, virtually worthless.

Lay was also charged in four counts with bank fraud and making false statements to three banks arising out of his obtaining and using four personal lines of credit worth over $60 million. Lay allegedly promised the banks that the loans would not be used to purchase stock. As a result of these false representations, the banks extended far greater loans to Lay than they otherwise would. The indictment alleges that in spite of his promises, Lay repeatedly used the lines of credit to buy the stock. The lines of credit were collateralized mainly by artificially inflated shares of Enron stock and were repaid with the same.

If convicted of all the charges in the indictment, Lay faces a maximum sentence of 175 years in prison and millions of dollars in fines.

Criminal indictments are only charges and not evidence of guilt. A defendant is presumed to be innocent unless and until proven guilty.

The investigation into Enron's collapse is being conducted by the Enron Task Force, a team of federal prosecutors supervised by the Justice Department's Criminal Division and agents from the FBI and the IRS Criminal Investigations Division. The Task Force also has coordinated with and received considerable assistance from the Securities and Exchange Commission. The Enron Task Force is part of President Bush's Corporate Fraud Task Force, created in July 2002 to investigate allegations of fraud and corruption at U.S. corporations.

Thirty-one defendants have been charged to date, including 21 former Enron executives. Eleven defendants have been convicted to date, including former CFO Andrew Fastow and former Treasurer Ben Glisan. To date, the Enron Task Force has restrained more than $161 million in proceeds derived from criminal activity. Th Task Force investigation is continuing.

Former Enron CEO Jeffrey Skilling Resentenced to 168 Months for Fraud, Conspiracy Charges

2013-06-21 · Needs Investigation (Score 0.89) · Auto justice.gov

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

sentence fraud imprisonment convictions conspiracy investigation collapse crimes criminal litigation prison securities fraud attorney bankruptcy conviction debt deceive defendant guilty imposes insider trading owes sentenced sentencing

Former Enron CEO Jeffrey Skilling Resentenced to 168 Months for Fraud, Conspiracy Charges

Former Enron Chief Executive Officer Jeffrey K. Skilling has been resentenced to 168 months in prison on conspiracy, securities fraud, and other charges related to the collapse of Enron Corporation. In addition to the prison sentence, Skilling, 59, was ordered to forfeit approximately $42 million to be applied toward restitution for the victims of the fraud at Enron.

Acting Assistant Attorney General Mythili Raman of the Criminal Division made the announcement after Skilling was resentenced before U.S. District Judge Sim Lake at the U.S. District Court in Houston.

“The sentence handed down today ends years of litigation, imposes significant punishment upon the defendant and precludes him from ever challenging his convictio or sentence,” said Acting Assistant Attorney General Raman. “With today’s court action, victims of Skilling’s crimes will finally receive more than $40 million that he owes them. We appreciate the hard work and dedication of all the prosecutors and agents who have handled this important case from the initial investigation to today s successful conclusion.”

A federal jury found Skilling guilty in Houston on May 25, 2006, of one count of conspiracy, 12 counts of securities fraud, one count of insider trading, and five counts of making false statements to auditors. Judge Lake initially sentenced Skilling to serve 292 months of imprisonment on Oct. 23, 2006. On Jan. 6, 2009, the United States Court of Appeals for the Fifth Circuit affirmed Skilling’s convictions but vacated his sentence and remanded for a new sentencing hearing. The court of appeal concluded that the district court erred by increasing Skilling’s sentence for having substantially jeopardized the safety and soundness of a financial institution – that is, Enron’s pension plan. As a result, the court of appeals effectively reduced Skilling’s guidelines range of imprisonment by approximately nine years.

In May 2013, the government and Skilling entered into an agreement to recommend jointly to the district court a sentence between 168 months and 210 months of imprisonment, a limited reduction in Skilling’s guidelines range of imprisonment in exchange for Skilling agreeing, among other things, not to contest the original forfeiture and restitution order and to waive all appeals and other litigation. As court documents make clear, the government entered into this agreement, in part, to bring finality to Skilling’s convictions and thereby allow the government to promptly seek the distribution of approximately $42 million to victims of Skilling’s crimes.

Skilling’s convictions stemmed from a scheme to deceive the investing public, the U.S. Securities and Exchange Commission, and others about the true performance of Enron’s businesses. The scheme was designed to make it appear that Enron was growing at a healthy and predictable rate, consistent with analysts’ published expectations, that Enron did not have significant write-offs or debt and was worthy of an investment-grade credit rating, that Enron was comprised of a number of successful business units, and that the company had an appropriate cash flow. This scheme had the effect of artificially inflating Enron’s stock price, which increased from approximately $30 per share in early 1998 to over $80 per share in January 2001, and artificially stemming the decline of the stock during the first three quarters of 2001.

The fraud scheme eventually unraveled and Enron filed for bankruptcy in December 2001, making its stock virtually worthless.

The investigation into Enron’s collapse was conducted by the Enron Task Force, a team of federal prosecutors supervised by the Justice Department’s Criminal Division, and Special Agents from the FBI and IRS Criminal Investigation. The Task Force received considerable assistance from the Securities and Exchange Commission. The resentencing hearing was handled by Patrick Stokes, Albert Stieglitz and Robert Heberle of the Criminal Division’s Fraud Section.

Former Enron CEO Skilling's sentence cut to 14 years

2013-06-21 · Needs Investigation (Score 0.88) · Auto reuters.com

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sentence prison fraud crimes trial attorney conspiracy convicted guilty collapse conviction sentencing abuse bankrupt collapsed fraudsters incarceration indictments inmate inmates insider trading kickbacks litigation penalty prisoner probes resigned scandal securities fraud

Former Enron CEO Skilling's sentence cut to 14 years

By Kristen Hays , Anna Driver

HOUSTON (Reuters) - A federal judge slashed 10 years off of his prison sentence of former Enron Corp Chief Executive Jeffrey Skilling on Friday, a decision that could set him free as early as 2017.

U.S. District Judge Simeon Lake reduced his term to 14 years from 24 years, accepting a deal struck between prosecutors and Skilling's lawyers that will end years of appeals.

Under the deal, more than $40 million of Skilling's fortune, which has been frozen since his conviction in 2006, will be distributed to victims of Enron's collapse.

"This is not an easy decision," Lake told the hearing before he acknowledged both the gravity of Skilling's crimes and his charitable works in Houston, and in prison, where he reads to a blind inmate and teaches English and Spanish. He has also held a job fair for inmates about to be released.

In May 2006, a jury had convicted Skilling of 19 counts of conspiracy, securities fraud, insider trading and lying to auditors for his role in maintaining a facade of success as Enron's energy business crumbled.

Enron founder Kenneth Lay also was found guilty of multiple counts of conspiracy and fraud. He died of heart failure six weeks after the trial ended, prompting Lake to throw out the conviction.

"We are relieved that we can now see the light burning at the end of the tunnel," Daniel Petrocelli, Skilling's attorney told reporters after the hearing.

Skilling, who looks much as he did when last seen in public in 2006 save a graying beard, thinner hair and eyeglasses, appeared relieved. His wife, former Enron corporate secretary Rebecca Carter, as well as his brother, Mark Skilling, and sister, Sue Skilling, all wept when Lake announced the new sentence.

Petrocelli hopes his client will be freed in 2017, which is possible with credit for good behavior and completion of an alcohol-abuse treatment program. Skilling is only now eligible for rehab, since a prisoner must have 10 years or fewer to serve.

Diana Peters, one of the thousands of Enron workers left jobless when the company collapsed, told the hearing that Skilling betrayed employee and investor trust. "I pray that your decision is to give Jeff Skilling the maximum sentence for his crimes," she said.

Skilling's resentencing had been pending since 2009, when a federal appeals court ruled that Lake wrongly added years to his sentence because Skilling's actions ha jeopardized a financial institution.

Former Enron Chief Executive Jeffrey Skilling (2L) and attorney Daniel Petrocelli (L) talk to reporters as former Enron Chairman and CEO Kenneth Lay (R) and his wife Linda leave Federal court in Houston April 19, 2006. REUTERS/Richard Carson

In the interim his legal team pursued more appeals and sought a new trial, reaching the U.S. Supreme Court in 2010.

His lawyers were on their third such effort when they and U.S. prosecutors in May forged a deal for a 14- to 17-1/2-year sentence to end the litigation for good.

Skilling still has the longest sentence of more than two dozen former Enron executives, including Chief Financial Officer Andrew Fastow, and others who pleaded guil or were convicted of Enron-related crimes. All have served their prison terms.

More than 12 years after Enron's 2001 collapse threw thousands out of work, sparked federal probes and prompted Congress to crack down on corporate accounting Skilling is a remnant of an era of scandal that landed several CEOs in prison.

Those include former WorldCom CEO Bernard Ebbers, who is serving a 25-year term for fraud and conspiracy in Louisiana - the only top executive to get a longer term than Skilling during that wave of prosecutions.

Skilling's new prison term comes amid a debate on how sentencing guidelines apply in white-collar crimes, where the penalty is often tied to the financial loss caused The American Bar Association recently established a group to look at those guidelines, while critics, like U.S. District Judge Jed Rakoff in Manhattan in March, have urged they be scrapped. The U.S. Sentencing Commission has identified looking at how the guidelines apply to economic crimes as a priority.

RISE AND FALL

A graduate of Southern Methodist University and Harvard Business School, Skilling had been a star McKinsey & Co consultant when he caught Lay's eye in 1990 anc joined Enron.

He led Enron's transformation from a staid U.S. natural gas pipeline company to a global energy-trading juggernaut that reached No. 7 on the Fortune 500. In 2000, Enron claimed to have $100 billion in revenue.

Skilling succeeded Lay as chief executive in February 2001 but abruptly resigned that August, just two months before Enron revealed hundreds of millions of dollars i third-quarter losses and a massive writedown in shareholder equity. Enron went bankrupt that December.

At his trial alongside Lay, Skilling insisted he had quit because he was worn out and troubled by Enron's sinking share price, not because he knew years of murky accounting were about to come to light.

"I am absolutely innocent," he said almost immediately after taking the witness stand. He told jurors he was devastated by the company's failure, saying "I bled 'Enror blue,'" referring to the color of the company logo.

Prosecutors called him a liar and crook who minimized or hid bad news in 2001 to keep analysts and investors bullish.

On Friday as U.S. trial attorney Patrick Stokes recounted Skilling's lies to investors and Enron employees, Skilling listened intently, his jaw tight, and once looked dow in apparent frustration.

When the prosecutor and, later, Petrocelli noted that both of his parents and his 20-year-old son had died during his incarceration, Skilling's face went white and haggard.

He did not make a statement, leaving his written comments to Lake sealed from public view.

Fastow pleaded guilty to fraud in 2004, admitting to skimming millions of dollars from Enron through shady deals and kickbacks, and helped prosecutors secure indictments against Skilling and Lay.

He agreed to serve 10 years, but another judge reduced his term. Fastow went to prison in September 2006 and was released in 2011.

Since his release, Fastow has shunned media interviews but gained traction on the speaking circuit.

Next Wednesday he is slated to speak at the Association of Certified Fraud Examiners' global fraud conference in Las Vegas, and last year he spoke to business students at the University of Colorado and Dartmouth College.

The ACFE website notes under Fastow's biography on the conference agenda that the organization "does not compensate convicted fraudsters."

Enron Chiefs Guilty of Fraud and Conspiracy (Published 2006)

2006-05-25 · Needs Investigation (Score 0.81) · Auto nytimes.com

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

fraud · trial · guilty · conspiracy · verdict · insider trading · investigation · scandals · convictions · crimes · criminal · prison · sentence · sentences · attorney · author · bank fraud · bankruptcy · collapse · convicted · conviction · corruption · death · problems · resignation · sentenced · sentencing · wrongdoing · co conspirators

Enron Chiefs Guilty of Fraud and Conspiracy (Published 2006)

HOUSTON, May 25 — Kenneth L. Lay and Jeffrey K. Skilling, the chief executives who guided Enron through its spectacular rise and even more stunning fall, were found guilty today of fraud and conspiracy. They are among the most prominent corporate leaders to emerge from a wave of scandals that marked the get-rich-quick excesses and management failures of the 1990's.

The eight women and four men on the jury reached the verdicts after a little more than five days of deliberations. Mr. Skilling was convicted of 18 counts of fraud and conspiracy and one count of insider trading. He was acquitted on nine counts of insider trading. Mr. Lay was found guilty on six counts of fraud and conspiracy and four counts of bank fraud.

The conspiracy and fraud convictions each carry a sentence of 5 to 10 years in prison. The insider trading charge against Mr. Skilling carries a maximum of 10 years. Both men are expected to appeal. Judge Simeon T. Lake III, the judge in the case, set sentencing for Sept. 11. Until then, the two men are free on bail. If they lose their appeals, Mr. Skilling and Mr. Lay face potential sentences that experts believe will keep them in prison for the rest of their lives.

Mr. Lay frowned and tried to comfort his wife, Linda, who sat next to him in the front row and dabbed at tears with a tissue. Mr. Skilling, who had few family members in attendance, reacted with little emotion as the verdict was read, briefly searching the audience's faces and later striding confidently alone out of the courtroom ahead of his lead lawyer, Daniel Petrocelli.

Enron founder Kenneth L. Lay with his wife, Linda, outside federal court in Houston today. Credit... Michael Stravato for The New York Times

"Obviously, I'm disappointed," Mr. Skilling said as he left the courthouse, "but that's the way the system works."

Mr. Lay later said, "I firmly believe I'm innocent of the charges against me."

In televised remarks, he said, "We believe that God in fact is in control and indeed he does work all things for good for those who love the Lord."

For a company that once seemed so complex that almost no one could understand how it actually made its money, the cases ended up being simpler than most people envisioned. Mr. Lay, 64, and Mr. Skilling, 52, were found guilty of lying — to investors, employees and government regulators — in an effort to disguise the crumbling fortunes of their energy empire.

The 12 jurors and three alternates, who all agreed to talk to about 100 reporters at a news conference following the verdict, said they were persuaded — by the volume of evidence the government presented and Mr. Skilling and Mr. Lay's own appearances on the stand — that the men had perpetuated a far-reaching fraud by lying to investors and employees about Enron's performance.

The panel rejected the former chief executives' insistence that no fraud occurred at Enron other than that committed by a few underlings who stole millions in secret side deals. And the jurors said they did not believe that negative press and failing market confidence combined to sink the company.

"The jury has spoken and they have sent an unmistakable message to boardrooms across the country that you can't lie to shareholders, you can't put yourself in front of your employees' interests, and no matter how rich and powerful you are, you have to play by the rules," Sean M. Berkowitz, the director of the Justice Department's Enron Task Force, said outside the courthouse.

Kenneth L. Lay, the founder of Enron, leaving the Federal courthouse in Houston today. Credit... Jessica Kourkounis for The New York Times

For years, Enron's gravity-defying stock price made it a Wall Street darling and an icon of the "New Economy" of the 1990's. But its sudden collapse at the end of 200 and revelation as little more than a house of cards left Enron and its crooked E as the premier public symbol of corporate ignominy.

Enron's fall had a far greater impact than on just the energy industry by heightening nervousness among average investors about the transparency of American companies. "The Enron case and all the other scandals and cases that trailed after it may have finally punctured that romance with Wall Street that has been true of American culture for awhile now," said Steve Fraser, a historian and author of "Every Man a Speculator: A History of Wall Street in American Life."

At Enron, Mr. Skilling was the visionary from the world of management consulting who spearheaded the company's rapid ascent by fastening on new ways to turn commodities, like natural gas and electricity, into complex, lucrative financial instruments.

Mr. Lay, the company's founder, was the public face of Enron. Known for his close ties to President Bush's family, he built Enron into a symbol of civic pride and envy here in its hometown of Houston and throughout the financial world.

The verdicts are a long-awaited vindication for federal prosecutors, who had produced mixed results from their four-year investigation of wrongdoing at the company. The investigation resulted in 16 guilty pleas by Enron executives, and four convictions of Merrill Lynch bankers in a case involving the bogus sale of Nigerian barges t the Wall Street firm.

Last year, however, the Supreme Court, blaming flawed jury instructions, overturned the obstruction of justice verdict that sounded the death knell for accounting firm Arthur Andersen, Enron's outside auditor.. And a jury either acquitted or failed to agree on charges in the fraud trial of former managers of Enron's failed broadband division.

Jeffrey K. Skilling, the former Enron chief executive and president, left, leaving the court today with his lawyer, Dan Petrocelli. Credit... Dave Einsel/Getty Images

During the 56-day trial, defense lawyers repeatedly criticized prosecutors for bringing criminal charges against Mr. Skilling and Mr. Lay, saying the government had se out to punish the company's top officers regardless of what the facts might be. The lawyers said the government was criminalizing normal business practices and accused prosecutors of pressuring key witnesses to plead guilty to crimes they did not commit.

The defense lawyers also complained about a lack of access to witnesses who they contended could have corroborated their clients' versions of events. Several juror said they would have liked to hear from more witnesses, in particular Richard A. Causey, the chief accounting officer whom neither side called in the end. "To me, he was a missing link," said one juror, Douglas Baggett, adminstrative manager for a corporate legal department. "He would have linked a lot of things together for us ha he testified."

The Enron trial, more than any other, punctuates the era of corporate corruption defined by the failure of WorldCom, the telecommunications giant whose bankruptcy following revelations of $11 billion in accounting fraud even exceeded Enron's in size; the prosecution of Frank Quattrone, the technology industry banker; and executive suite scandals at Tyco, Adelphia Communications and HealthSouth.

Minutes after the jurors and the judge had cleared out of the courtroom today, Mr. Lay's family members huddled around him. Elizabeth Vittor, Mr. Lay's daughter and a lawyer who had worked on his defense team, sobbed uncontrollably. Two local ministers also leaned in and hugged Mr. Lay, whose family members soon formed a circle in the courtroom, with arms over shoulders, and cried together. "I know, I know," Mr. Lay said in a soothing voice to several of them, as they clutched at his suit coat.

Mr. Lay was forced to remain in the courthouse for more than three hours after the verdict was announced for a hearing on securing a $5 million bond, which will com from a mix of financial pledges from his children, and to surrender his passport.

Judge Lake will have broad discretion in determining the former executives' sentences. He is not known for his leniency. Two years ago he sentenced Jamie Olis, a former midlevel executive at Dynegy, to 24 years for his role in a scheme to disguise the company's finances. An appeals court last year ordered the judge to revise the sentence. A hearing is set for June 9. The guilty verdicts could have limited impact on a spate of civil cases. "They are not the ones who are going to pay the billions of dollars in additional recoveries that we hope to obtain on top of the $7.2 billion we already have from banks in our previous settlements," said William S. Lerach, the lead lawyer in the largest civil case, set to go to trial in October.

Jeffrey K. Skilling, the former Enron chief executive and president, left, with his lawyer, Dan Petrocelli. Credit... Pat Sullivan/Associated Press

From the beginning, the Enron leaders' trial was not what many people expected after revelations of secret off-the-books schemes that earned a small fortune for Andrew S. Fastow, Enron's former chief financial officer, and his cadre of co-conspirators. Those transactions were used to artificially prop up the company's profits, but prosecutors never seriously attempted to prove that Mr. Lay and Mr. Skilling were responsible for them.

Rather than delve into whether those intricate accounting structures were legitimate, prosecutors focused almost exclusively on what they cited as the false statement Mr. Skilling and Mr. Lay made to employees and outside investors.

The "lies and choices" theme transformed the case into a test of credibility between the former chief executives and the more than half a dozen witnesses from inside Enron who testified for the government.

During the trial, the government called 25 witnesses and the defense called 31, including Mr. Skilling and Mr. Lay. Government witnesses, including Enron's former treasurer, Ben F. Glisan Jr., testified that the executives had sanctioned or encouraged manipulative accounting practices and then crossed the line from corporate cheerleading into outright misrepresentations of Enron's financial performance.

Mr. Fastow's emotional turn on the stand offered some of the most devastating evidence against Mr. Skilling, and to a lesser extent, Mr. Lay. He said he had struck "bear hug" side deals with Mr. Skilling guaranteeing that his off-the-books partnerships, dubbed LJM, would not lose money in their dealings with Enron. Mr. Fastow also described how Mr. Skilling had bought into the idea of using the LJM's to gin up more earnings to meet quarterly targets.

But Mr. Fastow's own admitted history of extensive crimes at Enron was brutally dissected by Mr. Petrocelli and jurors said they did not find Mr. Fastow particularly persuasive. "Fastow was Fastow," said one juror, Donald Martin, shaking his head. "We knew where he was coming from."

Jeffrey K. Skilling, the former Enron chief executive and president, left, and Kenneth L. Lay, the former chairman. Credit... Pat Sullivan/Associated Press

The jurors said they were moved, in contrast, by the testimony of Mr. Glisan. "We kept on going back to that testimony to corroborate things," said another juror, Freddy Delgado, an elementary school principal. "I think that was one of the best witnesses brought forward."

The surprise testimony of David W. Delainey, the former chief executive of a retail energy unit called Energy Services, also helped pave the way for Mr. Skilling's conviction. Mr. Delainey, who pleaded guilty to fraud, said that Mr. Skilling participated in a decision to shift some $200 million in losses from Energy Services to the more profitable wholesale energy division to avoid having to admit to investors that Energy Services was failing.

On the stand, Mr. Skilling offered differing and confusing explanations for the shift. He proved evasive and sometimes forgetful, and he revealed an emotional immaturity that led some to question whether he should ever have been leading such a large company.

His abrupt resignation in August 2001, after only six months as chief executive, led to a bout of heavy drinking as a depressed Mr. Skilling watched in horror as the company he helped build edged ever closer to the brink.

For Mr. Lay, a key turning point came when Sherron S. Watkins, the former Enron vice president, took the stand to describe how she confronted him with concerns about Enron's accounting. Ms. Watkins said the subsequent investigation Mr. Lay ordered, done by Enron's in-house law firm, Vinson & Elkins, was intentionally limited in scope to conclude that there were no problems.

Other issues plagued Mr. Lay's defense, most notably his own testiness on the stand and the sudden illness of his lead lawyer, Mr. Ramsey, a well-regarded criminal defense attorney who was forced to miss more than a month of the trial because of coronary disease that required two operations. Mr. Lay, in part because of his own strained finances, decided to carry on without Mr. Ramsey rather than seek to delay the trial and fight another day.

Enron Scandal: The Fall of a Wall Street Darling

Needs Investigation (Score 0.77) • Auto investopedia.com

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

bankruptcy · fraud · scandal · debt · collapse · conspiracy · convicted · conviction · fake · guilty · insider trading · prison · scandals · securities fraud · sentence · author · authorities · bank fraud · collapsed · corrupt · defraud · illegal · investigating · investigations · manipulation · misconduct · resigned · sentencing · wire fraud

Enron Scandal: The Fall of a Wall Street Darling

The story of Enron Corp. depicts a company that reached dramatic heights only to face a dizzying fall. The fated company's collapse affected thousands of employee and shook Wall Street to its core. At Enron's peak, its shares were worth $90.75; just prior to declaring bankruptcy on Dec. 2, 2001, they were trading at $0.26.

To this day, many wonder how such a powerful business—at the time one of the largest companies in the United States—disintegrated almost overnight. Also difficult to fathom is how its leadership managed to fool regulators for so long with fake holdings and off-the-books accounting.

Enron's leadership fooled regulators with fake holdings and off-the-books accounting practices.

Enron used special purpose vehicles (SPVs), or special purpose entities (SPEs), to hide its mountains of debt and toxic assets from investors and creditors.

The price of Enron's shares went from $90.75 at its peak to $0.26 at bankruptcy.

The company paid its creditors more than $21.7 billion from 2004 to 2011.

Investopedia / Source Data: Forbes / Created using Datawrapper

Enron was formed in 1985 following a merger between Houston Natural Gas Co. and Omaha, Neb.-based InterNorth Inc. Following the merger, Kenneth Lay, who ha been the chief executive officer (CEO) of Houston Natural Gas, became Enron's CEO and chair. Lay quickly rebranded Enron into an energy trader and supplier. Deregulation of the energy markets allowed companies to place bets on future prices, and Enron was poised to take advantage. In 1990, Lay created Enron Finance Corp. and appointed Jeffrey Skilling, whose work as a McKinsey & Co. consultant had impressed Lay, to head the new corporation. Skilling was then one of the youngest partners at McKinsey.

Skilling joined Enron at an auspicious time. The era's minimal regulatory environment allowed Enron to flourish. At the end of the 1990s, the dot-com bubble was in fu swing, and the Nasdaq hit 5,000. Revolutionary Internet stocks were being valued at preposterous levels and, consequently, most investors and regulators simply accepted spiking share prices as the new normal.

One of Skilling's early contributions was to transition Enron's accounting from a traditional historical cost accounting method to a mark-to-market (MTM) accounting method, for which the company received official U.S. Securities and Exchange Commission (SEC) approval in 1992. MTM is a measure of the fair value of accounts that can change over time, such as assets and liabilities. MTM aims to provide a realistic appraisal of an institution's or company's current financial situation, and it is a legitimate and widely used practice. However, in some cases, the method can be manipulated, since MTM is not based on "actual" cost but on "fair value," which is harder to pin down. Some believe MTM was the beginning of the end for Enron, as it essentially permitted the organization to log estimated profits as actual profits.

Enron created EnronOnline (EOL) in October 1999, an electronic trading website that focused on commodities. Enron was the counterparty to every transaction on EOL; it was either the buyer or the seller. To entice participants and trading partners, Enron offered its reputation, credit, and expertise in the energy sector. Enron wa praised for its expansions and ambitious projects, and it was named "America's Most Innovative Company" by *Fortune* for six consecutive years: 1996–2001.

One of the many unwitting players in the Enron scandal was Blockbuster, the former juggernaut video rental chain. In July 2000, Enron Broadband Services and Blockbuster entered a partnership to enter the burgeoning video on demand (VOD) market. The VOD market was a sensible pick, but Enron started logging expected earnings based on the expected growth of the VOD market, which vastly inflated the numbers.

By mid-2000, EOL was executing nearly $350 billion in trades. When the dot-com bubble began to burst, Enron decided to build high-speed broadband telecom networks. Hundreds of millions of dollars were spent on this project, but the company ended up realizing almost no return.

When the recession hit in 2000, Enron had significant exposure to the most volatile parts of the market. As a result, many trusting investors and creditors found themselves on the losing end of a vanishing market capitalization .

By the fall of 2000, Enron was starting to crumble under its own weight. Skilling hid the financial losses of the trading business and other operations of the company using MTM accounting. This technique measures the value of a security based on its current market value instead of its book value. This can work well when trading securities but can be disastrous for actual businesses.

In Enron's case, the company would build an asset, such as a power plant, and immediately claim the projected profit on its books, even though the company had not made one dime from the asset. If the revenue from the power plant was less than the projected amount, instead of taking the loss, the company would then transfer the asset to an off-the-books corporation, where the loss would go unreported. This type of accounting enabled Enron to write off unprofitable activities without hurting its bottom line.

The MTM practice led to schemes designed to hide the losses and make the company appear more profitable than it really was. To cope with the mounting liabilities, Andrew Fastow, a rising star who was promoted to chief financial officer (CFO) in 1998, developed a deliberate plan to show that the company was in sound financial shape despite the fact that many of its subsidiaries were losing money.

Fastow and others at Enron orchestrated a scheme to use off-balance-sheet special purpose vehicles (SPVs), also known as special purposes entities (SPEs) , to hide Enron's mountains of debt and toxic assets from investors and creditors. The primary aim of these SPVs was to hide accounting realities rather than operating results.

The standard Enron-to-SPV transaction would be the following: Enron would transfer some of its rapidly rising stock to the SPV in exchange for cash or a note. The SPV would subsequently use the stock to hedge an asset listed on Enron's balance sheet. In turn, Enron would guarantee the SPV's value to reduce apparent counterparty risk.

Investopedia

Although their aim was to hide accounting realities, the SPVs were not illegal. But they were different from standard debt securitization in several significant—and potentially disastrous—ways. One major difference was that the SPVs were capitalized entirely with Enron stock. This directly compromised the ability of the SPVs to hedge if Enron's share prices fell. Just as dangerous was the second significant difference: Enron's failure to disclose conflicts of interest. While Enron disclosed the SPVs' existence to the investing public—although it's quite likely that few people understood them—it failed to adequately disclose the non-arm's-length deals between the company and the SPVs.

Enron's management believed that its stock price would continue to appreciate —a belief similar to that embodied by Long-Term Capital Management , a large hedge fund, before its collapse in 1998. Eventually, Enron's stock declined. The values of the SPVs also fell, forcing Enron's guarantees to take effect.

Jim Chanos of Kynikos Associates is a well-known short seller . At a SEC-led roundtable on hedge funds in May 2003 , Chanos said that his interest in Enron and other energy trading companies was "piqued" in October 2000 after a *Wall Street Journal* article pointed out that many of these firms employed the "gain-on-sale" accounting method for their long-term energy trades. According to Chanos, his experience with companies that had used this accounting method was that management had too great a temptation to be overly aggressive about making assumptions regarding the future, and "earnings" could effectively be created out of thi air if management was willing to push the envelope by using highly favorable assumptions.

Chanos also noted that Enron's cost of capital was closer to 9% and likely above the 7% return on capital —a widely used profitability metric—that it claimed to have, which meant that it was not really earning money despite reporting profits to its shareholders. Chanos said that this mismatch of Enron's cost of capital and its return on investment became the cornerstone of his bearish view on Enron, and his firm began shorting Enron's common stock for its clients in November 2000. This short trade netted Chanos and his Kynikos firm hundreds of millions in gains when Enron went under.

In addition to Fastow, a major player in the Enron scandal was Enron's accounting firm, Arthur Andersen LLP, and partner David B. Duncan, who oversaw Enron's accounts. As one of the five largest accounting firms in the United States at the time, Andersen had a reputation for high standards and quality risk management. However, despite Enron's poor accounting practices, Arthur Andersen offered its stamp of approval, signing off on the corporate reports for years. By April 2001, man analysts started to question Enron's earnings and transparency .

By the summer of 2001, Enron was in freefall. Lay had retired in February, turning over the CEO position to Skilling. In August 2001, Skilling resigned as CEO, citing personal reasons. Around the same time, analysts began to downgrade their rating for Enron's stock, and the stock descended to a 52-week low of $39.95. By Oct. 16, the company reported its first quarterly loss and closed its Raptor I SPV. This action caught the attention of the SEC.

A few days later, Enron changed pension plan administrators, essentially forbidding employees from selling their shares for at least 30 days. Shortly after, the SEC announced that it was investigating Enron and the SPVs created by Fastow. Fastow was fired from the company that day. Also, the company restated earnings going back to 1997. Enron had losses of $591 million and $690 million in debt by the end of 2000. The final blow was dealt when Dynegy, a company that had previously announced it would merge with Enron, backed out of the deal on Nov. 28. By Dec. 2, 2001, Enron had filed for bankruptcy.

The amount that shareholders lost in the four years leading up to Enron's bankruptcy.

Once Enron's Plan of Reorganization was approved by the U.S. Bankruptcy Court, the new board of directors changed Enron's name to Enron Creditors Recovery Corp. (ECRC). The company's new sole mission was "to reorganize and liquidate certain of the operations and assets of the 'pre-bankruptcy' Enron for the benefit of creditors." The company paid its creditors more than $21.7 billion from 2004 to 2011. Its last payout was in May 2011.

Investopedia

Arthur Andersen was one of the first casualties of Enron's notorious demise. In June 2002, the firm was found guilty of obstructing justice for shredding Enron's financial documents to conceal them from the SEC. The conviction was overturned later on appeal; however, the firm was deeply disgraced by the scandal and dwindled into a holding company. A group of former partners bought the name in 2014, creating a firm named Andersen Global.

Several of Enron's executives were charged with conspiracy, insider trading, and securities fraud. Lay, Enron's founder and former CEO, was convicted on six counts of fraud and conspiracy and four counts of bank fraud. Prior to sentencing, he died of a heart attack in Colorado.

Fastow, Enron's former star CFO, pleaded guilty to two counts of wire fraud and securities fraud for facilitating Enron's corrupt business practices. He ultimately cut a deal for cooperating with federal authorities and served more than five years in prison. He was released from prison in 2011.

Skilling, Enron's former CEO, ultimately received the harshest sentence of anyone involved in the scandal. In 2006, Skilling was convicted of conspiracy, fraud, and insider trading. Skilling originally received a 17½-year sentence, but in 2013, it was reduced by 14 years. As a part of the new deal, Skilling was required to give $42 million to the victims of the Enron fraud and to cease challenging his conviction. Skilling was originally scheduled for release on Feb. 21, 2028, but was instead released early on Feb. 22, 2019.

Enron's collapse and the financial havoc that it wreaked on its shareholders and employees led to new regulations and legislation to promote the accuracy of financial reporting for publicly held companies. In July 2002, then-President George W. Bush signed into law the Sarbanes–Oxley Act . The act heightened the consequences for destroying, altering, or fabricating financial statements and for trying to defraud shareholders.

As two researchers state, the Sarbanes–Oxley Act is a "mirror image of Enron: the company's perceived corporate governance failings are matched virtually point for point in the principal provisions of the act" (Deakin and Konzelmann, 2003).

The Enron scandal resulted in other new compliance measures. Additionally, the Financial Accounting Standards Board (FASB) substantially raised its levels of ethical conduct. Moreover, company boards of directors became more independent, monitoring the audit companies and quickly replacing poor managers. These new measures are important mechanisms to spot and close loopholes that companies have used to avoid accountability.

Enron was one of the fastest-growing and supposedly innovative companies in the United States in the 1990s. However, the entire edifice was based on massive accounting and corporate fraud that eventually came to light and resulted in Enron declaring bankruptcy in December 2001—the biggest corporate bankruptcy in the world at that time.

The term "smartest guys in the room" is a sarcastic reference to top Enron executives—including its former chairman Kenneth Lay, CEO Jeffrey Skilling, and CFO Andrew Fastow—whose hubris in perpetrating the massive fraud at Enron led to its eventual downfall. *Enron: The Smartest Guys in the Room* was also the title of a book by Bethany McLean and Peter Elkind, published in 2003, that was later made into an award-winning documentary film of the same name. Co-author McLean wa among the first to be skeptical about Enron's inflated claims when she wrote an article titled "Is Enron Overpriced?" in *Fortune* in March 2001.

Sherron Watkins, a vice president at Enron, wrote a letter to Lay in August 2001 warning that the company could implode in a wave of accounting scandals; a few months later, Enron had collapsed. Watkins' role as a whistleblower in exposing Enron's corporate misconduct led to her being recognized as one of three *Time* "Persons of the Year" in 2002.

Enron no longer exists. It sold its last business, Prisma Energy, in 2006.

In December 2000, a bill that deregulated energy commodity trading in California was passed, allowing Enron to operate an unregulated power auction called EnronOnline that rapidly gained control over a large share of the state's electricity and natural gas market. After the bill was passed, California endured an acute electricity shortage that caused as many as 38 rolling blackouts by June 2001, compared with only one in the six-month period preceding the bill.

Subsequent investigations by state and federal officials concluded that power generators and power marketers intentionally withheld electricity to create artificial shortages and increase the cost of power. As Enron was one of the main players in such market manipulation, its energy traders were able to sell power at multiples o normal peak power prices. Enron's new, unregulated power auction led to revenues at its Wholesale Services business quadrupling to $48.4 billion in the first quarter (Q1) of 2001 compared with the year-ago period.

At the time, Enron's collapse was the biggest corporate bankruptcy to ever hit the financial world (since then, it has been surpassed by the bankruptcies of other former giants, including Lehman Brothers , Washington Mutual, WorldCom , and General Motors). The Enron scandal drew attention to accounting and corporate frau as its shareholders lost $74 billion in the four years leading up to its bankruptcy, and its employees lost billions in pension benefits.

Increased regulation and oversight have been enacted to help prevent corporate scandals of Enron's magnitude. However, some companies are still reeling from the damage caused by Enron. Most recently, in March 2017, a judge granted a Toronto-based investment firm the right to sue Skilling (the former Enron CEO), Credit Suisse Group AG, Deutsche Bank AG, and Bank of America's Merrill Lynch unit over losses incurred by purchasing Enron shares.

Timeline: Enron

2006-01-30 · Needs Investigation (Score 0.75) · Auto theguardian.com

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

indicted investigation resigns bankruptcy collapse conspiracy conviction criminal debt fraud guilty

money laundering prison problems resignation scandals verdict trial

Timeline: Enron

July 1985 Houston Natural Gas merges with InterNorth to form Enron , a natural gas pipeline company.

1989 Enron begins trading natural gas.

1990 Jeff Skilling joins Enron.

1996 Mr Skilling becomes Enron's president and chief operating officer.

1998 Enron buys Britain's Wessex Water for $2.2bn. Wessex becomes the core of Enron's new water unit.

November 1999 Launch of EnronOnline, the first global commodity trading web site.

September 2000 Kenneth Lay, Enron chairman, contributes more than $290,000 to George Bush's election campaign.

January 2000 George Bush names Lay as an adviser to his presidential transitional team.

August 2000 Enron shares hit all-time high of $90.56.

February 5 2001 Arthur Andersen, Enron's auditor, discusses whether to retain Enron as a client amid concern over Enron's use of special partnerships to disguise debt.

February 12 2001 Jeff Skilling becomes chief executive of Enron.

August 14 2001 Skilling resigns abruptly citing personal reasons. Mr Lay returns to chief executive job and says there are "no issues" behind the resignation.

August 15 2001 Sherron Watkins, an Enron vice-president, sends an anonymous warning to Lay. She says questionable accounting practices would lead the company to "implode in a wave of accounting scandals".

October 2001 White House team concludes that a collapse of Enron would pose little risk to the US economy.
October 12 2001 Nancy Temple, an Andersen lawyer, emails the lead partner in the Houston office to remind him of the firm's document destruction policy. Andersen describes the email as routine, other Andersen executives call it unprecedented.
October 16 2001 Enron reports a $618m loss, its first quarterly loss and discloses a $1.2bn reduction in shareholder equity, partly in connection with partnerships run by chief financial officer Andrew Fastow.
October 22 2001 Enron admits that the securities and exchange commission, the US financial watchdog, is looking at possible conflict of interest between Enron and its partnerships. Enron shares loses a fifth of their value.
October 24 2001 Enron sacks Fastow.
November 8 2001 Enron says it overstated profits dating back to 1997 by $600m.
November 9 2001 Enron agrees to be acquired by Dynegy for $9bn.
November 28 2001 Dynegy wants to cut its offer as Enron's credit rating sinks to high-risk junk-bond status.
November 29 2001 SEC investigation is extended to cover Andersen.
December 2 2001 Enron files for bankruptcy, the biggest in US history.
December 3 2001 Enron lays off 4,000 employees. Many have seen their pension plans wiped out because they were full of Enron shares.
December 4 2001 Enron arranges a $1.5bn lifeline from major creditors to keep a skeleton operation.
January 9 2002 The justice department opens a criminal investigation of Enron.
January 10 2002 Andersen admits employees disposed of Enron documents. The White House reveals that Lay called US treasury secretary Paul O'Neill and commerce secretary Don Evans about Enron's financial problems in October.
January 17 2002 Enron fires Andersen blaming the auditor for destroying Enron documents.
January 22 2002 FBI agents search for evidence of destroyed documents at Enron headquarters in Houston, Texas.
January 24 2002 Kenneth Lay resigns as chairman and chief executive of Enron.
January 25 2002 John (Clifford) Baxter, former vice-chairman of Enron, is found dead in a parked Mercedes from a gunshot to the head. The coroner subsequently returns a suicide verdict.
January 27 2002 Vice president Dick Cheney again refuses to disclose details of six meetings he or his aides held with Enron executives to discuss energy policy in the past year.
January 31 2002 Lord Wakeham steps aside as chairman of the press complaints commission to answer questions about his involvement with Enron.
February 3 2002 Kenneth Lay cancels scheduled appearance before a Senate committee.
March 14 2002 Former Enron auditor Arthur Andersen indicted for obstruction of justice.
August 31 2002 Arthur Andersen surrenders licence to practice in US. 85,000 people lose their jobs.
October 31 2002 Fastow indicted on 78 charges of conspiracy, fraud, money laundering and other counts.
May 1 2003 Fastow's wife Lea and seven former Enron executives charged.
January 14 2004 Andrew and Lea Fastow plead guilty. Fastow agrees to 10 years in prison and forfeit $23.8m. His wife serves one year.
July 8 2004 Lay surrenders to FBI.
January 7 2005 US supreme court agrees to consider overturning Arthur Andersen conviction.
January 30 2005 Trial of Lay and Skilling begins in Houston, Texas.

Retired FBI Agent In Charge Of Enron Investigation Keeps The Case Alive

2018-05-02 · Needs Investigation (Score 0.73) · Auto houstonpublicmedia.org

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

criminal fine sentence investigation bankruptcy crime fraud authorized convict guilty laws prison sentencing violate

Retired FBI Agent In Charge Of Enron Investigation Keeps The Case Alive

FBI special agent Michael Anderson headed the Enron Task Force in Houston in 2001
Remember Enron ?
The giant Houston energy trading firm – the fifth largest company in the country at one point – came crumbling down in 2001 when it was revealed that it had been misstating its earnings for years.
It led to Enron shareholders losing billions of dollars in what at the time was the largest bankruptcy in history.
The company's founder and long-time CEO Ken Lay died of a heart attack shortly before his sentencing. His number two, Jeff Skilling, is serving a 14-year prison sentence.
The man who helped put Skilling behind bars is FBI special agent Michael Anderson . Sixteen years ago, he headed the Enron Task Force.
"I was responsible for the agents here in Houston," he told News 88.7 in an interview. "We had roughly 10 agents here as well as four forensic accountants here that worked on the case, but there was also a group of agents in Washington, D.C., that worked together with us on the case."
He said the biggest challenge of the investigation was identifying the fraud and then who was responsible for it.
"You see, there's a fine line between unethical behavior and criminal conduct. It's a very fine line," Anderson said. "And to charge somebody with a crime or to convict someone, I have to show two things: I have to show they have criminal intent. So, proving criminal intent can sometimes be difficult. So criminal intent and then also they have to violate a criminal statute."
Anderson opened the investigation after Enron filed for bankruptcy in December 2001. It is often called the most complex white collar crime case in FBI history and would take five years to complete.
"It was complex because of Enron's finances, their accounting and their finances. They used very complicated financial structures," Anderson said. "Andy Fastow, Enron's chief financial officer, was authorized by the board of directors to actually have a side business of equity partnerships, where people would invest in those, and then those partnerships were used to buy assets from Enron, which is a huge conflict of interest. But Enron used that to move underperforming assets off their books and to meet the quarterly numbers."

Could there be another case like Enron today?

It's not very likely, Anderson said, because new laws make it easier to identify corporate fraud.

"But, as companies have financial difficulties, if they have unethical executives within the company, sure, it could be duplicated," he said. "But I think it would be identified probably more quickly and maybe the loss would not be as bad."

Anderson retired last November after nearly 30 years with the FBI. He's still asked to talk about the Enron case about once every month, including at Sam Houston State University last month.

Anderson said it's important to keep the lessons learned from Enron alive, especially among students.

"I emphasize there is a fine line between unethical behavior and criminal conduct," he said. "And I tell them it's not easy to be honest or ethical, but it's the right thing to do, because at some point in your career you may come across something that you know is wrong and you want to report it but you can't for fear that you've done something wrong that might be discovered. So my hope is by talking to college students, by talking to the public, to look at Enron, and maybe put themselves in that position and think about what they would do."

He said the Enron executives were arrogant and thought they were smarter than anybody else and could do no wrong.

Both Ken Lay and Jeff Skilling pleaded not guilty and Skilling continued to fight his sentence until five years ago, when he agreed to stop appealing in return for a 10-year sentence reduction.

That released the more than $40 million the court had ordered in restitution to his victims.

Skilling's scheduled release date is next February.

A Look Back at the Enron Case

Needs Investigation (Score 0.67) · Auto fbi.gov

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

investigation investigators fraud insider trading bankruptcy bubble convictions crimes criminal fraudulent guilty investigate investigative manipulated violating crime

A Look Back at the Enron Case

12/13/06

Investigators emerged from a 2002 search of Enron headquarters in Houston with more than 500 boxes of evidence.

When Enron declared bankruptcy in December 2001 and took with it the nest eggs of thousands of employees and stockholders, the FBI field office in Houston assigned two agents to investigate. Within weeks, the number of agents and support staff assigned to the case grew to 45, many hand-picked from field offices aroun the country for their expertise in traversing even the most circuitous paper trails.

The case would become the largest and most complex white-collar investigation in FBI history and spawn a unique investigative task force of prosecutors, agents anc analysts in Houston and Washington, D.C., each uniquely skilled at drilling deep into balance sheets and following the money. Their job: to learn how company official perpetrated fraud on such a grand scale, build a strong criminal case, and hold accountable those responsible.

The five-year investigation led to jury convictions of top Enron officials who enriched themselves by cheating investors with sham accounting, and guilty pleas from some 16 others who were in on it. Being a major case, it was administered at the highest levels of the FBI and the Department of Justice, as well as the Securities anc Exchange Commission. In Houston, Supervisory Special Agent (SSA) Michael E. Anderson, chief of his office’s economic crimes squad, led the investigation on the ground. He describes how agents assembled the case:

An FBI storage facility contains seized evidence, including bank and brokerage account records that were critical in seizing assets and supporting insider trading charges against executives.

In January 2002, agents executed a consent search of Enron’s 50-story corporate headquarters building. The search lasted nine days as investigators unearthed critical documents and emerged with over 500 boxes of evidence. At the same time, agents conducted more than 100 interviews that helped identify fresh leads for investigators.

In February 2002, Enron’s board of directors issued findings from its own internal investigation—the Powers Report, named for William Powers Jr., head of the specia investigation committee that wrote it—that said Enron executives reaped millions by violating basic accounting principles. “That was a gold mine,” SSA Anderson said Agents conducted over 1,800 interviews in the U.S. and overseas.

Agents expert at teasing forensic evidence from computers—a Computer Analysis and Response Team—collected over four terabytes (imagine 4,000 copies of an encyclopedia) of data, including e-mail from over 600 employees. Meanwhile, the Regional Computer Forensics Laboratory in Houston processed some 30 terabytes of data, making still more sense of the paper trail and flagging important leads for investigators.

Financial analysts combed through hundreds of bank and brokerage accounts to track fraudulent purchases, which proved critical in securing restraining orders, seizing more than $168 million in assets and supporting insider trading charges.

What emerged was a mosaic of inter-related schemes—some hardly more than smoke and mirrors—that toppled a company that once boasted annual revenues over $150 billion. Enron ripped off California, selling energy to the state's strapped utilities at over-inflated rates. Officials overstated the company's fledgling Broadband venture, hitching the company's stock price to the star of the still-nascent Internet bubble. The company overvalued its international assets by billions to generate cash flow and manipulated its quarterly earnings statements to keep Wall Street happy and its stock price afloat.

SSA Anderson said it was the thousands of victims, hard-working employees who lost their pensions, and the desire to hold accountable those responsible for the failure of Enron, that motivated agents, analysts, and others on the Enron Task Force to press ahead on the massive case.

"They lost their retirements, their health insurance, their livelihoods. That kept everyone interested in pressing forward in spite of the huge personal sacrifices inherent in working a major case for over five years," Anderson says. "If it's some consolation to them, the people that were responsible for this fraud were punished for it."

Resources: - More White-Collar Crime stories - Regional Computer Forensics Laboratory program

U.S. Department of Labor Announces Settlement With Former Enron Executive Jeffrey Skilling

Needs Investigation (Score 0.66) · Auto dol.gov

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

plaintiffs | sued | alleged | attorneys | convictions | fraud | investigation | laws | penalties | violation

U.S. Department of Labor Announces Settlement With Former Enron Executive Jeffrey Skilling

Please note: As of January 20, 2021, information in some news releases may be out of date or not reflect current policies.

Archived News Release — Caution: Information may be out of date.

Washington - The U.S. Department of Labor today announced a settlement agreement with former Enron executive Jeffrey K. Skilling resolving the department's action against him. Under the agreement, Skilling will drop his opposition to a previous $85 million settlement, waive his right to benefits from Enron's pension plans and be permanently barred from serving in a fiduciary capacity to any employee benefit plan governed by the Employee Retirement Income Security Act (ERISA) in the future.

This proposed settlement must be formally documented and submitted for approval to the U.S. District Court for the Southern District of Texas.

The settlement acknowledges that Skilling is already subject to an order of forfeiture obtained by the U.S. Department of Justice's Enron Task Force. That order, entered October 23, 2006 in U.S. District Court for the Southern District of Texas, requires the establishment of a $45 million restitution fund for victims of Enron-related fraud, including plan participants and securities investors. The Labor Department's settlement provides that, if Skilling's convictions are overturned or vacated and the restitution fund is dissolved, Skilling will still pay $2.5 million to the participants and beneficiaries in the company's savings and employee stock ownership plans plus $500,000 in penalties to the department.

On June 26, 2003, the Labor Department sued Skilling and others for mismanagement of the plans in violation of ERISA. The department alleged that Skilling failed to properly oversee the fiduciaries appointed to run Enron's plans and failed to correct misstatements about Enron's financial condition made by Kenneth Lay to plan participants. Skilling also was sued as a member of Enron's board of directors for failing to properly appoint and monitor a trustee to oversee the employee stock ownership plan.

In previous settlements obtained by the Labor Department and private plaintiffs, more than $220.8 million has been recovered for the pension plans from Enron, its directors, officers and fiduciaries who served on the plans' administrative committee. The department and private plaintiffs also obtained a $12 million claim against Lay's estate, although the final recovery will depend on the total amount of assets available for distribution from the estate. These recoveries are subject to the resolution of certain appeals as well as attorneys' fees and expenses, and they do not include any recovery obtained from Skilling.

The department's suit resulted from a comprehensive investigation conducted by the Dallas regional office of the department's Employee Benefits Security Administration and the Office of the Solicitor of Labor.

U.S. Department of Labor news releases are accessible on the Department's Newsroom page. The information in this news release will be made available in alternate format upon request (large print, Braille, audio tape or disc) from the COAST office. Please specify which news release when placing your request at 202.693.7765 or TTY 202.693.7755. The U.S. Department of Labor is committed to providing America's employers and employees with easy access to understandable information on how to comply with its laws and regulations. For more information, please visit the Department's Compliance Assistance page.

Archived News Release — Caution: Information may be out of date.

Contact Name: Gloria Della/Peter Hong Phone Number: 202.693.8664/202.693.4676

U.S. Department of Justice Case Highlights

Needs Investigation (Score 0.65) · Auto justice.gov

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

fraud | conspiracy | problem | securities fraud | verdict | attorney | convictions | convicts | guilty | insider trading

U.S. Department of Justice Case Highlights

Press Release: Federal Jury Convicts Former Enron Chief Executives Ken Lay, Jeff Skilling on Fraud, Conspiracy and Related Charges (05-25-06)
Transcript of Statement by Deputy Attorney General Paul J. McNulty on the Convictions of Former Enron Chief Executive Officers Ken Lay and Jeff Skilling (05-25-06 (PDF)
Former Enron Chief Accounting Officer Richard Causey Pleads Guilty to Securities Fraud (12-28-05)
Former Enron Chairman and Chief Executive Officer Kenneth L. Lay Charged with Conspiracy, Fraud, False Statement (7-7-04)
Former Enron Chief Executive Officer Jeffrey K. Skilling Charged with Conspiracy, Securities Fraud, Insider Trading (2-19-04)
U.S. vs Kenneth L. Lay Verdict Slip (PDF)
U.S. vs Jeffrey K. Skilling Verdict Slip (PDF)
List of Witnesses (PDF)
May 23, 2006 Demos May 23, 2006 May 22, 2006 Part 1 May 22, 2006 Part 2 May 18, 2006 Part 1 May 18, 2006 Part 2 May 18, 2006 Part 3
May 3, 2006 May 2, 2006 May 1, 2006 April 27, 2006 April 26, 2006 April 20, 2006 April 19, 2006 April 18, 2006 April 17, 2006 April 10, 2006 April 6, 2006 April 3, 2006 March 28, 2006 part 1 March 28, 2006 part 2 March 28, 2006 part 3 March 27, 2006 March 22, 2006 March 21, 2006 March 20, 2006 March 15, 2006 March 14 2006 March 8, 2006 March 7, 2006 March 6, 2006 March 2, 2006 February 28, 2006 February 27, 2006 February 22, 2006 February 21, 2006 February 16, 2006 February 14, 2006 February 13, 2006 February 6, 2006 February 2, 2006 February 1, 2006
Due to public interest in this case, the Department of Justice is releasing the government exhibits in the format admitted in the court. The Department recognizes that these documents are in some cases not in an accessible format. If you have a disability and the format of any material on the site interferes with your ability to access some information, please email the Department of Justice webmaster at webmaster@usdoj.gov. To enable us to respond in a manner that will be of most help to you, please indicate the nature of the accessibility problem, your preferred format (electronic format (ASCII, etc.), standard print, large print, etc.), the web address of the requested material, and your full contact information so we can reach you if questions arise while fulfilling your request.
Updated: March 2014

SEC Charges Kenneth L. Lay, Enron's Former Chairman and Chief Executive Officer, with Fraud and Insider Trading

Needs Investigation (Score 0.63) · Auto sec.gov

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

defraud problems laws liquidity alleges fine resigned violation violations fraud insider trading resignation authority bankruptcy collapse debt fraudulently illegal improperly investigation manipulating penalties preceding resigning unlawful unlawfully violated violating litigation

SEC Charges Kenneth L. Lay, Enron's Former Chairman and Chief Executive Officer, with Fraud and Insider Trading

Washington, D.C., July 8, 2004 **- The Securities and Exchange Commission today initiated civil charges against Kenneth L. Lay, former Chairman and Chief Executive Officer of Enron Corp., for his role in a wide-ranging scheme to defraud by falsifying Enron's publicly reported financial results and making false and misleading public representations about Enron's business performance and financial condition.**
The Commission also alleges Lay profited from the scheme to defraud by selling large amounts of Enron stock at prices that did not reflect its true value. The sales also occurred while Lay was in possession of material non-public information concerning Enron and generated unlawful proceeds in excess of $90 million during 2001. Specifically, Lay sold over $70 million in Enron stock back to the company to repay cash advances on an unsecured Enron line of credit. In addition, while in possession of material non-public information, Lay amended two program trading plans to enable him to sell an additional $20 million in Enron stock in the open market. Lay's proceeds from the sales constitute illegal gains resulting from his scheme to defraud.
In this action, the Commission is seeking disgorgement of all ill-gotten gains, civil money penalties, a permanent bar from acting as a director or officer of a publicly held company, and an injunction against future violations of the federal securities laws.
"From the very beginning, our mandate has been to hold accountable those who contributed to the false portrayal of Enron as a viable, thriving entity. As Enron's Chairman and Chief Executive Officer, Mr. Lay was an engaged participant in the on-going fraud, and must therefore be called to account for his actions," said SEC Enforcement Division Director Stephen M. Cutler.
Added Deputy Director Linda Chatman Thomsen, "Today, the Commission and the Department of Justice have once again demonstrated our collective commitment to use every tool available under law to pursue those who violated the law in connection with Enron's collapse. It is our sincere hope that others who might someday be tempted to dissemble to the investing public and improperly place their personal interests ahead of those of their shareholders will be deterred by the specter of a determined and multi-faceted prosecution."
The Commission today, subject to the approval of the Honorable Melinda Harman, U.S. District Court Judge, filed a Second Amended Complaint seeking to add Lay to its pending action against Jeffrey K. Skilling, Enron's former President, CEO and Chief Operating Officer, and Richard A. Causey, Enron's former Chief Accounting Officer. The proposed amended complaint charges Lay with violating, and aiding and abetting violations of, the antifraud, periodic reporting, books and records, and internal controls provisions of the federal securities laws, Section 17(a) of the Securities Act of 1933, and Section 10(b) of the Securities Exchange Act of 1934, and Exchange Act Rule 10b-5; and for aiding and abetting the violation of Sections 13(a), and 13(b)(2)(A) and (B) of the Exchange Act, and Exchange Act Rules 12b-20 and 13a-11.
Specifically, the Commission's Proposed Second Amended Complaint alleges as follows.

Lay's Early Participation in the Scheme to Defraud. Lay, along with others at Enron, engaged in a wide-ranging scheme to defraud in violation of the federal securities laws. During 2001, with specific knowledge of rapidly deteriorating performances of Enron's business

units, Lay made numerous false and misleading public statements about Enron's financial condition. As Enron's Chairman and CEO, Lay had oversight of Enron's business units and supervised the senior executives and managers of these units, reviewed drafts of public filings and draft press releases, and participated in conference calls with investment analysts. In presentations to the investing public, Lay and others heavily emphasized the performance and potential of Enron Broadband Services (EBS) and Enron Energy Services (EES). To support what Enron had already said about EES, Lay and others concealed massive losses in EES' business through fraudulently manipulating Enron's "business segment reporting." They accomplished this at the close of the first quarter of 2001 through a reorganization designed to conceal the magnitude of EES' business failure, which was known to Lay as early as January 2001. With Lay's approval, Enron hid that failure from the investing public by moving large portions of EES' business -- which Lay and others knew at the time would have to otherwise report hundreds of millions of dollars in losses -- into Enron Wholesale, which was the Enron business segment housing most of the company's wholesale energy trading operations and income. As Lay and others knew, Enron Wholesale had ample earnings to absorb the EES losses, while at the same time continuing to meet its own internal budget targets. Lay made the false and misleading statements to persuade investors that Enron's profitability would continue to grow, to maintain credit ratings, to influence investment analysts, and to prop up the share price of Enron stock. Lay knew of Enron's use of structured transactions -- specifically prepays and the hedging arrangements called Raptors -- to misstate its financial results. Enron entered into circular transactions that were characterized as prepay forward contracts in order to disguise borrowings as cash from operations. Lay was aware of the importance and magnitude of prepay transactions to create operating cash flow and thereby maintain Enron's investment grade credit rating. Lay was aware that the credit rating agencies were not told the magnitude of Enron's prepay obligations and that this information was not disclosed in Enron's public filings. In addition, Enron created the Raptor structures to "hedge" volatile assets against any potential decline in value. The manner in which Enron structured and funded the Raptors meant that any hedging losses in the Raptors would ultimately be borne by Enron. Lay understood that Enron used the Raptors for earnings management and that decreases in the price of Enron stock threatened the viability of the Raptors.

Lay Knowledge of Additional Problems Following Skilling's Resignation. On July 13, 2001, Skilling told Lay he was resigning unexpectedly because he felt there was nothing he could do to stop the decline in Enron's stock price. On August 14, Enron issued a press release, with Lay's approval, that announced Skilling had resigned for personal reasons. In a conference call with investment analysts later that same day, Lay repeatedly asserted that, "there are absolutely no problems that had anything to do with Jeff's departure . . . there are no accounting issues, no trading issues, no reserve issues . . . unknown, previously unknown problems, issues . . . I can honestly say that the company is probably in the strongest and best shape . . . that it's probably ever been in." Regarding EES, Lay offered that "we've been doubling revenue and doubling income quarter on quarter, year on year for now about the last three years. We expect that to continue to grow very, very strong. . . ." After Skilling resigned, Lay met repeatedly with Enron's senior management, who described for him Enron's deteriorating financial condition. Lay was advised internally of accounting improprieties regarding the Raptors and that various assets and investments were overvalued on Enron's books and records by approximately $7 billion. During this period, Lay repeatedly received internal financial reports consistent with these problems. In August and September, senior executives informed Lay that Enron was facing an increasing earnings shortfall, hundreds of millions of dollars in losses, a proposed non-recurring charge relating to certain investments, and an accounting error in excess of $1 billion. Enron's problems were so severe that a senior executive informed Lay that Enron needed to consider being acquired or selling its prized pipelines.

Lay Continued to Mislead the Public -- August and September 2001. Despite specific knowledge of Enron's deteriorating financial condition, Lay continued to make false and misleading public statements about Enron's financial performance. In meetings with research analysts and in public statements, Lay falsely and misleadingly stated there were "no accounting issues," "no reserve issues," and "no other shoes to fall" at Enron. Lay made a series of false and misleading statements during an Enron employee online forum, including that "[t]he third quarter is looking great. We will hit our numbers. We are continuing to have strong growth in our businesses," "we have record operating and financial results," and "the balance sheet is strong." In addition, Lay misled Enron employees regarding his purchases of Enron stock when he informed them that he had purchased additional shares over the last couple of months. In making this statement, Lay concealed that he had made net sales of over $20 million in Enron stock in the preceding two months.

The Oct. 16, 2001, Third Quarter Earnings Release. In a meeting with other senior executives one month prior to Enron's third quarter earnings release, Lay learned that Enron had incorrectly accounted for the Raptors transactions, and that as a result Enron shareholders' equity would be reduced by $1.2 billion. Lay also knew that the Raptors were being terminated and combined with other pending write-downs that would result in an earnings charge of $1.01 billion. Specifically, Lay knew that these two items -- the $1.01 billion earnings charge and the $1.2 billion reduction of shareholder equity -- were unrelated, and that the reduction to shareholder equity was required whether or not the Raptors were terminated. Lay reviewed and approved Enron's earnings release that reported a "nonrecurring" earnings charge of $1.01 billion, a majority of the charge ($544 million) relating to the early termination of the Raptors. Lay knew that the characterization of the termination of the Raptors as "nonrecurring" losses was erroneous and inconsistent both with advice Enron had received from its auditor and Enron's past treatment of Raptor earnings as recurring operating earnings. Lay and others intentionally omitted any reference to the $1.2 billion equity reduction from the press release. In a conference call with analysts to discuss the earnings release, Lay falsely stated that "in connection with the early termination" of the Raptors, Enron's shareholder equity would be reduced by $1.2 billion. Lay did not disclose, as he knew, that the reduction was principally due to a significant accounting error, as opposed to the termination of the Raptors.

Lay's Last Ditch Efforts -- October and November 2001. In an effort to calm deepening public concern regarding the decline in Enron's stock price, Lay participated in conference calls with analysts and others. In these calls, Lay made false and misleading statements regarding Enron's financial health. For example, Lay stated, "[Enron is] not trying to conceal anything. We're not hiding anything," and "[w]e're really trying to make sure that the analysts and the shareholders and the debt holders really know what's going on here. So, we are not trying to hold anything back." In a telephone call with a prominent credit rating agency, Lay falsely stated that Enron and its auditors had "scrubbed" the company's books and that no additional write-downs would be forthcoming. In fact, Lay knew that Enron was carrying its international assets at billions in excess of their fair value and that Enron had failed to disclose a $700 million goodwill impairment. In an all-employee meeting to reassure Enron's employees, Lay falsely described Enron's liquidity, stating that "[o]ur liquidity is fine. As a matter of fact, it's better than fine, it's strong. . ." At the time he made the statement, Lay knew that Enron had been forced to offer its prized pipelines as collateral for a $1 billion bank loan and that the only source of liquidity was a $3 billion line of credit, which was fully utilized on Lay's authority. In addition, Lay made misleading statements about Enron stock and its prospects. Lay misleadingly stated, "as sad as the current market price is . . . [b]ut we're going to get it back" and "that doesn't mean we can't get back up to the $80s or $90s in the no-too-distant future." At the time he made the statement, with Enron stock trading at less than $20 per share, Lay did not disclose that he had quietly sold over $65 million of Enron stock back to the company during 2001.

Lay's Sales of Enron Stock Back to Enron . From Jan. 25, 2001, to Nov. 27, 2001, Lay took advances on a non-collateralized $4 million line of credit with Enron in the total amount of $77,525,000. Thereafter, in twenty separate transactions, Lay repaid the credit line by selling $70,104,762 worth of Enron stock back to the company, at prices he knew did not accurately reflect Enron's true financial condition. For example, after learning of Enron's undisclosed plan to hide over $500 million in EES losses in ENA, Lay sold 1,086,571 shares of Enron common stock back to the company, in 11 transactions, for a total of $34,081,558. Following Skilling's resignation on August 14, 2001, at a point when Lay was learning more about Enron's deteriorating financial condition, Lay sold 918,104 shares of Enron common stock back

to the company, in five transactions, totaling $26,066,474. As Lay tried to prop up Enron's stock price following Enron's third quarter earnings release on October 16, 2001, Lay sold 362,051 shares of Enron stock back to the company, in four transactions, totaling $6,050,232. Enron's shareholders and employees, much less the public, did not learn of Lay's sales of Enron stock back to the company until February 2002, over two months after Enron filed for bankruptcy protection. Lay also made withdrawals from his line of credit totaling $7.5 million between Oct. 24 and Nov. 27, 2001, at a point when Enron's financial condition was crumbling.

Lay's Sales of Enron Stock Pursuant to Amended 10b5-1 Plans . On Nov. 1, 2000, Lay established two program sales plans under Commission Rule 10b5-1. Subsequently, Lay amended both plans. At the time Lay amended both plans, he was in possession of material nonpublic information concerning Enron's deteriorating financial condition, meaning Lay cannot use the plans as a defense to insider trading charges. Under the amended plans, Lay unlawfully sold over 350,000 Enron shares for total proceeds in excess of $20 million.

The Commission acknowledges the assistance of the Enron Task Force.

The Commission's investigation is continuing.

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Charles J. Clark, Assistant Director, SEC Division of Enforcement, (202) 942-4731

See Also: **Litigation Release 18776 ; Complaint**

Last modified: 7/8/2004

The Rise and Fall of Enron

2002-04-01 · Needs Investigation (Score 0.61) · Auto journalofaccountancy.com

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

disclosure debt disclosures fraud investigation investigations attorneys bankruptcy collapse criminal extremely investigate problem resigned scandal accusation allegations deceptive defending disqualified investigated killed lawsuits litigation problems scandals violate violation attorney

The Rise and Fall of Enron

If you're like most, you've been astonished, disillusioned and angered as you learned of the meteoric rise and fall of Enron Corp. Remember the company's television commercial of not so long ago, ending with the reverberating phrase, "Ask why, why, why?" That question is now on everyone's lips. The Enron case is a dream for academics who conduct research and teach. For those currently or formerly involved with the company, such as creditors, auditors, the SEC and accounting regulators, it's a nightmare that will continue for a long time.

Formal investigations of Enron are now under way, headed by the company's board, the SEC, the Justice Department and Congress. The exact causes and details o the disaster may not be known for months. The purpose of this article is to summarize preliminary observations about the collapse, as well as changes in financial reporting, auditing and corporate governance that are being proposed in response by Big Five accounting firms, the AICPA and the SEC.

IN A WAY IT'S SIMPLE, IN A WAY IT'S NOT

On the surface, the motives and attitudes behind decisions and events leading to Enron's eventual downfall appear simple enough: individual and collective greed born in an atmosphere of market euphoria and corporate arrogance. Hardly anyone—the company, its employees, analysts or individual investors—wanted to believe the company was too good to be true. So, for a while, hardly anyone did. Many kept on buying the stock, the corporate mantra and the dream. In the meantime, the company made many high-risk deals, some of which were outside the company's typical asset risk control process. Many went sour in the early months of 2001 as Enron's stock price and debt rating imploded because of loss of investor and creditor trust. Methods the company used to disclose (or creatively obscure) its complicated financial dealings were erroneous and, in the view of some, downright deceptive. The company's lack of transparency in reporting its financial affairs, followed by financial restatements disclosing billions of dollars of omitted liabilities and losses, contributed to its demise. The whole affair happened under the watchfu eye of Arthur Andersen LLP, which kept a whole floor of auditors assigned at Enron year-round.

THE BEGINNING PRESAGES THE END

In 1985, after federal deregulation of natural gas pipelines, Enron was born from the merger of Houston Natural Gas and InterNorth, a Nebraska pipeline company. In the process of the merger, Enron incurred massive debt and, as the result of deregulation, no longer had exclusive rights to its pipelines. In order to survive, the company had to come up with a new and innovative business strategy to generate profits and cash flow. Kenneth Lay, CEO, hired McKinsey & Co. to assist in developing Enron's business strategy. It assigned a young consultant named Jeffrey Skilling to the engagement. Skilling, who had a background in banking and asset and liability management, proposed a revolutionary solution to Enron's credit, cash and profit woes in the gas pipeline business: create a "gas bank" in which Enron would buy gas from a network of suppliers and sell it to a network of consumers, contractually guaranteeing both the supply and the price, charging fees for the transactions and assuming the associated risks. Thanks to the young consultant, the company created both a new product and a new paradigm for the industry—the energy derivative.

Lay was so impressed with Skilling's genius that he created a new division in 1990 called Enron Finance Corp. and hired Skilling to run it. Under Skilling's leadership, Enron Finance Corp. soon dominated the market for natural gas contracts, with more contacts, more access to supplies and more customers than any of its competitors. With its market power, Enron could predict future prices with great accuracy, thereby guaranteeing superior profits.

THE BEST, THE BRIGHTEST AND THE DREADED PRC

Skilling began to change the corporate culture of Enron to match the company's transformed image as a trading business. He set out on a quest to hire the best and brightest traders, recruiting associates from the top MBA schools in the country and competing with the largest and most prestigious investment banks for talent. In exchange for grueling schedules, Enron pampered its associates with a long list of corporate perks, including concierge services and a company gym. Skilling rewarded production with merit-based bonuses that had no cap, permitting traders to "eat what they killed."

One of Skilling's earliest hires in 1990 was Andrew Fastow, a 29-year-old Kellogg MBA who had been working on leveraged buyouts and other complicated deals at Continental Illinois Bank in Chicago. Fastow became Skilling's protg in the same way Skilling had become Lay's. Fastow moved swiftly through the ranks and was promoted to chief financial officer in 1998. As Skilling oversaw the building of the company's vast trading operation, Fastow oversaw its financing by ever more complicated means.

As Enron's reputation with the outside world grew, the internal culture apparently began to take a darker tone. Skilling instituted the performance review committee (PRC), which became known as the harshest employee-ranking system in the country. It was known as the "360-degree review" based on the values of Enron—respect, integrity, communication and excellence (RICE). However, associates came to feel that the only real performance measure was the amount of profits they could produce. In order to achieve top ratings, everyone in the organization became instantly motivated to "do deals" and post earnings. Employees were regularly rated on a scale of 1 to 5, with 5s usually being fired within six months. The lower an employee's PRC score, the closer he or she got to Skilling, and the higher the score, the closer he or she got to being shown the door. Skilling's division was known for replacing up to 15% of its workforce every year. Fierce internal competition prevailed and immediate gratification was prized above long-term potential. Paranoia flourished and trading contracts began to contain highly restrictive confidentiality clauses. Secrecy became the order of the day for many of the company's trading contracts, as well as its disclosures.

HOW HIGH THEY FLY

Coincidentally, but not inconsequentially, the U.S. economy during the 1990s was experiencing the longest bull market in its history. Enron's corporate leadership, La excluded, comprised mostly young people who had never experienced an extended bear market. New investment opportunities were opening up everywhere, including markets in energy futures. Wall Street demanded double-digit growth from practically every venture, and Enron was determined to deliver.

In 1996 Skilling became Enron's chief operating officer. He convinced Lay the gas bank model could be applied to the market for electric energy as well. Skilling and Lay traveled widely across the country, selling the concept to the heads of power companies and to energy regulators. The company became a major political player i the United States, lobbying for deregulation of electric utilities. In 1997 Enron acquired electric utility company Portland General Electric Corp. for about $2 billion. By the end of that year, Skilling had developed the division by then known as Enron Capital and Trade Resources into the nation's largest wholesale buyer and seller of natural gas and electricity. Revenue grew to $7 billion from $2 billion, and the number of employees in the division skyrocketed to more than 2,000 from 200. Using th same concept that had been so successful with the gas bank, they were ready to create a market for anything that anyone was willing to trade: futures contracts in coal, paper, steel, water and even weather.

Perhaps Enron's most exciting development in the eyes of the financial world was the creation of Enron Online (EOL) in October 1999. EOL, an electronic commodities trading Web site, was significant for at least two reasons. First, Enron was a counterparty to every transaction conducted on the platform. Traders received extremely valuable information regarding the "long" and "short" parties to each trade as well as the products' prices in real-time. Second, given that Enron was either a buyer or a seller in every transaction, credit risk management was crucial and Enron's credit was the cornerstone that gave the energy community the confidence that EOL provided a safe transaction environment. EOL became an overnight success, handling $335 billion in online commodity trades in 2000.

The world of technology opened up the Internet, and the IPO market for technology and broadband communications companies started to take off. In January 2000 Enron announced an ambitious plan to build a high-speed broadband telecommunications network and to trade network capacity, or bandwidth, in the same way it traded electricity or natural gas. In July of that year Enron and Blockbuster announced a deal to provide video on demand to customers throughout the world via high-speed Internet lines. As Enron poured hundreds of millions into broadband with very little return, Wall Street rewarded the strategy with as much as $40 on the stock price—a factor that would have to be discounted later when the broadband bubble burst. In August 2000 Enron's stock hit an all-time high of $90.56, and the compan was being touted by *Fortune* and other business publications as one of the most admired and innovative companies in the world.

THE ROLE OF MARK-TO-MARKET ACCOUNTING

Enron incorporated "mark-to-market accounting" for the energy trading business in the mid-1990s and used it on an unprecedented scale for its trading transactions. Under mark-to-market rules, whenever companies have outstanding energy-related or other derivative contracts (either assets or liabilities) on their balance sheets at the end of a particular quarter, they must adjust them to fair market value, booking unrealized gains or losses to the income statement of the period. A difficulty with application of these rules in accounting for long-term futures contracts in commodities such as gas is that there are often no quoted prices upon which to base valuations. Companies having these types of derivative instruments are free to develop and use discretionary valuation models based on their own assumptions and methods.

The Financial Accounting Standards Board's (FASB) emerging issues task force has debated the subject of how to value and disclose energy-related contracts for several years. It has been able to conclude only that a one-size-fits-all approach will not work and that to require companies to disclose all of the assumptions and estimates underlying earnings would produce disclosures that were so voluminous they would be of little value. For a company such as Enron, under continuous pressure to beat earnings estimates, it is possible that valuation estimates might have considerably overstated earnings. Furthermore, unrealized trading gains accounted for slightly more than half of the company's $1.41 billion reported pretax profit for 2000 and about one-third of its reported pretax profit for 1999.

CAPITALISM AT WORK

In the latter part of the 1990s, companies such as Dynegy, Duke Energy, El Paso and Williams began following Enron's lead. Enron's competitive advantage, as well as its huge profit margins, had begun to erode by the end of 2000. Each new market entrant's successes squeezed Enron's profit margins further. It ran with increasing leverage, thus becoming more like a hedge fund than a trading company. Meanwhile, energy prices began to fall in the first quarter of 2001 and the world economy headed into a recession, thus dampening energy market volatility and reducing the opportunity for the large, rapid trading gains that had formerly made Enron so profitable. Deals, especially in the finance division, were done at a rapid pace without much regard to whether they aligned with the strategic goals of the company or whether they complied with the company's risk management policies. As one knowledgeable Enron employee put it: "Good deal vs. bad deal? Didn't matter. If it had a positive net present value (NPV) it could get done. Sometimes positive NPV didn't even matter in the name of strategic significance." Enron's foundations were developing cracks and Skilling's house of paper built on the stilts of trust had begun to crumble.

RELATED PARTIES AND COMPLEX SPECIAL PURPOSE ENTITIES

In order to satisfy Moody's and Standard & Poor's credit rating agencies, Enron had to make sure the company's leverage ratios were within acceptable ranges. Fastow continually lobbied the ratings agencies to raise Enron's credit rating, apparently to no avail. That notwithstanding, there were other ways to lower the compan s debt ratio. Reducing hard assets while earning increasing paper profits served to increase Enron's return on assets (ROA) and reduce its debt-to-total-assets ratio, making the company more attractive to credit rating agencies and investors.

Enron, like many other companies, used "special purpose entities" (SPEs) to access capital or hedge risk. By using SPEs such as limited partnerships with outside parties, a company is permitted to increase leverage and ROA without having to report debt on its balance sheet. The company contributes hard assets and related debt to an SPE in exchange for an interest. The SPE then borrows large sums of money from a financial institution to purchase assets or conduct other business without the debt or assets showing up on the company's financial statements. The company can also sell leveraged assets to the SPE and book a profit. To avoid classification of the SPE as a subsidiary (thereby forcing the entity to include the SPE's financial position and results of operations in its financial statements), FASB guidelines require that only 3% of the SPE be owned by an outside investor.

Under Fastow's leadership, Enron took the use of SPEs to new heights of complexity and sophistication, capitalizing them with not only a variety of hard assets and liabilities, but also extremely complex derivative financial instruments, its own restricted stock, rights to acquire its stock and related liabilities. As its financial dealings became more complicated, the company apparently also used SPEs to "park" troubled assets that were falling in value, such as certain overseas energy facilities, the broadband operation or stock in companies that had been spun off to the public. Transferring these assets to SPEs meant their losses would be kept off Enron's books. To compensate partnership investors for downside risk, Enron promised issuance of additional shares of its stock. As the value of the assets in these partnerships fell, Enron began to incur larger and larger obligations to issue its own stock later down the road. Compounding the problem toward the end was the precipitous fall in the value of Enron stock. Enron conducted business through thousands of SPEs. The most controversial of them were LJM Cayman LP and LJM2 Co-Investment LP, run by Fastow himself. From 1999 through July 2001, these entities paid Fastow more than $30 million in management fees, far more than his Enron salary, supposedly with the approval of top management and Enron's board of directors. In turn, the LJM partnerships invested in another group of SPEs, known as the Raptor vehicles, which were designed in part to hedge an Enron investment in a bankrupt broadband company, Rhythm NetConnections. As part of the capitalization of the Raptor entities, Enron issued common stock in exchange for a note receivable of $1.2 billion. Enron increased notes receivable and shareholders' equity to reflect this transaction, which appears to violate generally accepted accounting principles. Additionally, Enron failed to consolidate the LJM and Raptor SPEs into their financial statements when subsequent information revealed they should have been consolidated.

OBSCURE DISCLOSURES REVEALED

A very confusing footnote in Enron's 2000 financial statements described the above transactions. Douglas Carmichael, the Wollman Distinguished Professor of Accounting at Baruch College in New York City, told the *Wall Street Journal* in November of 2001 that most people would be hard pressed to understand the effects o these disclosures on the financial statements, casting doubt on both the quality of the company's earnings as well as the business purpose of the transaction. By April 2001 other skeptics arrived on the scene. A number of analysts questioned the lack of transparency of Enron's disclosures. One analyst was quoted as saying, "The notes just don't make sense, and we read notes for a living." Skilling was very quick to reply with arrogant comments and, in one case, even called an analyst a derogatory name. What Skilling and Fastow apparently underestimated was that, because of such actions, the market was beginning to perceive the company with greater and greater skepticism, thus eroding its trust and the company's reputation.

IT ALL COMES TUMBLING DOWN

In February 2001 Lay announced his retirement and named Skilling president and CEO of Enron. In February Skilling held the company's annual conference with analysts, bragging that the stock (then valued around $80) should be trading at around $126 per share.

In March Enron and Blockbuster announced the cancellation of their video-on-demand deal. By that time the stock had fallen to the mid-$60s. Throughout the spring and summer, risky deals Enron had made in underperforming investments of various kinds began to unravel, causing it to suffer a huge cash shortfall. Senior management, which had been voting with its feet since August 2000, selling Enron stock in the bull market, continued to exit, collectively hundreds of millions of dollar richer for the experience. On August 14, just six months after being named CEO, Skilling himself resigned, citing "personal reasons." The stock price slipped below $40 that week and, except for a brief recovery in early October after the sale of Portland General, continued its slide to below $30 a share.

Also in August, in an internal memorandum to Lay, a company vice-president, Sherron Watkins, described her reservations about the lack of disclosure of the substance of the related party transactions with the SPEs run by Fastow. She concluded the memo by stating her fear that the company might "implode under a serie of accounting scandals." Lay notified the company's attorneys, Vinson & Elkins, as well as the audit partner at Enron's auditing firm, Arthur Andersen LLP, so the matter could be investigated further. The proverbial "ship" of Enron had struck the iceberg that would eventually sink it.

On October 16 Enron announced its first quarterly loss in more than four years after taking charges of $1 billion on poorly performing businesses. The company terminated the Raptor hedging arrangements which, if they had continued, would have resulted in its issuing 58 million Enron shares to offset the company's private equity losses, severely diluting earnings. It also disclosed the reversal of the $1.2 billion entry to assets and equities it had made as a result of dealings with these arrangements. It was this disclosure that got the SEC's attention.

On October 17 the company announced it had changed plan administrators for its employees' 401(k) pension plan, thus by law locking their investments for a period o 30 days and preventing workers from selling their Enron stock. The company contends this decision had in fact been made months earlier. However true that might be the timing of the decision certainly has raised suspicions.

On October 22 Enron announced the SEC was looking into the related party transactions between Enron and the partnerships owned by Fastow, who was fired two days later. On November 8 Enron announced a restatement of its financial statements back to 1997 to reflect consolidation of the SPEs it had omitted, as well as to book Andersen's recommended adjustments from those years, which the company had previously "deemed immaterial." This restatement resulted in another $591 million in losses over the four years as well as an additional $628 million in liabilities as of the end of 2000. The equity markets immediately reacted to the restatement driving the stock price to less than $10 a share. One analyst's report stated the company had burned through $5 billion in cash in 50 days.

A merger agreement with smaller cross-town competitor Dynegy was announced on November 9, but rescinded by Dynegy on November 28 on the basis of Enron's lack of full disclosure of its off-balance-sheet debt, downgrading Enron's rating to junk status. On November 30 the stock closed at an astonishing 26 cents a share. The company filed for bankruptcy protection on December 2.

THE AFTERMATH

Unquestionably, the Enron implosion has wreaked more havoc on the accounting profession than any other case in U.S. history. Critics in the media, Congress and elsewhere are calling into question not only the adequacy of U.S. disclosure practices but also the integrity of the independent audit process. The general public still questions how CPA firms can maintain audit independence while at the same time engaging in consulting work, often for fees that dwarf those of the audit. Companie that deal in special purpose entities and complex financial instruments similar to Enron's have suffered significant declines in their stock prices. The scandal threatens to undermine confidence in financial markets in the United States and abroad.

In a characteristic move, the SEC and the public accounting profession have been among the first to respond to the Enron crisis. Unfortunately, and sadly reminiscent of financial disasters in the 1970s and 1980s, this response will likely be viewed by investors, creditors, lawmakers and employees of Enron as "too little, too late."

In an "op-ed" piece for the *Wall Street Journal* on December 11, SEC Chairman Harvey Pitt called the current outdated reporting and financial disclosure system the financial "perfect storm." He stated that under the current quarterly and annual reporting system, information is often stale on arrival and mandated financial disclosure are often "arcane and impenetrable." To reassure investors and restore confidence in financial reporting, Pitt called for a joint response from the public and private sectors that included, among other things,

A system of "current" disclosures, supplementing and updating quarterly and annual information with disclosure of material information on a real-time basis.

Public company disclosure of significant current "trend" and "evaluative" data in addition to historical information.

Identification of "most critical accounting principles" by all public companies in their annual reports.

More timely and responsive accounting standard setting on the part of the private sector.

An environment of cooperation between the SEC and registrants that encourages public companies and their auditors to seek advice on disclosure issues in advance

An effective and transparent system of self-regulation for the accounting profession, subject to SEC’s rigorous, but nonduplicative, oversight.

More proactive oversight by audit committees who understand financial accounting principles as well as how they are applied.

The CEOs of the Big Five accounting firms made a joint statement on December 4 committing to develop improved guidance on disclosure of related party transactions, SPEs and market risks for derivatives including energy contracts for the 2001 reporting period. In addition, the Big Five called for modernization of the financial reporting system in the United States to make it more timely and relevant, including more nonfinancial information on entity performance. They also vowed to streamline the accounting standard-setting process to make it more responsive to the rapid changes that occur in a technology-driven economy.

Since the Enron debacle, the AICPA has been engaged in significant damage control measures to restore confidence in the profession, displaying the banner “Enron: The AICPA, the Profession, and the Public Interest” on its Web site. It has announced the imminent issuance of an exposure draft on a new audit standard on fraud (the third in five years), providing more specific guidance than currently found in SAS no. 82, *Consideration of Fraud in a Financial Statement Audit* . The Institute has also promised a revised standard on reviews of quarterly financial statements, as well as the issuance, in the second quarter of 2002, of an exposure draft of a standard to improve the audit process. These standards had already been on the drawing board as part of the AICPA’s response to the report of the Blue Ribbon Panel on Audit Effectiveness, issued in 2000.

In late December the AICPA issued a tool kit for auditors to use in identifying and auditing related party transactions. While it breaks no new ground, the tool kit provides, in one place, an overview of the accounting and auditing literature, SEC requirements and best practice guidance concerning related party transactions. It also includes checklists and other tools for auditors to use in gathering evidence and disclosing related party transactions.

In January the AICPA board of directors announced that it would cooperate fully with the SEC’s proposal for new rules for the peer review and disciplinary process for CPA firms of SEC registrants. The new system would be managed by a board, a majority of which would be public members, enhancing the peer review process for the largest firms and requiring more rigorous and continuous monitoring. The staff of the new board would administer the reviews. In protest, the Public Oversight Board informed Pitt that it would terminate its existence in March 2002, leaving the future peer review process in a state of uncertainty. The SEC and the AICPA are now engaged in talks with the POB to reassure the board it will continue to be a vital part of the peer review process in the future.

The AICPA has also approved a resolution to support prohibitions that would prevent audit firms from performing systems design and implementation as well as internal audit outsourcing for public audit clients. While asserting that it does not believe prohibition of these services will make audits more effective or prevent financial failures, the board has stated it feels the move is necessary to restore public confidence in the profession. These prohibitions were at the center of the controversy last year between the profession and the SEC under the direction of former Chairman Arthur Levitt. Big Five CPA firms and the AICPA lobbied heavily and prevailed in that controversy, winning the right to retain these services and being required only to disclose their fees.

The impact of Enron is now being felt at the highest levels of government as legislators engage in endless debate and accusation, quarreling over the influence of money in politics. The GAO has requested that the White House disclose documents concerning appointments to President George W. Bush’s Task Force on Energy chaired by Vice-President Dick Cheney, former CEO of Halliburton. The White House has refused, and the GAO has filed suit, the first of its kind in history.

Congressional investigations are expected to continue well into 2002 and beyond. Lawmakers are expected to investigate not only disclosure practices at Enron, but for all public companies, concerning SPEs, related party transactions and use of “mark-to-market” accounting.

Kenneth Lay resigned as Enron’s CEO, under pressure from creditor groups. Lay, Skilling and Fastow still have much to explain. In addition, Enron’s board of directors, and especially the audit committee, will be in the “hot seat” and rightfully so.

The Justice Department opened a criminal investigation and formed a national task force made up of federal prosecutors in Houston, San Francisco, New York and several other cities to investigate the possibility of fraud in the company’s dealings. Interestingly, to illustrate how far-reaching Enron’s ties are to government and political sources at all levels, U.S. Attorney General John Ashcroft, as well as his entire Houston office, disqualified themselves from the investigation because of either political, economic or family ties.

It appears that 2002 is shaping up to be a year of unprecedented changes for a profession that is already coping with an identity crisis.

WHERE WERE THE AUDITORS?

Arthur Andersen LLP, after settling two other massive lawsuits earlier in 2001, is preparing for a storm of litigation as well as a possible criminal investigation in the wake of the Enron collapse. Enron was the firm’s second-largest client. Andersen, who had the job not only of Enron’s external but also its internal audits for the years in question, kept a staff on permanent assignment at Enron’s offices. Many of Enron’s internal accountants, CFOs and controllers were former Andersen executives. Because of these relationships, as well as Andersen’s extensive concurrent consulting practice, members of Congress, the press and others are calling Andersen’s audit independence into question. Indeed, they are using the case to raise doubts about the credibility of the audit process for all Big Five firms who do such work.

So far, Andersen has acknowledged its role in the fiasco, while defending its accounting and auditing practices. In a *Wall Street Journal* editorial on December 4, as well as in testimony before Congress the following week, Joseph Berardino, CEO, was forthright in his views. He committed the firm to full cooperation in the investigations as well as to a leadership role in potential solutions.

Enron dismissed Andersen as its auditor on January 17, 2002, citing document destruction and lack of guidance on accounting policy issues as the reasons. Andersen countered with the contention that in its mind the relationship had terminated on December 2, 2001, the day the firm filed for Chapter 11 bankruptcy protection.

The fact that Andersen is no longer officially associated with Enron will, unfortunately, have little impact on forces now in place that may, in the eyes of some, determine the firm’s very future. Andersen is now under formal investigation by the SEC as well as various committees of both the U.S. Senate and House of Representatives of the U.S. Congress. To make matters worse for it, and to the astonishment of many, Andersen admitted it destroyed perhaps thousands of documents and electronic files related to the engagement, in accordance with “firm policy,” supposedly before the SEC issued a subpoena for them. The firm’s lawyer issued an internal memorandum on October 12 reminding employees of the firm’s document retention and destruction policies. The firm fired David B. Duncan, partner in charge of the Enron engagement, placed four other partners on leave and replaced the entire management team of the Houston office. Duncan invoked his Fifth Amendment rights against self-incrimination at a congressional hearing in January. Several other Andersen partners testified that Duncan and his staff acted in violation of firm policy. However, in view of the timing of the October 12 memorandum, Congress and the press are questioning whether the decision to shred documents extended farther up the chain of command. Andersen has suspended its firm policy for retention of records and asked former U.S. Senator John Danforth to conduct a comprehensive review of the firm's records management policy and to recommend improvements.

In a move to bolster its image, Andersen also has retained former Federal Reserve Chairman Paul Volcker to lead an outside board that will advise it in making "fundamental change" in its audit process. Other members of the board include P. Roy Vagelos, former chairman and CEO of Merck & Co., and Charles A. Bowsher, current chairman of the Public Oversight Board, which disbanded in March. Volcker also named a seven-member advisory panel made up of prominent corporate and accounting executives that will review proposed reforms to the firm's audit process.

Hindsight is so clear that it sometimes belies the complexity of the problem. Although fraud has not yet been proven to be a factor in Enron's misstatements, some of the classic risk factors associated with management fraud outlined in SAS no. 82 are evident in the Enron case. Those include management characteristics, industry conditions and operating characteristics of the company. Although written five years ago, the list almost looks as if it was excerpted from Enron's case:

Unduly aggressive earnings targets and management bonus compensation based on those targets.

Excessive interest by management in maintaining stock price or earnings trend through the use of unusually aggressive accounting practices.

Management setting unduly aggressive financial targets and expectations for operating personnel.

Inability to generate sufficient cash flow from operations while reporting earnings and earnings growth.

Assets, liabilities, revenues or expenses based on significant estimates that involve unusually subjective judgments such as…reliability of financial instruments.

Significant related party transactions.

These factors are common threads in the tapestry that is described of the environment leading to fraud. They were incorporated into SAS no. 82 on the basis of research into fraud cases of the 1970s and 1980s in the hope that auditors would learn from the past. Andersen will have to explain when and how it identified these factors, as well as how it responded and how it communicated with Enron's board about them.

More important, Andersen will have to explain why it delayed notifying the SEC after learning of the internal Enron memo warning of problems. In addition, it will have to explain why the Houston office destroyed the thousands of documents related to the Enron audits for 1997 through 2000. Only time will tell, but it appears the firm i in serious trouble. In the end, and also characteristic of cases like this, the chief parties likely to benefit from this process are the attorneys.

THE HUMAN FACTOR

The Enron story has produced many victims, the most tragic of which is a former vice-chairman of the company who committed suicide, apparently in connection with his role in the scandal. Another 4,500 individuals have seen their careers ended abruptly by the reckless acts of a few. Enron's core values of respect, integrity, communication and excellence stand in satirical contrast to allegations now being made public. Personally, I had referred several of our best and brightest accounting finance and MBA graduates to Enron, hoping they could gain valuable experience from seeing things done right. These included a very bright training consultant who had lost her job in 2000 with a Houston consulting firm as a result of a reduction in force. She has lost her second job in 18 months through no fault of her own. Other former students still hanging on at Enron face an uncertain future as the company fights for survival.

The old saying goes, "Lessons learned hard are learned best." Some former Enron employees are embittered by the way they have been treated by the company that was once "the best in the business." Others disagree. In the words of one of my former students who is still hanging on: "Just for the record, my time and experience a Enron have been nothing short of fantastic. I could not have asked for a better place to be or better people to work with. Please, though, remember this: Never take customer and employee confidence for granted. That confidence is easy to lose and tough—to impossible—to regain."

C. WILLIAM THOMAS, CPA, Ph.D. *, is the J.E. Bush Professor of Accounting in the Hankamer School of Business at Baylor University in Waco. Mr. Thomas can be reached at Bill_Thomas@baylor.edu . This article originally appeared in the March/April 2002 issue of* Today's CPA *, published by the Texas Society of CPAs.*

Enron: History of Human Rights Abuse in India

2002-01-24 · Needs Investigation (Score 0.60) · Auto hrw.org

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

police arrested abuse abuses investigate violations abusive bankruptcy collapsed corruption debts killed

Enron: History of Human Rights Abuse in India

(New York) -- The human rights abuses that plagued the Enron Corporation's Dabhol power plant in India from 1992 to 1998 demonstrate the need for U.S. government agencies to scrutinize such controversial projects more closely, Human Rights Watch said today.
In 1999, Human Rights Watch charged in a 166-page report, " The Enron Corporation: Corporate Complicity in Human Rights Violations ," that Enron subsidiaries pai local law enforcement to suppress opposition to its power plant south of Bombay.
"Enron is now being widely accused of arrogance and lack of transparency, but the people of Dabhol have known that all along," said Arvind Ganesan, director of the Business and Human Rights Program at Human Rights Watch. "Enron was complicit in human rights abuse in India for several years."
Local opposition to the Enron project began in 1992 over concerns about corruption and the hasty negotiations over the terms of Enron's investment. Farmers complained that the power plant had unfairly acquired their land and had diverted scarce water for its needs. Local activists raised concerns over potential environmental damage.
The U.S. government bears special responsibility for the human rights consequences of Enron's investment because of its aggressive lobbying on behalf of the three U.S.-based companies developing the project, Ganesan said. Although the Indian press widely reported the human rights troubles around the power plant, U.S. officials failed to investigate the matter.
The World Bank repeatedly refused to finance the project because it was "not economically viable," but the U.S. government extended between $290 million and $30(million in loan guarantees to Enron for its investment in Dabhol.
The Export-Import Bank requires an analysis of the human rights implications of its loans. But the State Department's entire human rights assessment for one Export-Import Bank loan for the Dabhol project read, "The State Department has no objection to this case on political grounds or on the basis of human rights issues."
"U.S. taxpayers funded corporate complicity in human rights abuse," said Ganesan. "Congress should make sure that never happens again." Ganesan urged the U.S Congress to establish a human rights assessment office at the U.S. Export-Import Bank to report to Congress.
A provision was introduced in the U.S. Congress during 2001 to strengthen the Export-Import Bank's human rights oversight. But the Bush Administration, the head of the Export-Import Bank itself, and many members of the U.S. business community opposed the provision, which was "killed" by a committee of the House of Representatives in November 2001.
The 1999 Human Rights Watch report documents how contractors for the Dabhol Power Corporation harassed and attacked individuals opposed to the power plant. Police refused to investigate complaints, and in several cases, actually arrested the victims on trumped-up charges. The Dabhol Power Corporation, under provisions of law, reimbursed the abusive state forces for the security they provided to the company. These forces, located adjacent to the project site, were stationed there largely for the purpose of dealing with protests. While they reported to local police, their expenses were paid by the company, a subsidiary of Enron.
In one instance in June 1997, Maharashtra police raided a fishing village where many residents opposed the power plant. They arbitrarily beat and arrested dozens o villagers, including Sadhana Bhalekar, the wife of a well-known protester against the plant. They broke down the door and window of Bhalekar's bathroom and dragged her naked out into the street, beating her with batons. Bhalekar was three months pregnant at the time. In another instance in May 1997, police beat and arrested nearly 180 protesters who were demonstrating peacefully outside the company gates. The protests had largely ended by 1998.
Since the project's inception in 1992, Enron and the government of Maharashtra state, where the power plant is located, repeatedly ignored public complaints. "Dabho Power Corporation would not tolerate any human rights abuses by its employees and sub-contractors," the company said in a 1997 statement. "If you have concerns about police actions, we suggest that you take it up with the police or government body that is responsible for their operations." In 2000, Enron began to take steps to address future violations, but those efforts ended when the company collapsed.
Because of the plant's high cost of power, the Maharashtra state government announced in June 2001 that it was terminating its agreement with the Dabhol Power Corporation (DPC). Shortly after, DPC ceased operations and insisted that the government repay its debts. The dispute continued, but was further complicated when Enron declared bankruptcy on December 2, 2001. On January 17, 2002, Enron reportedly filed an approximately $200 million claim with the U.S. government's Overseas Private Investment Corporation in an attempt to recoup losses from the Dabhol Power Corporation. The project is up for sale to other investors.

CFTC Press Release 4762-03

Needs Investigation (Score 0.59) · Auto cftc.gov

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

illegal manipulation alleges allegations bankruptcy defendant defendants investigation penalties police manipulating

CFTC Press Release 4762-03

Release: 4762-03
For Release: March 12, 2003

CFTC CHARGES ENRON WITH PRICE MANIPULATION AND OTHER ILLEGAL ACTS
Enron and Former Enron Vice President Charged With Manipulating Prices in Natural Gas Market; Enron Charged Further With Operating an Illegal, Undesignated Futures Exchange and Offering Illegal Lumber Futures Contracts Through Its Internet Trading Platform
WASHINGTON, D.C. - The U.S. Commodity Futures Trading Commission (CFTC) announced today the filing of a complaint in federal district court in Houston, Texas charging defendants **Enron Corp** . (Enron), an Oregon Corporation headquartered in Houston, and **Hunter S. Shively** (Shively) of Houston, Texas, with manipulation or attempted manipulation, and charging Enron with operating an illegal futures exchange, and trading an illegal, off-exchange agricultural futures contract.
Until its bankruptcy in December 2001, Enron was one of the largest energy companies in the United States. Its natural gas trading unit was based in Houston and managed several natural gas over-the-counter (OTC) products. Enron's natural gas trading unit was divided into geographical regions and included a natural gas futures desk. Shively was the desk manager for Enron's Central Desk from May 1999 through December 2001.
From November 1999 through at least December 2001, Enron Online (EOL) was Enron's web-based electronic trading platform for wholesale energy, swaps, and other commodities, including the Henry Hub (HH) natural gas next-day spot contract that was delivered at the HH natural gas facility in Louisiana. The HH is the delivery point for the natural gas futures contract traded on the New York Mercantile Exchange (NYMEX), and prices in the HH Spot Market are correlated with the NYMEX natural gas futures contract. During its existence, EOL became a leading platform for natural gas spot and swaps trading.

The complaint charges that on July 19, 2001, Shively, through EOL, caused Enron to purchase an extraordinarily large amount of HH Spot Market natural gas within a short period of time, causing artificial prices in the HH Spot Market and impacting the correlated NYMEX natural gas futures price.

The complaint also charges Enron with operating EOL as an illegal futures exchange from September through December 2001. According to the complaint, in September 2001, Enron modified EOL to effectively allow outside users to post bids and offers. Enron listed at least three swaps on EOL that were commodity futures contracts. The complaint further alleges that with this modification, Enron was required to register or designate EOL with the CFTC or notify the CFTC that EOL was exempt from registration. Enron failed to do either of these things, and the complaint charges that, because of this failure, EOL became an illegal futures exchange.

Finally, the complaint charges Enron with offering an illegal agricultural futures contract on EOL. According to the complaint, between at least December 2000 and December 2001, Enron offered a product on EOL it called the US Financial Lumber Swap. The complaint alleges that the EOL lumber swap was an agricultural future contract that was not traded on a designated exchange or otherwise exempt, and therefore was an illegal agricultural futures contract.

The CFTC is seeking against each defendant a permanent injunction, civil monetary penalties and other remedial and ancillary relief.

In announcing today's filing, CFTC Chairman James E. Newsome commented on the action:

"These charges are part of a continuing effort by Commission staff to police the markets. The Commission's investigation into Enron is ongoing, and the Commission continues to aggressively ensure the integrity of markets over which the Commission has jurisdiction."

Gregory G. Mocek, Director of the CFTC's Division of Enforcement noted:

"The CFTC is committed to aggressive enforcement of the Commodity Exchange Act. Today's filing demonstrates this fact. This is the first step in addressing Enron's violative conduct. We will continue to pursue all other allegations against the company and its employees. I am very proud of the work of the staff of the Division of Enforcement in bringing this action today."

The following CFTC Division of Enforcement staff members are responsible for this case: Gregory G. Mocek, Vincent McGonagle, Susan B. Bovee, Stephen J. Obie, Lenel Hickson, Jr., David Acevedo, W. Derek Shakabpa, John R. Velasquez, Jr., David W. MacGregor, Joseph Rosenberg, Gregory Compa and John J. Cipriani. The Commission would like to thank the Enron Task Force for its assistance and continuous leadership in cooperative enforcement.

To see a copy of the complaint, go to the following Internet web address http://www.cftc.gov/

Media Case Contact: Vincent A. McGonagle Deputy Director, CFTC Division of Enforcement, Washington, D.C.

(202) 418-5387

# # #

SEC Settles Enforcement Proceedings against J.P. Morgan Chase and Citigroup

Needs Investigation (Score 0.55) · Auto sec.gov

After reviewing the content of this article, it could not be ruled out as a false positive alert for Enron. Additional information was not provided for Enron and, therefore, not used when evaluating this alert. Please review manually.

fraud alleged debt laws allegations penalty violation alleges bankruptcy defendants imposing investigation investigations manipulate manipulating manipulation misconduct sanctions violating attorney litigation

SEC Settles Enforcement Proceedings against J.P. Morgan Chase and Citigroup

Citigroup Agrees to Pay $120 Million to Settle SEC Allegations that It Helped Enron and Dynegy Commit Fraud

Washington, D.C., July 28, 2003 -- The Securities and Exchange Commission today instituted and settled enforcement proceedings against two major financial institutions, J.P. Morgan Chase & Co. and Citigroup, Inc., for their roles in Enron Corp.'s manipulation of its financial statements. Each institution helped Enron mislead its investors by characterizing what were essentially loan proceeds as cash from operating activities. The proceeding against Citigroup also resolves the Commission's charges stemming from the assistance Citigroup provided Dynegy Inc. in manipulating that company's financial statements through similar conduct.

As to J.P. Morgan Chase, the Commission filed a civil injunctive action in U.S. District Court in Texas. Without admitting or denying the Commission's allegations, J.P. Morgan Chase consented to the entry of a final judgment in that action that would (i) permanently enjoin J.P. Morgan Chase from violating the antifraud provisions of the federal securities laws, and (ii) order J.P. Morgan Chase to pay $135 million as disgorgement, penalty, and interest.

As to Citigroup, the Commission instituted an administrative proceeding and issued an order making findings and imposing sanctions. Without admitting or denying the Commission's findings, Citigroup consented to the issuance of the Commission's Order whereby Citigroup (i) was ordered to cease and desist from committing or causing any violation of the antifraud provisions of the federal securities laws, and (ii) agreed to pay $120 million as disgorgement, interest, and penalty. Of that amount, $101 million pertains to Citigroup's Enron-related conduct and $19 million pertains to the Dynegy conduct.

The Commission intends to direct the money paid by J.P. Morgan Chase and Citigroup to fraud victims ($236 million to Enron fraud victims and $19 million to Dynegy fraud victims) pursuant to the Fair Fund provisions of Section 308(a) of the Sarbanes-Oxley Act of 2002.

"These two cases serve as yet another reminder that you can't turn a blind eye to the consequences of your actions — if you know or have reason to know that you are helping a company mislead its investors, you are in violation of the federal securities laws," said Stephen M. Cutler, Director of SEC's Enforcement Division. His deputy, Linda Chatman Thomsen, added: "As today's actions illustrate, we intend to continue to hold counter-parties responsible for helping companies manipulate their reported results. Financial institutions in particular should know better than to enter into structured transactions where the structure is determined solely by accounting and reporting wishes of a public company."

J.P. Morgan Chase and Citigroup engaged in, and indeed helped their clients design, complex structured finance transactions. The structural complexity of these transactions had no business purpose aside from masking the fact that, in substance, they were loans. As alleged in the charging documents, by engaging in certain structural contortions, these financial institutions helped their clients: (1) inflate reported cash flow from operating activities; (2) underreport cash flow from financing activities; and (3) underreport debt. As a result, Enron and Dynegy presented false and misleading pictures of their financial health and results of operations. Significantly, with respect to Enron, both financial institutions knew that Enron engaged in these transactions specifically to allay investor, analyst, and rating agency concerns about its cash flow from operating activities and outstanding debt. Citigroup knew that Dynegy had similar motives for its structured finance transaction.

As alleged by the Commission, these institutions knew that Enron engaged in the structured finance transactions that are the subject of today's Commission actions to match its so-called mark-to-market earnings (paper earnings based on changes in the market value of certain assets held by Enron) with cash flow from operating activities. As alleged, by matching mark-to-market earnings with cash flow from operating activities, Enron sought to convince analysts and credit rating agencies that its reported mark-to-market earnings were real, *i.e.* , that the value of the underlying assets would ultimately be converted into cash.

The Commission further alleges that these institutions also knew that these structured finance transactions yielded another substantial benefit to Enron: they allowed Enron to hide the true extent of its borrowings from investors and rating agencies because sums borrowed in these structured finance transactions did not appear as "debt" on Enron's balance sheet. Instead they appeared as "price risk management liabilities," "minority interest," or otherwise. In addition, Enron's obligation to repay those sums was not otherwise disclosed.

Specifically as to J.P. Morgan Chase, the Commission's allegations stem from J.P. Morgan Chase's participation in so-called prepay transactions with Enron which were loans disguised as commodity trades to achieve Enron's reporting and accounting objectives. These prepays were in substance loans because their structure eliminated all commodity price risk that would normally exist in commodity trades. This was accomplished through a series of trades whereby Enron passed the commodity price risk to a J.P. Morgan Chase-sponsored special purpose vehicle, which passed the risk to J.P. Morgan Chase, which, in turn, passed the risk back to Enron. While each step of this structure appeared to be a commodity trade, with all elements of the structure taken together, Enron received cash upfront and agreed to future repayment of that cash with negotiated interest. The interest amount was set at the time of the contract, was calculated with reference to LIBOR, and was independent of any changes in the price of the underlying commodity. The only risk in the transactions was J.P. Morgan Chase's risk that Enron would not make its payments when due, *i.e.* , credit risk.

The Commission's action with respect to Citigroup also stems from certain prepay transactions with Enron that, while structured somewhat differently than the Chase transactions, had the same overall purpose and effect. Like the J.P. Morgan Chase prepays, the Citigroup prepays passed the commodity price risk from Enron to a Citigroup-sponsored special purpose vehicle to Citigroup and back to Enron. As in the J.P. Morgan Chase prepays, Enron's future obligations under the Citigroup prepays consisted of repayments of principal and interest that were independent of any changes in the price of the underlying commodity.

Additionally, the Commission's action against Citigroup is based on two other transactions with Enron, Project Nahanni and Project Bacchus, each of which was also a structure that transformed cash from financing into cash from operations. As the Commission found, in project Nahanni, Citigroup knowingly helped Enron structure a transaction, that allowed Enron to generate cash from operating activities by selling Treasury bills bought with the proceeds of a loan. Project Bacchus was structured by Enron as a sale of an interest in certain of its pulp and paper businesses to a special purpose entity capitalized by Citigroup with a $194 million loan and $6 million in equity. According to the Commission, however, in substance, Project Bacchus was a $200 million financing from Citigroup, because Citigroup was not at risk for its equity investment in the project.

The Citigroup action also contains findings relating to a transaction with Dynegy — Project Alpha — which was a complex financing that Dynegy used to borrow $300 million. According to the Commission's findings, Citigroup knew that Dynegy implemented Alpha to address the mismatch between its mark-to-market earnings and operating cash flow, and that it characterized as cash from operations what was essentially a loan transaction. As Citigroup knew, Dynegy, too, was concerned that the mismatch between earnings and cash flow from operations would raise questions about the quality of Dynegy's earnings and its ability to sustain those earnings.

In determining to settle its action against Citigroup, the Commission took into account Citigroup's cooperation with the Commission's investigation, as well as its timely efforts to resolve the matter.

The Commission brought its Enron-related actions in coordination with the New York County District Attorney's Office, which, also today, entered into settlement agreements with J.P. Morgan Chase and Citigroup.

The Commission also acknowledges the assistance of the Federal Reserve Bank of New York, the Office of the Comptroller of the Currency, and the New York State Banking Department in connection with today's Enron-related actions. Today, the Federal Reserve Bank of New York and the Office of the Comptroller of the Currency entered into separate written agreements with Citigroup. The Federal Reserve Bank of New York and the New York State Banking Department entered into a written agreement with J.P. Morgan Chase. These agreements, between the institutions and their primary banking regulators, obligate them to enhance their risk management programs and internal controls so as to reduce the risk of similar misconduct.

With these two actions, the Securities and Exchange Commission has raised to six the total number of separate actions it has brought in connection with the Enron matter in the twenty months since Enron declared bankruptcy. The various defendants and respondents include three major financial institutions, Enron's former Chief Financial Officer, and eight other former senior Enron executives. The commission has so far garnered $324 million for the benefit of the victims of the Enron fraud.

The Commission's investigations relating to Enron and Dynegy are continuing.

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Additional Materials Available at www.sec.gov

See Also: *SEC v. J.P. Morgan Chase* (Litigation Release No. 18252); In the Matter of Citigroup, Inc. (Securities Exchange Act of 1934 Release No. 34-48230 ; Accounting and Auditing Enforcement Release No. 1821; Administrative Proceeding File No. 3-11192)

Information Released in Enron Investigation

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investigation

Information Released in Enron Investigation

The featured links below go to data related to FERC's Western Energy Markets investigation. Most of the data linked through this page is hosted by CACI outside of FERC's website.

You may search for *emails, scanned documents,* and *transcripts* inside XERA . *Audio files, datasets,* and other *miscellaneous files* are inside CACI's server file directory. You may also try these predefined eLibrary searches for other documents.

If you have questions or comments, please contact CACI by email .

XERA is the online document repository software hosted by CACI in the cloud through which you may search and access Enron Investigation databases of emails, scanned documents, and transcripts. Search XERA

Instructions

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Enron Email (Enron Email, Enron Email Re-released (additional email data)), Enron Email PST, Enron Email PST Re-released (additional PST email data) - Database consisting of 92% of Enron's staff emails.

Scanned Documents (Scanned Documents, Scanned Documents Re-released (additional scanned documents)) - Over 85,000 records and over 150,000 scanned pages in TIFF format of documents provided to FERC during the investigation. Scanned images underwent an optical character recognition (OCR) process that created computer-readable full text which is included as a field in each record.

Transcripts - 40 transcripts related to this case.

The following data is stored in a file directory in CACI servers. Audio files, data sets and other miscellaneous files are found inside this directory. Browse File Director

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This page was last updated on June 10, 2020

How the Enron Scandal Changed American Business Forever

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How the Enron Scandal Changed American Business Forever

It's the kind of historic anniversary few people really want to remember.

In early December 2001, innovative energy company Enron Corporation, a darling of Wall Street investors with $63.4 billion in assets, went bust. It was the largest bankruptcy in U.S. history. Some of the corporation's executives, including the CEO and chief financial officer, went to prison for fraud and other offenses.

Shareholders hit the company with a $40 billion lawsuit, and the company's auditor, Arthur Andersen, ceased doing business after losing many of its clients.

It was also a black mark on the U.S. stock market. At the time, most investors didn't see the prospect of massive financial fraud as a real risk when buying U.S.-listed stocks. "U.S. markets had long been the gold standard in transparency and compliance," says Jack Ablin, founding partner at Cresset Capital and a veteran of financial markets. "That was a real one-two punch on credibility. That was a watershed for the U.S. public."

The company's collapse sent ripples through the financial system, with the government introducing a set of stringent regulations for auditors, accountants and senior executives, huge requirements for record keeping, and criminal penalties for securities laws violations. In turn, that has led in part to less choice for U.S. stock investors, and lower participation in stock ownership by individuals.

In other words, it was the little guy who suffered over the last two decades.

Americans lost trust in the stock market

The collapse of Enron gave many average Americans pause about investing. After all, if a giant like Enron could collapse, what investments could they trust? A significant number of Americans have foregone participating in the tremendous stock market gains seen over the last two decades. In 2020, a little more than half of the population (55%) owned stocks directly or through savings vehicles such as 401Ks and IRAs. That's down from 60% in the year 2000, according to the Survey of Consumer Finances from the U.S. Federal Reserve.

That could have had a large financial impact on some folks. For instance, an investment of $1,000 in the S&P 500 at the beginning of 2000 would recently have been worth $4,710, including reinvested dividends. Wealthier people, who often employ professionals to handle their investments, were more likely to stick with their stocks while middle class and poorer people couldn't take the risk. Without doubt this drop in stock market participation has contributed to the growing levels of wealth inequality across the U.S.

It became harder for companies to IPO

While lack of trust in the market is a direct consequence of Enron's mega fraud, the indirect consequences of government actions also seem to have hurt Main Street USA.

Immediately following the bankruptcy, Congress worked on the Sarbanes-Oxley legislation, which was meant to hold senior executives responsible for listed company financial statements. CEOs and CFOs are now held personally accountable for the truth of what goes on the income statement and balance sheet. The bill passed in 2002 and has been with us since. But it has also drawn harsh criticisms.

"The most important political response was Sarbanes-Oxley," says Steve Hanke, professor of applied economics at Johns Hopkins University. "It was unnecessary, and it was harmful."

In many ways, the legislation wasn't needed because the Justice Department and the Securities Exchange Commission already had the powers to prosecute executives who cooked the financial books or at a minimum were less than transparent with the truth, Hanke says.

The direct result of the legislation was that public companies got dumped with a load of bureaucratic form-filling, and executives would be less likely to take on entrepreneurial risks, Hanke says. There is also much ambiguity in the law about what is or what isn't allowed and what are the ultimate consequences of non-compliance. "You don't know what you are facing in terms of penalties, so you back off of everything risky," he says.

Quickly, that meant the stock market underwent two significant changes. First, fewer companies are listed now than since the 1970s. In 1996, during the dot-com bubble, there were 8,090 companies listed on stock exchanges in the U.S., according to data from the World Bank. That figure had fallen to 4,266 by 2019.

That drop was partially a reflection of the regulatory burden of companies wishing to go public, experts say. "It costs a lot of money to employ the securities attorneys needed for Sarbanes-Oxley," says Robert Wright, a senior fellow at the American Institute of Economic Research and an economic historian. "Clearly, fewer companies can afford to meet all these requirements."

Companies now wait under they are far larger before going public than they did before the Sarbanes-Oxley rules were introduced. Yahoo! went public with a market capitalization of $848 million in April 1996, and in 1995 Netscape got a valuation of $2.9 billion. Compare that to the $82 billion IPO valuation for ride share company Uber in 2019, or Facebook $104 billion IPO value in 2012.

Now, companies grow through investments that don't require a public market listing and that don't involve heavy bureaucratic costs. Instead, startups go to venture capital firms or private equity. The recent rise in the use of Special Acquisition Corporations (SPACs) is seen by some as a relatively easy way to skirt some of the burdensome regulations of listing stocks. However, SPACs do nothing to reduce ongoing costs or burden of complying with the Sarbanes-Oxley rules.

But when companies stay private longer, they spend more time without the public accountability required of listed companies. Former blood testing company Therano famously remained private in a move some theorized was to avoid publicizing internal data. Because of the high barriers Sarbanes-Oxley placed on going public, the business world is now littered with large, private companies that don't have to reveal their inner workings.

Delaying going public also affects Main Street because most individual investors cannot buy shares in companies that aren't public. They haven't been able to share i the profits from the speedy early-stage corporate growth that is typically seen in companies like Facebook and Uber.

Put simply, the Sarbanes-Oxley regulations have chased away some investing opportunities from the public market to the private ones. And in doing so have exclude small investors from participating—and gaining.

"Now smaller investors are shut out and all the big economic profits go to venture capitalists and the like," Wright says. That, in many ways, is the legacy of Enron.

Contact us at letters@time.com .

Enron Scandal Executives, 20 Years Later: Where Are They Now ...

True Positive · Thompson Anna Thompson bloomberg.com

Conspiracy, insider trading and securities fraud charges

conspiracy convicted insider trading prison securities fraud scandal

Enron Scandal Executives, 20 Years Later: Where Are They Now ...

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