ENRON – Chronicle of a record bankruptcy

(Clemens von Frentz, manager magazine, 25.06.2003)

The proposed merger of Enron with Dynegy fell through. Instead, the 16-year-old history of Enron ended in the greatest bankruptcy case since the founding of the United States. This is a summary of the events.

July 1985: The Texas-based American company Houston Natural Gas fused with Internorth, a natural gas company from Omaha (Nebraska). It soon took the name Enron Corporation and at first was active primarily as a provider of gas pipeline transportation.

1989: Enron began itself to deal in natural gas and, within a few years, came forward as the leading gas provider in the USA and in Great Britain.

December 2000: The concern announced that Jeffrey Skilling, hitherto President and Chief Operating Officer (COO) would assume the position of Chief Executive Officer (CEO) in February 2001, while the former CEO Kenneth Lay would assume the position of Chairman of the Board. On 26 December 2000, the Enron stock reached a new yearly high, closing at $84.87.

August 2001: After only six months, Jeffrey Skilling gave up and submitted his resignation. Kenneth Lay was again installed as CEO alongside his position as Chairman of the Board.

15 October 2001: During an official visit to Russia, Lay held a conversation with the US Secretary of Commerce Don Evans concerning an Enron project in India. According to official sources, no mention was made during this conversation of impending difficulties for Enron.

16 October 2001: Enron published its earnings report for the third quarter. According to Andrew Fastow, Chief Financial Officer, losses reached 638 million dollars. At the same time, it became known that the net assets of Enron had sunk by some 1.2 billion dollars. This loss was largely due to participation contracts, for which Fastow was responsible.

22 October 2001: Enron confirmed that the US Securities and Exchange Commission had begun a preliminary investigation to clear up possible conflicts stemming from the participation contracts.

24 October 2001: Enron dismissed Fastow as CFO.

28 October 2001: In a telephone call, CEO Lay informed US Secretary of the Treasury Paul O’Neill about the financial problems of his company. According to O’Neill’ spokeswoman, a second conversation followed on November 8. Under the opinion that there was no need for fear that the Enron problems would have a
deleterious effect on the financial market, the Treasury Secretary initiated no aid measures for the concern.

29 October 2001: Kenneth Lay spoke on the telephone to Commerce Secretary Don Evans about the downgrading of Enron by the rating agency Moody's. Lay asked if Evans could bring his influence to bear in this matter. According to the department spokesman Jim Dyke, the secretary consulted with his staff and decided against intervention.

31 October 2001: Company spokesmen announced that the Securities and Exchange Commission had begun an official investigation into the Enron affair.

9 November 2001: The American energy concern Dynegy surprised the financial world with the announcement that it planned to buy up Enron, its much larger competitor. The price agreed upon was announced to be over eight billion dollars to be paid via an exchange of stock shares.

19 November 2001: Enron published a revised version of its report for the third quarter. In addition, the Board announced that it was negotiating to refinance a debt obligation to the amount of 690 million dollar due at the end of November.

20 November 2001: On the stock exchange, Enron came under pressure, because its financial difficulties were becoming increasingly apparent. In a single day, its stock fell by 23 % to the lowest level since the beginning of the Nineties.

21 November 2001: The negotiations of the Enron Corporation officers concerning the refinancing of its debts were successful; its debenture bonds to the amount of 690 million dollars were prolonged.

26 November 2001: The company’s stock fell again by 15 % to roughly $4 a share.

28 November 2001: Dynegy withdrew its takeover offer upon learning that the credit rating of Enron had been drastically reduced. Enron’s stock dropped to under $1 a share and set a sales record at the end of trading. Never before had a stock listed on the New York Stock Exchange and on the NASDAQ been traded in such a large volume on a single day.

2 December 2001: Enron applied for protection from its creditors. Accusing Dynegy of causing its financial problems, Enron announced a suit for 10 million dollars.

9 January 2002: The US Department of Justice confirmed that Enron was under investigation.

10 January 2002: The White House confirmed that, shortly before applying for bankruptcy, Enron chief Kenneth Lay had asked the Bush administration for help. At the same time, it became known that employees of the renowned accounting firm Arthur Anderson had destroyed numerous financial records and balance-sheets.
Provisionally, the Enron stocks were withdrawn from trading; its closing price on this
day had dropped to $0.67 a share: in summer 2001, it had traded at over $100 a
share. The market value of the firm fell to a record low, lying now at ca 500 million
dollars.

22 January 2002: It became known that US banks and pension funds would have to
write off hundreds of millions of dollars. In Germany, the Hypovereinsbank and the
Dresdner Bank were left sitting on bad Enron credits.

23 January 2002: Kenneth Lay announced his resignation as Enron’s Chairman and
CEO. “I want Enron to survive” was the reason the 59-year-old executive gave for his
resignation: to do so, the corporation needed someone who could concentrate “one
hundred percent” on the company’s reorganization. Lay remained a member of the
Board.

25 January 2002: Clifford Baxter, a former Enron executive, was found dead in his
Mercedes-Benz. The police concluded it was suicide. The 45-year-old executive had
left the bankrupt firm already in April 2001 and was known to be a critic of Enron’s
questionable financial practices.
At the same time, it became known that Lay, after his resignation, was entitled to an
unmerited bonanza. A passage in Lay’s contract guaranteed him an enormous
severance payment. According to CNN, the television news sender, he was entitled
to roughly 80 million dollars in severance payments.


30 January 2002: Stephen F. Cooper was named interim chief executive and
manager for the restructuring of the Enron Corporation. Previously, Cooper was the
executive partner in Zolfo Cooper LLC in New York, a company specializing in
business reorganization.

5 February 2002: Kenneth Lay increasingly came under pressure. A senate
committee wished to question him, if necessary under subpoena. As announced by
Senator Byron Dorgan, a corresponding resolution was unanimously approved in the
Senate Committee on Commerce.
In addition, the House Committee on Financial Services threatened Lay with a
subpoena. However, it remained questionable, whether the former Enron executive
could be compelled to testify.
For the other members of the Enron leadership, that was enough; they increasingly
distanced themselves from Kenneth Lay. He took the consequences and announced
his resignation from the board of directors.

10 February 2002: It became known that, shortly before the bankruptcy of their
company, 500 Enron managers had collected sizeable bonus payments. Among
them were the executives who had arranged the dubious partnerships that ultimately led to the bankruptcy of the energy firm.

11 February 2002: Kenneth Lay appeared before the congressional committee, but he failed to fulfil the hope of clearing up the Enron bankruptcy. Expressing his regret for invoking the right to avoid giving evidence, the former head of the firm, on the advice of his lawyers, refused to testify.

18 February 2002: Investigators found out that, in the course of the preceding year, Kenneth Lay had sold Enron stocks for some 100 million dollars. At least some of these sales clearly occurred at a time when he was informed about the financial difficulties of the corporation.

8 March 2002: It became known that the US Department of Justice was considering pressing charges against the accounting firm Arthur Andersen.

11 March 2002: According to several US media, Andersen was negotiating with Deloitte Touche Tohmatsu. It was reported that the beleaguered firm was being offered to its competitor for takeover. Shortly before, the New York Times had reported, that, as a consequence of the spectacular Enron bankruptcy, Andersen was threatened with an indictment for obstructing justice. The Federal State’s Attorney was alleged to have the extensive indictment almost ready and to plan to make it public in the coming week.

28 August 2002: In an initial settlement, Andersen Worldwide, the accounting firm brought into disrepute by the Enron scandal, agreed to pay 60 million dollars to investors, creditors and employees of the former world’s largest energy dealer: 40 million was set aside for employees and investors, the remaining 20 million was intended for creditors.

26 September 2002: In an auction of company assets, the company sign with the Enron logo, 1.5. Meters in size, was purchased by Microcache, a Houston computer dealer, for 44,000 dollars (45,000 Euro). An attorney for the purchasers explained: “We simply want to preserve this business icon. There is so much sweat, avarice, and fraud bound up with it.”

3 October 2002: The US investment bank Merrill Lynch announced that it had “never knowingly” aided Enron in the falsification of its balances. The US Justice Department had previously indicted the former Enron financial director Andrew Fastow as the presumed wirepuller behind the conspiracy, which stole hundreds of millions of dollars from the firm and its investors. Justice Department officials indicated that they suspected that Fastow had manipulated the balances with the aid of Merrill Lynch, though that company’s name did not appear in the indictment.

4 October 2002: Ex-CFO Andrew Fastow gave himself up to the authorities. The 40-year-old former executive was charged with fraud, money-laundering, and conspiracy
for personal aggrandizement at the cost of Enron and its shareholders. One of his former subordinates, Michael J. Kopper (37), had been the first to admit criminal behaviour and plead guilty to charges of money-laundering and conspiracy for fraud. With this confession, the state’s witness hoped to get off with substantially less than the potential 15 year prison sentence.

**15 October 2002:** A subsidiary of the London bank Abbey National, which had suffered from the Enron bankruptcy, filed suit against seven investment banks, among them J.P. Morgan, Chase & Co, Credit Suisse and the Deutsche Bank, charging fraud: the investment banks and Arthur Andersen were alleged to have wilfully or negligently given false information about the financial situation of Enron. The Abbey subsidiary had purchased bonds guaranteed by Enron to the tune of some 100 million dollars.

**17 October 2002:** The accounting firm Arthur Andersen was sentenced to a fine of 500,000 dollars (510,000 euros) for obstructing justice in connection with the Enron scandal. In addition, a five-year probation term was imposed upon the once internationally renowned firm. During this period, the firm was threatened with further fines should it violate specific conditions imposed by the court. Although Judge Melinda Harmon thus had imposed the toughest sentence possible, this had little further effect on the accounting firm, for, already in June, Andersen had been convicted in the Enron affair and had been excluded from providing accounting services to firms listed on the stock exchange. As a result, the company had lost most of its US and its international customers. Of its former 28,000 employees, only 2000 remained.

**21 February 2003:** The US investment bank Merrill Lynch announced that, to settle an investigation by the Securities and Exchange Commission dealing with two Enron transactions, it would pay 80 million dollars. In connection with the Enron collapse, the SEC had turned its attention to other firms like Merrill Lynch, which had done business with Enron. Merrill Lynch announced that it would predate this payment to the fourth quarter of 2002. The agreement, however, depended on the working out of the details of the settlement and the approval of the Commission.

**14 March 2003:** Investigators succeeded in landing a new coup against Enron. They arrested Kevin Howard (40) and Michael Krautz (34), charging them with manipulations to the tune of 110 million dollars. The two managers, who shortly before had been summarily dismissed by the company, had been active in the broadband sector. There they had negotiated a joint venture with the film distributor Blockbuster. Eleven months after its foundation, the new firm was closed down; nevertheless Enron claimed to have earned a profit of 110 million dollars.

**1 May 2003:** The state’s attorney’s office issued further indictments against former Enron employees. The US Justice Department announced that an additional 31
charges had been filed against the former financial director Andrew Fastow. New indictments were issued as well against ten other Enron employees, among them Fastow's wife Lea.

Of these eleven persons under indictment, the state’s attorney’s office in Houston, Texas, had already pressed charges against three of them. Against Andrew Fastow, 78 charges were made public, among them an indictment for criminal insider-trading with Enron stocks said to have earned him 18 million dollars. Fastow’s wife, who had worked in the financial department of Enron, was charged with fraud and money-laundering. Her lawyer contested the charges.

**2 May 2003:** Enron again appeared in the news, claiming a rebate on taxes paid for the artificially inflated profits. In fact, however, the concern had paid only 63 million dollars in taxes between 1996 and 2001. A spokesman said that Enron was in “conversations” with the Treasury Department.

**10 September 2003:** In the trials of persons connected with the Enron debacle, the first prison terms were issued.

The former bookkeeper Ben Glisan pleaded guilty and was sentenced to five years in prison for conspiracy. In addition he had to pay a fine of 938,000 dollars.

**25 September 2003:** It became known that now Enron had filed suits against six banks, which in the judgment of the Enron Board of Directors had contributed to the corporation’s bankruptcy through bad advice. Among the banks sued were the Deutsche Bank, the Citigroup, J.P. Morgan, Chase & Co., Merrill Lynch & Co, Barclays plc, London, and the Canadian Imperial Bank of Commerce.

According to the *Wall Street Journal (WSJ)*, Enron demanded payments of an unspecified sum. In the light of the fraud charges against Enron, the *WSJ* wrote that this suit might appear absurd; however, a corporation in bankruptcy is obliged to recompense its creditors by whatever means possible.

[http://www.manager-magazin.de/unternehmen/artikel/0,2828,178836,00.html](http://www.manager-magazin.de/unternehmen/artikel/0,2828,178836,00.html)

In the wake of the insolvency of the Enron concern, came a flood of civil suits. The damaged stock-holders (among them many former Enron employees who had lost almost their whole savings as a result of the concern’s collapse) and the holders of Enron bonds attempted via the courts to recover at least a portion of their losses.

Among the plaintiffs are Arthur Andersen, Bank of America, CIBC Bank (Canada), Citigroup, Enron Board of Directors, J.P. Morgan, Chase, and Lehman Brothers. They obtained a settlement of 7.1 billion dollars, over against a stock value of 60 billion dollars annihilated by the insolvency. From Enron itself, the creditors have received 5.8 billion dollars since November 2004.

**January 2005:** Members of the former Enron Board of Directors were sentenced to pay damages to the tune of 168 million dollars, of which they must pay some 13
million out of their personal wealth, the rest being covered by their liability insurance. With this imposition on the personal wealth of the former Board of Directors, the court attempted to make clear the personal responsibility of the board members for the collapse of the Enron Corporation, which had been entrusted to their supervision.

**Spring 2005:** Numerous criminal procedures against former members of the Enron management had yet to be settled. Among those accused of fraud were Kenneth Lay (Enron founder and CEO), Jeffrey Skilling (CEO) and Andrew Fastow (CFO). With the exception of Fastow, all of those accused had pleaded innocent. Fastow, by contrast, had made a comprehensive confession and had turned state’s evidence against the others accused.

**28 December 2005:** Richard Causey, the former chief accountant, pleaded guilty to securities fraud. Causey admitted having made false public statements intended to deceive investors. Like his former Enron superiors, he was accused of conspiracy. Prior to Causey, some twenty former Enron managers had pleaded guilty in the bankruptcy scandal.

**25 May 2006:** In a jury trail, Kenneth Lay, the founder of the concern, and Jeffrey Skilling, the former Enron chief, were convicted of fraud.

**July 2006:** Kenneth Lay died of cardiac arrest before he could be sentenced.

**September 2006:** The former finance chief Andrew Fastow, who had turned state’s evidence in the proceedings and severely incriminated the two former chief executives, received a sentence of ten years in prison.

**October 2006:** Jeffrey Skilling was sentenced for fraud to 24 years in prison.

**November 2006:** Richard Causey was sentenced to five years in prison.