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# Picante Mexican Grill: A New Delhi Experience

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# Enron

- \* Formed from a merger between Houston Natural Gas and InterNorth
- \* Renamed Enron in 1986 with corporate headquarters located in Houston
- \* Largest marketer of natural gas and electricity
- \* 7th largest company revenue in America
- \* Pricing restrictions were eased allowing gas to be bought from any seller
- \* Enron created the gas bank

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# What went wrong?

- Used creative accounting methods to trick investors
  - Special Purpose Entities
  - Mark to Market accounting
- Types of fraud:
  - Corruption
  - Asset Misappropriation
  - Financial Statement Fraud

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# The Smartest Guys in the Room

- \* Kenneth Lay, Chairman and CEO
- \* Jeffrey Skilling, President and CEO
- \* Andrew Fastow, Executive Vice President and CFO
- \* Enron Traders



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# Fraud Triangle



## Opportunity:

- \*Stock options gave employees incentives to increase earnings

## Pressure:

- \*Ranked employees from 1 - 10
- \*Gave bonuses to the highest and cut the lowest
- \*New innovative ideas were failing

## Rationalization:

- \*Arthur Andersen checked off on everything
- \*Everyone was making money

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# Cover Up

- Continuously and regularly falsifying the books and financial statements
- Arthur Andersen checked off on the fraudulent practices and financial statements
- David Duncan, the engagement partner on Enron's audit authorized Arthur Andersen employees to shred hundreds of Enron documents



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# Fraud Uncovered

- California blackouts led to public disapproval of Enron
- Stock prices began to fall
- August 14th, 2001 Jeff Skilling resigned
- August 15th, 2001 Sharon Watkins told Kenneth Lay about Enron's accounting problems
- November 8th, 2001 Enron disclosed its accounting irregularities to the world

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# Punishments



Kenneth Lay :

- \*Died before sentencing
- \*Conviction was overturned

Jeffrey Skilling:

- \*Found guilty of 19 counts of security and wire fraud
- \*Sentenced to 24 years

Andrew Fastow:

- \*Charged with securities fraud, wire fraud, mail fraud, money laundering, and conspiracy
- \*Took a plea agreement to reduce his sentence

John C. Baxter, Vice Chairman:

- \*Agreed to testify against Enron
- \*Killed himself prior to the trial

Arthur Andersen:

- \*David B. Duncan permanently suspended from practicing as an accountant
- \*Three partners on the Enron audit suspended from being accountants

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