



Profile of Enron: The Rise and Fall

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Big Question!



Enron

- Enron's stock price rose from \$10 in 1999 to \$60 in 2000
- Enron's revenue rose from \$10 billion in 1999 to \$100 billion in 2000
- Enron's profits rose from \$1 billion in 1999 to \$10 billion in 2000
- Enron's market capitalization rose from \$10 billion in 1999 to \$60 billion in 2000

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Accounting

- Enron's accounting practices were highly complex and often involved creative accounting
- Enron's accounting practices were often criticized as being unethical
- Enron's accounting practices were often criticized as being fraudulent

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What went wrong?

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Punishments

- Enron's CEO, Jeffrey Skilling, was sentenced to 24 months in prison
- Enron's CFO, Andrew Fastow, was sentenced to 3 years in prison
- Enron's former CEO, Kenneth Lay, was sentenced to 30 days in prison

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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: "Enron's governance structure allowed for creative accounting"
- Pressure: "Enron's employees were often under pressure to meet aggressive targets"
- Rationalization: "Enron's employees often justified their actions as necessary for the company's success"

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Cover Up

- Enron's employees often covered up their mistakes
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Fraud Uncovered

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

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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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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

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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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