Kenneth Lay
1985

Sarbanes-Oxley Act

Section 302

Report has no false/misleading information

All signing officers have reviewed the report

Section 401

Reports contain all off balance sheet obligations and transactions

Created a commission to report on the viability of balance sheets

Section 404

Information must be published that states the scope and adequacy of internal control

Section 409

Issuers must disclose urgent information on material changes on financial operations

Section 802

Up to 20 years in prison for anyone who falsifies or destroys records or has the intent of obstructing legal investigations

Up to 5 years in prison for willfully violates requirements

Section 906

Financial statements filed by an SEC officer must also be filed by the CEO and CFO of the issuing company

Any CEO of CFO that knowingly violates regulation shall be fined up to $1,000,000 and/or 10 years prison

Any CEO or CFO that periodically violate regulation shall be fined up to $5,000,000 and/or 20 years in prison

Paul Sarbanes D-MD

Michael G. Oxley R-OH

Fun with Dick and Jane

The movie is a parody of these investment scandals, sitting a "Special thanks to:" Kenneth Lay (Enron CEO), Arthur Anderson (Enron auditor), Bernie Ebbers (Worldcom CEO), Tyco, and others.

Sources

Sarbanes-Oxley

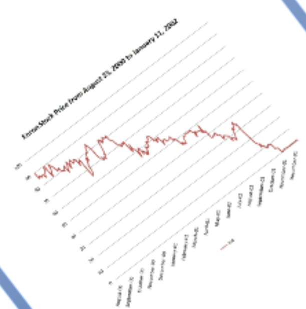
Enron

Tyco

Worldcom

Fun with Dick and Jane

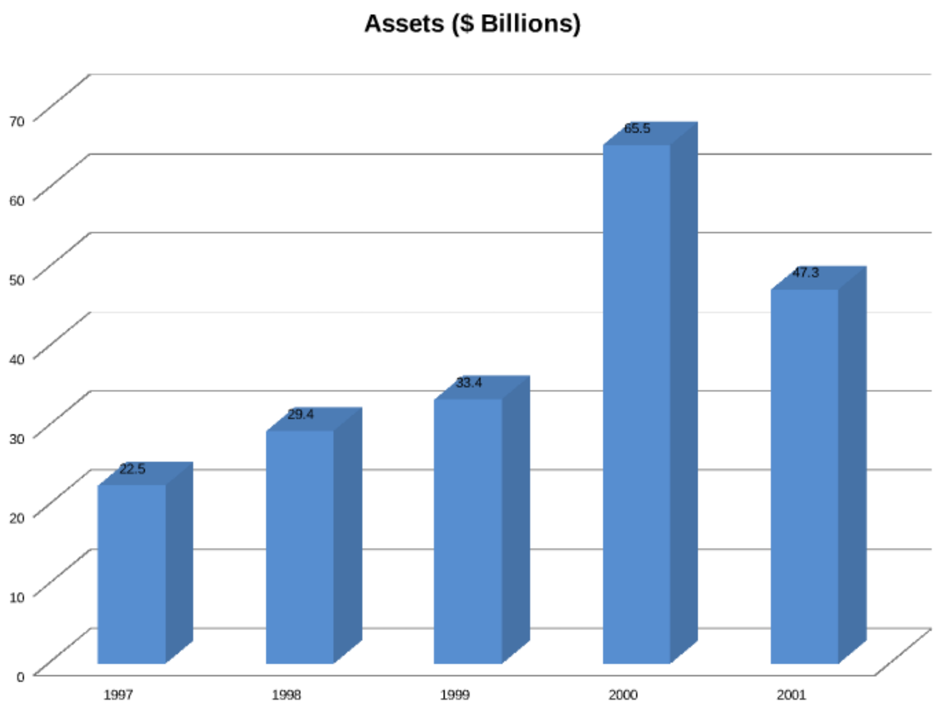
Thecasesolution.com

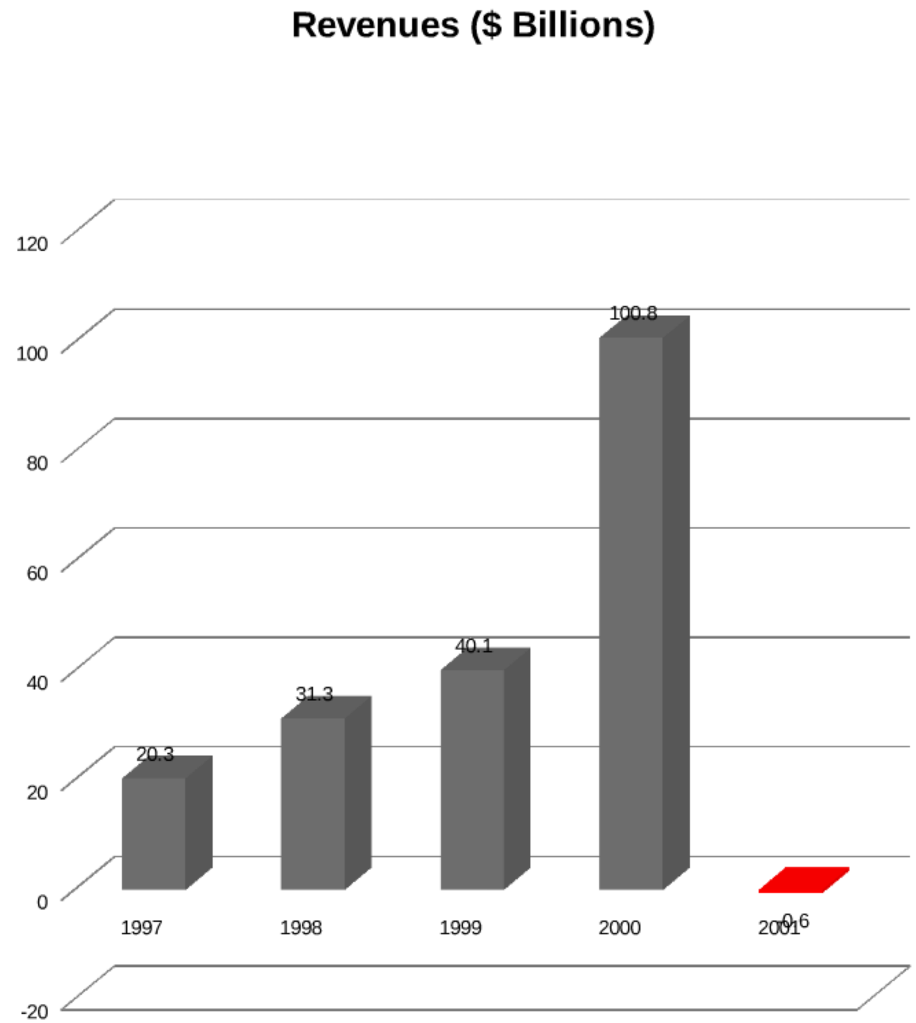


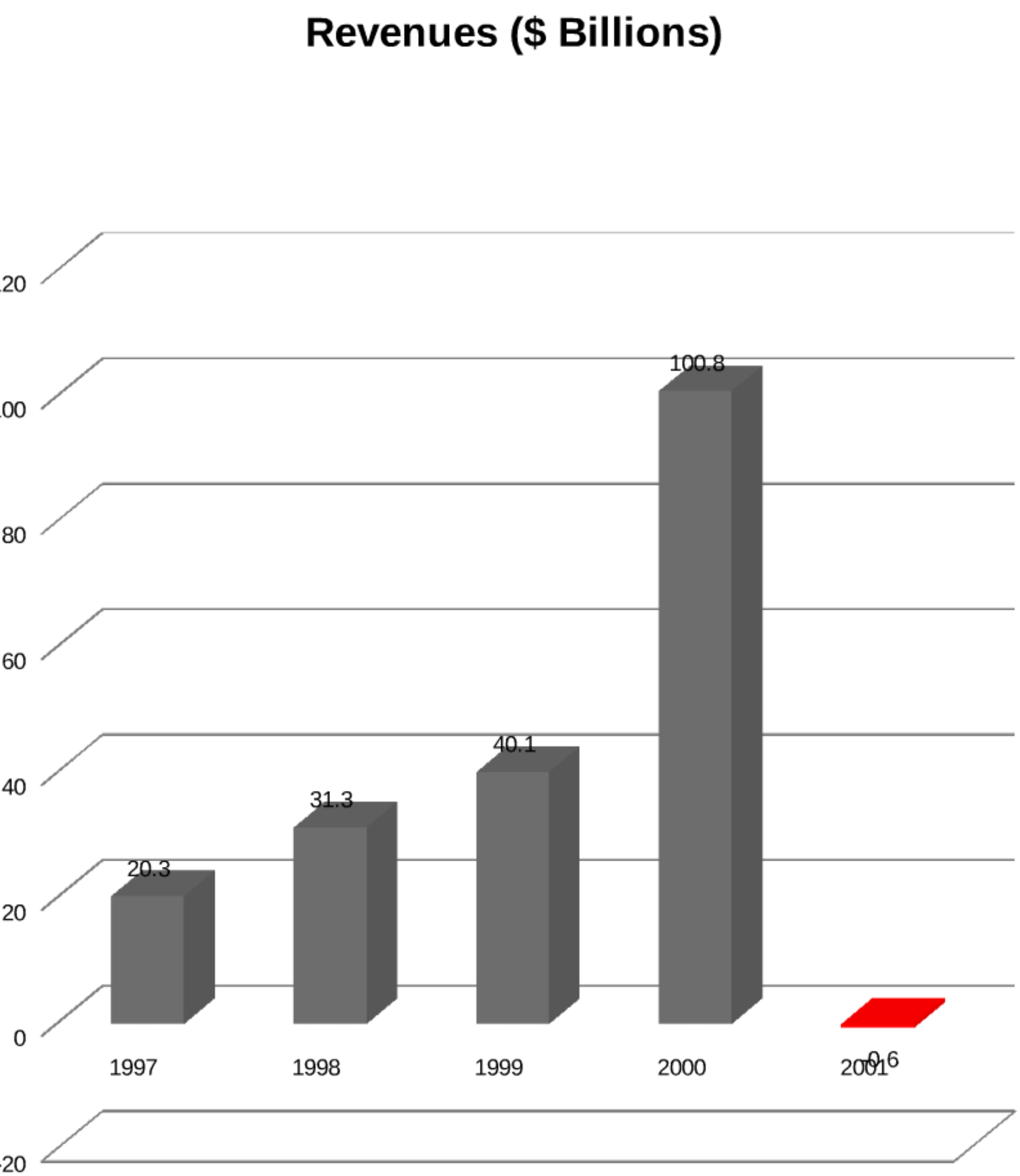
Endless possibilities.™

http://youngragingbull.files.wordpress.com/2008/05/ee.jpg?w=567&h=372

Enron Profile







Merchant model

Entire value of each trade is recorded as revenue

As apposed to the "agent model" where only brokerage fees are reported as revenue

Reasons for downfall

Mark-to-market accounting

Mark-to-market accounting requires future income to estimated at current market value once a long-term contract is signed. Accounts' net cash flow are hard to estimate, so estimates were often viable. Investors were given misleading information to account for the discrepancy between profits and cash.

Special purpose entities

JEDI

Chewco

In 1993 Enron and CalPERS entered a joint venture called Joint Energy Development Investments. In 1997 COO, Jeffry Skilling, asked CalPERS to enter another investment venture with Enron. CalPERS agreed on the condition that it would terminated as partner in JEDI. In order to hide the debt created in this business transaction CFO, Andrew Fastow, created Chewco LP, which raised debt gained by Enron and acquired CalPERS's joint venture stake; this kept JEDI's losses off of Enron's balanced earnings report.

Whitewing

In 1997 Enron created Whitewing, an investment vehicle that was funded 50% by Enron (50% by private investors) to buy Enron's assets. The entity's charter was then alter so it could no longer be included on Enron balance sheets. Whitewing then purchased Enron's assets using Enron's stocks as collateral. By 2001 Whitewing owned $2 billion in Enron assets.

LJM

In 1999 CFO, Fastow, created LJM1 and LJM2 as private equity investors to invest in Enron's special purpose entities. Enron invested in LJM1 itself while investment firms, like: Merrill Lynch, Wachovia, and J.P. Morgan Chase provided nearly $420 million in investments to LJM2.

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