CASE STUDY

Enron Debacle

During the late 1990s and early 2000s, **Enron** was a trading powerhouse. The firm, which had started as a US natural gas pipeline company, started trading energies, then launched into new markets, including metals, paper, water, weather and bandwidth. For a time, it seamed that everything Enron touched turned to gold. The firm attracted some of the best talent, first from the energy industry, and then from Wall Street. In 2001, the Enron empire collapsed. The firm's bankruptcy was the largest in US history, surpassed seven months later by WorldCom's bankruptcy.

Kenneth Lay ("Kenny Boy" to friend George W. Bush) was Enron's Chairman and CEO. He formed the company by merging Houston Natural Gas and InterNorth in 1985. The company adopted the name Enron in 1986. Both of the merged companies were primarily pipeline companies. In 1986, the new Enron owned a 37,000 mile pipeline system stretching across North America. It also had a mountain of debt.

Richard Kinder had worked under Lay at Houston Natural Gas and became President of Enron. A tough, prudent businessman who kept a tight handle on expenses, Kinder was the perfect person to oversee the cash-generating pipeline system and gradually pay down the firm's debt.

Ken Lay was different. A hands-off manager and a business visionary, he saw opportunity in the rapid deregulation of energy markets in the United States and around the world. He attracted subordinates who wanted to seize these opportunities. Of these, the two most influential were **Rebecca Mark** and **Jeff Skilling**.

Mark was a strikingly beautiful and charming woman. Her business wardrobe included fur coats and stiletto high heals. Aggressive and accustomed to getting her way, her nicknames came to include "Mark the Shark" and "Hell in High Heals." Like Lay and Kinder, Mark had come to Enron from Houston Natural Gas. At Enron during the late 1980s, she worked in the electric power division, learning how to negotiate international power generation projects in a market that was just beginning to attract investors. One important deal was a gas-fired electricity generating project at Teesside in Northern England. Lay was impressed with Mark's style and facilitated her advancement in the firm. After taking two years off to earn a Harvard MBA, Mark convinced Lay to let her form an international division that would pursue more energy projects around the world. Enron Development Corporation was formed in 1991 with Mark as CEO. In 1993, this would become Enron International.

Jeff Skilling is known as a cold-hearted businessman whom Enron employees called "Darth Vader" behind closed doors. He earned a Harvard MBA in 1979. He became a consultant for McKinsey where he advised Enron on how to manage its gas pipeline in the rapidly deregulating US natural gas market. He came up with the idea of forming a

"gas bank" that, much as a financial bank does with capital, would intermediate between short-term and long-term buyers and sellers of natural gas. The gas bank would be named Enron Gas Services, and later, Enron Capital and Trade Resources (ECT). Its formation was a crucial development that established Enron as an innovator in the energy industry. To ensure adequate supplies of natural gas for his bank, Skilling suggested that Enron get in the business of providing financing to third party oil and gas producers. In August 1990, Enron Finance Corp was formed and Skilling was hired away from McKinsey to be its CEO.

In the early 1990s, Rebecca Mark and Jeff Skilling were the rising stars of Enron. A fierce rivalry developed between them. Mark was globetrotting around the world, acquiring or building power plants and related projects. Skilling was modeling ECT as an investment bank of sorts for the energy industries. Their competing visions came to be known as "asset heavy" and "asset light." Mark promoted the acquisition of physical assets. Skilling promoted the use of Enron's balance sheet for intermediating deals.

For years, Mark seemed to be successful. She and her team of deal makers fashioned themselves as missionaries of privatization. They were closing deals, but the actual profitability of those deals would not be known for years. Employees—and especially Mark—stood to earn enormous bonuses just for closing deals. Many of those deals would later come back to haunt Enron.

By far, Mark's biggest deal was a two-stage power project that she built in Dabhol India. The first stage burned oil. The second, larger stage burned liquefied natural gas (LNG). LNG is an expensive fuel, so output from the plant would be four times as expensive as other electricity available in India. India had widespread poverty. Much of the electricity produced in India was stolen. The government never cracked down on theft for fear of a popular backlash. The World Bank refused to support the Dabhol project, claiming that it made no economic sense. There was widespread popular opposition to the project, so Mark had her political work cut out for her. When Indian protestors were forcefully dispersed from the building site, Enron was accused of human rights abuses. With fits and starts, the project moved forward, only to collapse in 1996, when India's Congress Party was voted out of office.

Mark worked tirelessly to restart the project, flying back and forth between Houston and India. Lay recruited the involvement of the Clinton administration, which actively pressured the new Indian Government to restart the project. After some renegotiation, the project was relaunched. Enron's deal with the Indian government required the state-owned electric utility to buy power from the Dabhol plant whether it was needed or not. By some estimates, the utility would have to make payments totaling USD 30 billion over the life of the project.

For Mark, the project was a stunning success, generating fame and enormous bonuses. In 1998, she made the cover of *Forbes* magazine. She was appointed to the Board of Overseers of Harvard Business School and the Advisory Board of Yale's School of

Management. Enron proxy statements indicate that her combines compensation for 1996 to 1998 was USD 25.7MM

While Mark was launching the Dabhol project, Skilling was back in the United States pursuing his "asset lite" strategy. Following on the heals of his success of the gas bank, he launched ECT into natural gas trading, creating an active market where none had existed. Deregulation in the United States opened the door for electricity trading, and ECT jumped in. By the mid 1990s, it had 200 power marketers working out of two trading floors in Houston. In 1995, Enron hopped the Atlantic to open a London office to trade power and natural gas. The firm would soon become a dominant force in European energy markets. Skilling started exploring new markets in which to apply the "Enron model." These would come to include: weather, paper pulp, plastics, and metals.

Skilling also set his sights on retail electricity markets in the United States. These were deregulating more slowly than the wholesale markets, but the vision was for residences to some day choose an electricity provider in the same way they chose a phone provider. This vision never panned out, but, for a time, Enron devoted considerable resources to building brand awareness. Television ads ran in several markets displaying the Enron company logo and promoting Enron's innovative spirit.

Skilling's vision was to trade energies and other commodities the way Wall Street trades capital. In 1991, he convinced Enron's Audit Committee to allow him to apply mark-to-market accounting to ECT's trading books. For liquid trading activities, mark-to-market accounting is appropriate and far superior to accrual accounting. It is widely used in the capital markets. In Enron's case, it wasn't always appropriate. Many of the markets ECT was trading in were not liquid. Enron was *launching* those markets. ECT was entering into long-dated gas and power deals for which no liquid markets existed. In this context, mark-to-market accounting became mark-to-model accounting. Traders who were performing trades had considerable influence in how the deals were marked to model. With their bonuses depending upon the profitability of deals, there was an unaddressed conflict of interest. Skilling's trading businesses were generating considerable profits, but much of these were dubious mark-to-model profits on long-dated deals.

Skilling was also working to outmaneuver Mark. He arranged things so that ECT would provide financing to other divisions of Enron, including Mark's Enron International. If Skilling tried to block Mark's financing, Mark could always go directly to Lay or raise financing outside Enron. Still, Skilling's strategy enabled him to slow Enron International and give him a context to criticize Mark's heavy spending on projects.

In 1996, Skilling won a significant victory over Mark. That year, Kinder had a falling out with Lay over a situation involving Lay's assistant, Nancy McNeil. Kinder and McNeil left Enron and were married soon after. Lay tapped Skilling to replace Kinder as President and COO. Now Skilling was in line to eventually replace Lay as CEO. Mark remained a significant force within Enron, but Skilling was consolidating his position, promoting a circle of cronies into senior positions. In Ken Lay and Jeff Skilling, Enron

now had two business visionaries at its helm, but there was no one to replace Richard Kinder's prudence.

Enron still had considerable debt, and its credit rating was barely investment grade. Lay, Skilling and Mark were all spendthrifts. Mark had already established a reputation as a big spender, jet setting around the globe, spending lavishly on Enron International corporate offices and sparing no expense to entertain clients and counterparties. With Kinder gone, Lay immediately sold off the firms fleet of modest corporate jets and purchased a more expensive fleet, including a USD 41.6MM Gulfstream V for his personal use. Worst of all was Skilling, who was not about to let creditors get in the way of his business vision. He went on a hiring spree. Between 1996 and 1997, Enron's staffing doubled, going from 7,456 employees to 15,555.

Skilling established a harsh corporate culture that pitted employees against each other, constantly weeding out non-performers or the politically isolated and replacing them with new hires. Central to his scheme was the performance review committee (PRC), also known as "rank and yank." Skilling had long employed PRC in ECT, but now he implemented it company-wide. Every six months, every employee's performance was reviewed by a committee of managers. Employees were rated on a scale of 1 to 5, with 5 being the worst. It was required that 15% of the entire workforce be rated a 5 in each PRC. These employees were "redeployed." They were moved to a separate area of the company, given a desk, phone and computer and granted several weeks to find another job within Enron. After that, they were let go.

Managers on the PRC frequently wouldn't know the employees they were reviewing, so other employees would submit written feedback. Each employee could ask five associates to submit letters commenting on his performance, but anyone else could submit unsolicited comments as well. The process was extremely political. Employees could undermine each other by submitting negative comments. Employees would enter into deals with one another to submit good reviews. Managers would horse trade. If one wanted to eliminate more than 15% of his staff and another wanted to keep most of hers, they might collude. Managers used the PRC to reward friends, and all employees were under pressure to enlist a senior manager as a protector.

The PRC undermined risk management within Enron. Complex deals and mark-to-model valuations had to be approved by risk management. Risk managers knew that they would suffer in the PRC if they blocked deals or did not support favorable mark-to-model valuations. Risk management became little more than a rubber stamp and a stepping stone for employees moving around the company.

Andrew Fastow was a 1986 MBA from Northwestern University. He worked at Continental Bank doing asset securitization deals before joining Enron in 1990. There, he worked on Enron's initiative to enter retail electricity markets. He befriended Skilling, and was appointed Enron's CFO in 1996 at the age of 37.

In 1993, Enron had formed a limited partnership with the California Public Employees' Retirement System (Calpers), an enormous and highly influential pension fund. Called the Joint Energy Development Investment Limited Partnership (JEDI), the partnership invested in natural gas projects. Participation of Calpers meant that JEDI was an independent entity from Enron. Enron earned profits from the partnership, but none of JEDI's debt appeared on Enron's balance sheet.

In 1997, Enron wanted to launch a new and larger limited partnership called JEDI II, but it thought that Calpers would be loath to invest while it was still invested in JEDI. Enron couldn't simply buy out Calpers investment in JEDI, which was worth USD 383MM. This would make Enron the sole investor in JEDI. JEDI would no longer be independent, and its debt would have to appear on Enron's balance sheet. Fastow proposed forming a new venture, called Chewco Investments, to take Calpers place as an investor in JEDI.

Enron's culture was heavily influenced by the movie *Star Wars*. Employees referred to the corporate headquarters as the "Death Star." The name JEDI was no coincidence. The new partnership's name was a reference to the *Star Wars* character Chewbacca.

By replacing Calpers as an independent investor, Chewco would allow Enron to keep JEDI's debt off its balance sheet. This would only work if Chewco were also independent from Enron. Rather than find a truly independent investor for Chewco, Fastow decided that one of his subordinates, Michael Kopper, would play the role of independent investor in Chewco. This was absurd. Kopper didn't have the personal resources to make such an investment. Fastow's solution was an elaborate scheme involving multiple special purpose entities and a direct investment by JEDI of USD 132MM in Chewco—JEDI was investing in Chewco so that Chewco could invest in JEDI. Except for USD 125,000 put up directly by Kopper and his domestic partner, William Dodson, all of Chewco's funding originated either from Enron or as loans guaranteed by Enron. Enron's board approved the Chewco deal without knowing the details of Kopper's role or specifics of how the deal was financed. Enron treated Chewco as an independent entity for accounting purposes, but it wasn't.

In 1998, Rebecca Mark was looking to shape a new role for herself, preferably as far removed from Skilling as possible. Enron had been toying with the idea of developing a water trading market, and she perceived this as her opportunity. In 1998, she purchased Wessex Water, one of England's most profitable water utilities. She paid USD 2.2 billion, a 30% premium over the utilities market capitalization. Her new water venture was called Azurix. To keep its debt off Enron's books, a number of outside investors were found to form an SPE, Marlin Water Trust, to take a 50% stake. Mark started acquiring more assets. The biggest, after Wessex Water, was a 30 year concession to provide water and sewage services to 2 million residents of Argentina's Buenos Aires province. The concession was awarded in a bidding process in which Mark paid USD 439MM, three times the second highest bid.

Mark was determined to take Azurix public. This would give her an independent company far removed from Jeff Skilling. In June 1999, she floated a third of the company at USD 19 per share, raising USD 695MM.

Azurix was doomed from the start. Water is a localized business that lacks the continent-spanning pipelines and transmission systems that allow natural gas, oil and power to be moved and traded between locations. Water could never be traded the same way. The regulated water business has extremely low margins. Utilities made money by cutting expenses to the bone, but Mark was oblivious to this hard reality. She ran Azurix as if money was never an issue. She overpaid for acquisitions and spent lavishly on office space, salaries and travel. At the same time, her acquisitions were turning sour. In Argentina, Azurix discovered that its new acquisition did not include the home office, staff or billing system of the existing utility. Thousands of billing records were mysteriously missing, which meant people would be receiving water, but Azurix would have no idea who they were or where to send bills. In November 1999, UK regulators ordered a 12% cut in the prices Wessex could charge customers. That same month, Azurix cut its staff by a third, incurring a one-time hit to earnings of USD 30MM. In August 2000, Mark resigned as Chairman and CEO of Azurix and left Enron for good. She sold her Enron stock, netting an estimated USD 82MM. Enron would later buy back outstanding Azurix stock at USD 7 per share. The Argentina investment would be written off. In 2002, Wessex Water would be sold to a Malaysian company for a fraction of the price Enron had paid.

One of Enron's most visible successes was EnronOnline, an Internet-based trading platform launched in 1999. This was the brainchild of Louise Kitchen, head of gas trading in Europe. The system allowed clients to log on, check bid and ask prices and perform trades directly with Enron while online. Initially, transactions could be booked in only certain energies, but soon the offerings were expanded to include metals, plastics, paper pulp, weather, etc. Volumes grew rapidly to several thousand transactions a day. EnronOnline had the effect of squeezing bid-ask spreads, but lost revenues were made up by increased volumes. EnronOnline had an Achilles heal. Because all transactions were with Enron, every customer who traded on the system was taking credit exposure to Enron. If Enron's credit rating were to falter, trading volumes could dry up.

By the late 1990s, Enron had established a reputation for itself as a preeminent global enterprise. Most of Rebecca Mark's staggering losses on international power and water projects had not yet been realized. In energy markets, Enron was the 600 pound gorilla that shaped markets to its will. It was the envy of competitors. Wall Street knew there were problems, but they were also dazzled by Enron's successes in trading new markets and launching EnronOnline. The world economy was in the midst of a technology-driven bubble. The Internet was going to change all the rules. Capital was cheap, and stock prices were soaring. Office workers who had never given much thought to investing started trading stocks on-line and tracking market gossip in Yahoo chat rooms. Wall Street firms raked in profits taking firms like pets.com or furniture.com public.

There has long been a conflict of interest for investment banks whose equity analysis must rate a firm's stock for investors at the same time its investment bankers are wooing that firm as a client. In the overcharged market environment of the late 1990s, an implicit quid pro quo of "buy" recommendations in exchange for investment banking business became increasingly blatant. Enron played the game skillfully. The firm was constantly doing deals: buying, selling and merging firms or orchestrating SPEs. Skilling and Fastow were careful to spread the business around, so every firm on Wall Street rated Enron's stock a "buy."

In 1998, Enron invested USD 10MM in an Internet startup firm called Rhythms NetConnections that was about to go public. The day of the IPO, Rhythms shares soared from USD 21 to USD 69. By May 1999, Enron's investment was worth USD 300MM. Because of a six month lockout provision, Enron was barred from immediately realizing this gain. Enron was also sitting on a large unrealized gain on a forward contract it had purchased from Union Bank of Switzerland on its own stock. Enron could not take the gain as income because accounting rules prohibit firms from including in income gains made on their own stock.

To protect these gains and recognize them as income, Andrew Fastow proposed a new SPE called LJM after the initials of his wife and two sons. LJM would be a private equity fund with Fastow as general partner. The structure was extremely complicated, involving a USD 1MM investment by Fastow and USD 15MM from outside investors. Four SPEs were formed specifically for the deal. The net effect was to transfer the forward on Enron stock to LJM, which would use this asset to hedge a put option on Rhythms stock, which LJM would issue to Enron. From a financial standpoint, the deal had little merit. If both the price of Rhythms stock and Enron stock were to fall, LJM would be under water (ultimately, this is what happened). The accounting was dubious for many reasons. It disguised rather than eliminated the problem of Enron booking income resulting from rises in its own stock price. Assets were transferred between Enron and LJM at below market values. With Fastow as general partner, LJM was not independent from Enron—its balance sheet should have been consolidated with Enron's, but it was not. More importantly, allowing Fastow to be general partner of LJM posed serious conflicts of interest. In negotiating deals between the two entities, Fastow—as general partner of LJM and CFO of Enron—would sit on both sides of the table.

The deal caused significant dissention both within Enron and its accounting firm, Arthur Andersen. One internal Andersen e-mail reads: "Setting aside the accounting, idea of a venture entity managed by CFO is terrible from a business point of view ... Conflicts of interest galore. Why would any director in his or her right mind ever approve such a scheme?" Still, with Skilling and Fastow aggressively behind LJM, the deal moved forward. Andersen was earning tens of millions of dollars a year from Enron and was determined to keep its client happy. It signed off on the deal so long as Enron's board approved of Fastow being general partner. At a June 28, 1999, board meeting, Ken Lay presented LJM. The board set aside its own ethics rules prohibiting company officers from doing deals with the firm and approved LJM.

Fastow started doing deals between LJM, Enron and Chewco. He was effectively representing all three in "negotiating" the deals, so assets could be transferred at any prices he chose. If an asset changed hands at an inflated price, it would be marked-to-market at that new price, and the selling party would recognize income. Enron realized millions of dollars in market value gains from LJM. At the same time, LJM was earning high returns for its investors, including general partner Fastow himself.

Larger and increasingly dubious SPEs followed, including LJM 2 and Raptors I, II, III, and IV. Fastow ran them; Andersen signed off on them; and, for the most part, Enron's board approved them. Outside investors were found among Wall Street firms, who were too afraid of losing Enron's investment banking business to refuse to invest. Investors also included several Enron employees. Some of the ventures were financed primarily with Enron stock, which means they would be in trouble should the stock price fall. Fastow busily pulled the strings, flipping deals back and forth between Enron and the various SPEs. The net effect was to allow Enron to disguise debt, park assets that were losing money, and assign inflated mark-to-market valuations to other assets. The SPEs also generated extraordinary returns for investors. Over the lives of the various SPEs, Fastow is estimated to have personally pocketed USD 45MM as an investor. This was in addition to millions of dollars Enron paid him in salary and bonuses.

In February 2001, Lay passed the title of CEO to Skilling. Skilling was now President and CEO. Lay remained Chairman. Skilling's tenure as CEO was to be short-lived.

Enron had aggressively been amassing a fiber optic cable network in the United States. Internet usage was growing. As applications, such as video-on-demand or teleconferencing became more popular, it was predicted that demand for bandwidth would increase dramatically. In many respects, bandwidth was like natural gas or electricity. Instead of flowing through pipes or wires, it flowed through fiber optic cables. Enron's vision was to apply its trading model for energies to create a global market for trading bandwidth.

The vision was never to be. There were technical challenges in the way. More importantly, many other firms had been building fiber optic networks. The market was seriously overbuilt. With an overabundance of supply, Enron's own network became almost worthless, and prospects for trading bandwidth evaporated. The technology bubble was over, and stocks were entering a bear market.

On July 13, 2001, Skilling resigned as CEO. He claimed it was for family reasons. The real reason was that Enron was heading for trouble, and he didn't want to stick around for it. The firm's stock was down about 40% for the year. If it kept falling, several of Fastow's SPEs—those primarily financed with Enron stock—would be under water. India had stopped making payments for electricity generated by the Dabhol plant. Enron had shuttered the plant in May and, despite the Bush administration pressuring India on Enron's behalf, was facing the prospect of writing off its entire USD 900MM investment. The company had recently spent USD 326MM to buy back the shares of the failed Azurix water company. Sever shortages of electricity in California had lead to rolling

blackouts and accusations that Enron had been manipulating prices. The venture in bandwidth trading had failed spectacularly, and ventures in metals and pulp trading were racking up losses. The company was in a cash crunch, and was trying to sell assets to raise cash. Skilling could see the writing on the wall, but so could most of Enron's senior management. Many had been liquidating their holdings in Enron stock for months. Skilling not only resigned as president and CEO, he also gave up his seat on Enron's board.

The resignation shocked Wall Street. In the days following the announcement, Enron's stock dropped from USD 42.93 to USD 36.85. It was also a wakeup call for Enron employees, who knew something was amiss. On August 15, 2001, Lay received an anonymous memo from an employ that opened: "Has Enron become a risky place to work? For those of us who didn't get rich over the last few years, can we afford to stay?" The memo detailed the perilous shape of Enron's finances, focusing special attention on Fastow's SPE and associated accounting irregularities. It concluded: " ... I am incredibly nervous that we will implode in a wave of accounting scandals." The author of the memo was Sherron Watkins, a former Andersen employee who had joined Enron in 1993. She currently worked in accounting, reporting to Fastow. Watkins soon came forward and had a meeting with Lay to discuss her concerns. She outlined essential steps that Lay should take to turn the situation round, but she may have been too late. There was no longer an easy way out of Enron's problems. Rather than follow Watkin's advice, Lay had lawyers look into whether it would be advisable to fire her. They advised against it, and she was transferred to another department.

Rumors were swirling about Enron. Equity analysts, who had previously assigned the company's stock a "buy" rating without question, started to complain that the firm's financial disclosures were opaque. They didn't withdraw their "buy" recommendations, but there was pressure on Enron to make more complete disclosures.

On October 16, Enron reported third quarter earnings that included a one-time charge of USD 1.01 billion. Much of the hit was due to writing down bad investments, including Azurix and the bandwidth venture. USD 35MM of it was due to losses on transactions with LJM. LJM wasn't named in the press release, which simply referred to "early termination during the third quarter of certain structured finance arrangements with a previously disclosed entity." Analysts were stunned, but there was more to come. That same day, in a conference call to analysts, Lay mentioned that the firm was reducing shareholders' equity by USD 1.2 billion arising from the repurchase of 55 million shares of Enron stock from SPEs.

In the following days, the *Wall Street Journal* published a series of bombshell articles. One on October 17 detailed how Fastow and other investors had pocketed millions of dollars from LJM. Enron's stock price slid to USD 32.20. An October 18 article traced the USD 1.2 billion hit to shareholder equity to Enron's unwinding of the Raptor SPEs. These had been financed with Enron stock, and the plummeting stock price had made them insolvent. That day, Enron's stock dropped to USD 29.00.

The next day brought an article detailing how Fastow had made millions from his LJM 2 investment. Enron stock closed at USD 26.05.

By the end of October, Enron was under investigation by the SEC, a dozen class action law suits were filed on behalf of Enron shareholders, Fastow left the company, and the stock closed at USD 13.90. Worst of all, counterparties were refusing to trade with Enron. Trading was Enron's primary source of revenue, and now it was drying up. Ken Lay was feeling out officials within the Bush administration to see if a bailout might be possible, but no help was forthcoming. At Arthur Andersen, employees were shredding documents.

On November 8, Enron filed restated financial results with the SEC. These acknowledged that Chewco, and hence JEDI, were not truly independent entities. Consolidating their financials with Enron's for the period 1997 to 2000 resulted in a USD 586MM reduction in Enron's earnings for the period. It increased Enron's debt by USD 2.6 billion.

Enron was in serious risk of having its credit rating downgraded to below investment grade by Moody's or S&P. All that was preventing a downgrade was a glimmer of hope that Enron might be able to arrange a merger with its competitor Dynergy. Merger negotiations dragged on for several weeks, as bad news continued to pile up. Enron's financial situation was deteriorating rapidly, making a merger seem increasingly less likely. On November 28, Moody's and S&P downgraded Enron's debt to below investment grade. Dynergy backed out of merger negotiations, claiming Enron had misrepresented its situation. On the New York Stock Exchange, 182 million shares of Enron stock changed hands, setting a record for one-day volume in a single stock. The share price closed for the day at USD 0.61. On December 2, Enron filed for bankruptcy.

Many people suffered from Enron's failure, but employees were hit especially hard. Thousands were laid off with just USD 4,500 in severance pay. Enron had encouraged employees to invest their pension assets in the company's stock. Employees who had done so lost pension savings as well as their jobs.

In June 2002, Arthur Andersen was convicted for obstruction of justice related to its destruction of Enron documents. Andersen, which was once the largest accounting firm in the United States, was barred from auditing clients.

Federal prosecutors conducted a multi-year investigation of Enron, seeking indictments of a number of key personnel. Fastow agreed to plead guilty and cooperate with prosecutors in exchange for a ten year prison sentence. Lay and Skilling maintained their innocence, claiming that Enron was a healthy firm done in by irresponsible reporters, short sellers and panicky investors. After a lengthy trial, both men were convicted on May 26, 2006 of multiple counts of fraud and conspiracy. Six weeks later, awaiting sentencing and possible appeals of his convictions, Kenneth Lay died suddenly of a heart attack.