

Determining Punishments

Enron imploded. Left behind were millions of shareholders owning worthless Enron stock. These owners trusted that Enron executives behaved in the best interests of shareholders and truthfully conveyed financial information in quarterly statements. But that was not the case. The shareholders were betrayed by not only Enron's chairman of the board, CEO, CFO, CAO, and their subordinates, but also auditors, lawyers, and investment bankers who did business with Enron.

Some key players are more culpable than others, a decision that American citizens place in the hands of federal judges and juries. The key players included:

Former Enron CEO and Chairman of the Board Ken Lay: As CEO of Enron from 1985 to 2001, Lay is ultimately responsible for what happens in the company. He did not know of the illegal accounting activities until August 2001, after Skilling resigned. He did not tell the public when he found out about Enron's financial problems.

Former Enron COO and CEO Jeff Skilling: As COO of Enron from 1997–2001, Skilling relied on Andy Fastow to find creative financial ways to help divisions meet quarterly projections. Several employees complained to him about Fastow's activities and suggested their illegality. After becoming CEO in February 2001, Skilling forced Fastow to step down as general partner of the most contentious SPEs, but did not demand his resignation.

Former Enron Chief Financial Officer Andy Fastow: While working under Skilling in the early 1990s, Fastow created several SPEs that guaranteed profits to investors, in clear violation of generally accepted accounting principles governing SPEs. As CFO in 1999, Fastow created two SPEs where he served as general partner, which earned him management fees and profits totaling \$45 million. These two SPEs enabled Enron to hide debt and declare unearned revenue.

Former Enron Chief Accounting Officer Richard Causey: Causey worked closely with Fastow in the creation of SPEs. He showed Fastow how to use loopholes in the law to get around accounting regulations. He benefited from Enron's artificially high stock price, selling stock options worth millions of dollars. He also failed to inform Ken Lay and the board of directors about the accounting scandal until after Skilling resigned.

Former Enron Portfolio Analyst Sherron Watkins: While working under Fastow, Watkins realized that Fastow was engaged in illegal accounting activities. She informed Ken Lay after Skilling resigned in August 2001, when Enron's stock was selling at \$43 a share. She did not inform the SEC or the public until after Enron declared bankruptcy on December 2, 2001, when Enron's stock was worthless. In 2002, *Time* magazine declared her "Man of the Year" for blowing the whistle on Enron.

Former Arthur Andersen auditor David Duncan: Duncan served as Arthur Andersen's lead engagement partner on the Enron account. He defended Enron's aggressive accounting techniques and did not convey the concerns of Andersen's

Professional Services Group to Enron's board of directors. He violated the public trust placed in auditors and implemented Andersen's documentation retention policy knowing that the SEC would soon be reviewing all materials related to the Enron audit.

Merrill Lynch investment bankers: The investment bankers misled investors about Enron's financial value. They participated in, and financially benefited from, prepays and other financial schemes that artificially inflated Enron's revenue.

DECISION CHOICE. *If you were a federal judge determining punishments for Ken Lay, Jeff Skilling, Andy Fastow, Richard Causey, Sherron Watkins, David Duncan, and Merrill Lynch investment bankers, how long of a jail term would you assign to each, after s/he made others financially whole again?*

Person	Jail Term	Explain why more or less than other people in chart
Ken Lay, CEO and chairman		
Jeff Skilling, COO and CEO		
Andy Fastow, CFO		
Richard Causey, CAO		
Sherron Watkins, accountant/finance		
David Duncan, Arthur Andersen lead auditor		
Merrill Lynch investment bankers		