

Reading Guide #2 - Enron

The questions and page numbers below refer to *Conspiracy of Fools*, by Kurt Eichenwald, Broadway Books, 2005. The questions are grouped into twenty-two topics, and the topics are grouped into four sections: People, Businesses, Accounting and Finance, and Investigation and Collapse. Each topic contains a list of page numbers on which that topic is discussed in the book, and questions. The questions appear roughly in order of their appearance in the book, but some questions may be best answered by reading further, or by considering earlier material. Moreover, you will better understand the individual topics if you read the whole book. You may find it helpful to consult the “Notes and Sources” section of the book, pp 683-723, to determine dates of events in the text.

Group #1: People

Topic A: Ken Lay: pp 21-2; 46-8; 79-80; 112-115; 117-20; 126-132; 137-8; 179-80; 187; 244-5; 249; 264; 268-9; 279-282; 284-5; 288; 290; 339-40; 349-50; 352-3; 356-7; 359-60; 362-3; 370; 381; 395-6; 403-4; 407; 413-7; 418; 441-4; 450; 452; 454-5; 456-7; 466-7; 473-6; 478-9; 481-90; 497-501; 511; 515-7; 519; 521; 522; 536-8; 542-3; 545-6; 547-52; 553; 558; 563-4; 565-6; 567-8; 573-4; 581-4; 586-7; 588; 590; 602-6; 613-4; 617-8; 619-20; 622-3; 624-6; 636-8; 640; 645-7; 648-9; 651-2; 656-660; 662-3; 664-6; 673-5.

1. As a young man, what virtues did Ken Lay exhibit? Be specific. How did he attain these virtues?
2. As a young man, what vices did Lay exhibit? Be specific.
3. Why did James Alexander come to Lay about EPP? How did Lay respond to Alexander’s concerns?
4. Why did Lay’s relationship with Rich Kinder sour?
5. Why did Lay choose Jeff Skilling to be COO after Kinder left?
6. Why did Lay host a fund-raiser for John Ashcroft?
7. How did Lay respond to Andy Fastow’s initial presentation of LJM?
8. Describe the arrangement Lay made, in November 1999, to step aside as CEO in favor of Skilling.
9. Why did Lay invite Michael Milken to speak to Enron managers?
10. What did Lay and Skilling say to employees about investing in Enron stock, in December 1999?
11. Why does Eichenwald write, “Lay had secured a place in the inner circle of the next Republican presidential nominee [George W. Bush]” (350)?
12. Why did Lay sign the DASH for the sale of network fiber to LJM2, in June 2000?
13. Why did Lay want to make Skilling CEO?
14. How did Lay dismiss Rebecca Mark?
15. Why was Lay encouraged to sell some of his Enron stock in late summer, 2000? Why did he refuse? What did he do instead?
16. What steps did Lay encourage Gray Davis to take to solve the California energy crisis?
17. Why wasn’t Lay named Treasury Secretary in the new Bush administration? Was he disappointed?
18. How, and why, did Lay decide to reduce his personal debt, in early 2001?
19. What did Lay tell Cheney in their April 2001 meeting? Why was he disappointed by the Cheney task force’s report (see pp 455)?
20. Why was Lay puzzled by the criticism of LJM by Off Wall Street in *TheStreet.com*?
21. What attracted Lay to the job at KKR? Why did he not take it (see pp 473-85)?
22. How did Beau Herrold use sales of Enron stock to Enron to pay down Lay’s debt? Why did these sales not need to be disclosed?
23. What worries did Lay have about Skilling’s resignation?

24. Why did Mark Palmer think that Lay would be unable to run Enron after Skilling's departure?
 25. How did Lay initially respond to Sherron Watkins' memo?
 26. How did Lay act after meeting with Watkins? Did he follow her recommendations? Be specific.
 27. What did Greg Whalley want to do with the failing Raptors? What did Rick Causey want to do? What did Lay decide, and why?
 28. What did Lay tell his employees what to do about their Enron stock, on September 26, 2001? How did this reflect his own actions?
 29. Describe Lay's handling of the October 23, 2001, conference call. How did it go?
 30. How did Lay describe the challenge to his employees on October 23, 2001? How did they respond to him?
 31. Why did Lay sell more Enron stock on October 23, 2001?
 32. How did Lay respond to Whalley's suggestion that they fire Fastow, on October 23, 2001?
 33. In late October, 2001, what public officials did Lay call for help? What were their responses?
 34. Who did Lay blame for Enron's problems, in his conversation with Palmer on October 29, 2001? How did Palmer respond?
 35. Why did Dynegy insist on Lay stepping down? What was Lay's severance pay supposed to be? Why did he agree to forego the severance pay?
 36. Describe the dispute over the exchange rate in the original merger agreement. Whose fault was it? How was the dispute resolved?
 37. According to Steve Kean, in mid-November, 2001, what did Lay think the problem with Enron was?
 38. How did Bush distance himself from Lay in December, 2001?
 39. How did Lay's relationship with Bush help revive the Enron story in January, 2002?
 40. What did Lay tell Bill Powers about his understanding of the Raptors?
 41. When was Lay finally dismissed from Enron?
 42. Why was Lay indicted? How did he plead?
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Topic B: Jeff Skilling: pp 26-30; 40-5; 70-1; 78-9; 80-81; 87-8; 98-103; 108-9; 123-4; 126-132; 184-5; 197-8; 219-20; 279-80; 284-5; 327-9; 348-9; 355-6; 360-4; 381; 395-6; 422-3; 435-7; 438-9; 442-9; 461; 463-4; 470-1; 472-6; 478-86; 490-2; 525; 532; 547-50; 554; 558-9; 564-6; 579; 585; 587; 593; 598; 607-8; 623-4; 633-5; 649-51; 660-2; 664-6; 668-70; 672-3.

1. What virtues and vices did Jeff Skilling exhibit in his early years?
2. Why did Skilling leave McKinsey?
3. What did Cliff Baxter like and dislike about Skilling's plan to form an electricity consortium with utility companies?
4. Why did Skilling reduce his hours at Enron, in spring 1995? Why did he return to full-time work?
5. Describe Skilling's behavior leading to his request for a divorce.
6. How did Skilling manage Andy Fastow's failure in retail energy?
7. How did Skilling criticize Ray Bowen's approach to retail energy?
8. How did Skilling support Rich Kinder in his attempt to become CEO?
9. Describe how Skilling maneuvered into the COO job.
10. Why did Rebecca Mark recommend Joe Sutton to succeed Skilling as COO? How did Skilling respond?
11. Why was Skilling marked to succeed Lay, in November 1999?
12. Did Skilling encourage employees to invest in Enron in December 1999?
13. How did Skilling respond to Jeff McMahan's complaints about LJM, on March 16, 2000?

14. Describe the disagreement between Skilling and Mark over the values of Enron's international assets, in August 2000? Why was Pug Winokur upset with Skilling's approach to the conflict?
 15. How did Skilling push Mark out of Enron? Why?
 16. How did Skilling respond to being named the next CEO of Enron, in December 2000?
 17. How did Skilling respond to Bethany McLean's criticisms of Enron, in their February 14, 2001 call?
 18. How did Skilling interpret Enron's falling stock price?
 19. Why did Skilling call Ryan Siurek on March 26, 2001? What did the call show?
 20. What information did Richard Grubman want, in the April 17, 2001, analysts' conference call? How did Skilling respond to Grubman?
 21. Why did Skilling consider resigning in late April, 2001? How did Lay dissuade him?
 22. What is the difference between the Titanic and California?
 23. When Skilling left Enron, how much money had he earned? Why did he leave?
 24. What concerns did Lay express to Skilling about his departure? What did Skilling find out from Rick Causey?
 25. How did Skilling react to discovering that people at Enron were angry about his resignation?
 26. What problems with Enron did Skilling reveal to the board after announcing his resignation?
 27. What did Skilling tell John Emshwiller about why he resigned?
 28. How did Rick Buy explain, to Victor Kaminski, the change in atmosphere at Enron after Skilling left?
 29. How did Skilling respond to the October 23, 2001, conference call? Why was he rebuffed?
 30. Why was Skilling surprised about the revelations about Glisan and Mordaunt?
 31. Why, according to Skilling, did he not oversee the LJM deals? Why did he sign an approval sheet?
 32. How did Skilling perform on his lie detector test? What did he say about his actions in the test?
 33. Why was Skilling indicted? How did he plead?
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Topic C: Andy Fastow: 49-54; 63-4; 89-91; 96-106; 132-4; 144-6; 165-6; 171-6; 181-4; 186; 194-5; 197-9; 201-2; 209-11; 216-22; 234-5; 238-53; 258-61; 282-4; 319-22; 326-7; 330-1; 333-5; 337-8; 343-4; 370-1; 383; 412-3; 419-20; 423-5; 449-50; 452; 468-9; 471; 480-1; 486; 491; 493-4; 495; 501-2; 504; 506-8; 534-5; 538-41; 544-8; 553; 554-65; 624; 634-5; 639-40; 655-6; 657-8; 664-6; 667-8; 670-2.

1. What attracted Andy Fastow to Enron? What skills did Fastow bring to Enron?
2. What virtues and vices did Fastow exhibit, in his youth?
3. How did Fastow respond to the advice that Ken Rice gave him when he was first put in charge of retail energy?
4. How did Fastow respond to the problems for retail energy raised by Ray Bowen and Gustav Beere?
5. How did Fastow respond to his disappointing first meeting with Jeff Skilling about plans for retail energy?
6. Why did Fastow leave retail energy?
7. Describe the job Fastow proposed for Shirley Hudler.
8. How did a feud between Fastow and Amanda Martin arise over the sale of two cogen plants?
9. Why was Bowen moved out of Enron Finance?
10. How did Fastow convince Moody's not to downgrade Enron in early 1998?
11. Why was Fastow not immediately chosen as CFO, in early 1998? How did Fastow respond?
12. Why did Fastow allow Jeff McMahon to reorganize finance after coming in as treasurer?
13. Why was Fastow upset with John Olson? How did Fastow convince Merrill Lynch to rein him in?
14. How did the confidence that New York lenders showed in Enron in October, 1998, reflect on Fastow?

15. Why did Fastow want to be CFO of the year? How did he proceed?
16. For what job was Mike Jakubik recruited? Why did Fastow appoint Michael Kopper to the job? What happened to Jakubik?
17. How did Fastow encourage Salomon Smith Barney to get rid of Don Dufresne?
18. What was Fastow's interest in Martin/LJM? How did Fastow misrepresent his interest in it to the board, at the June 18, 1999, meeting?
19. How did Fastow respond to Bowen's criticisms of LJM, in late July, 1999?
20. How was the Sails transaction beneficial to Fastow?
21. How much money did Fastow invest in LJM1? When did he get half of it back? How much was his investment worth by the time of the restructuring in December 1999 (see p 283)?
22. Did Fastow promise deals with Enron to investors in LJM2? Explain.
23. How did Fastow deal with Jim Timmins' worries about LJM, and his decision, in February 2000, to leave Enron?
24. How did Fastow deal with McMahon's complaints about LJM2 before March 15, 2000? How did he deal with Joe Sutton's questions around the same time?
25. Why did Fastow decide he could no longer work with McMahon?
26. Why did Fastow hire Ben Glisan to be treasurer?
27. How and why did Fastow hire Jordan Mintz as the top lawyer at finance?
28. Why did Fastow not want his earnings from LJM disclosed to Skilling? When he did show Skilling his earnings, what did he show him? What did he leave out?
29. Describe Fastow's February 2001 meeting with Bethany McLean and her *Fortune* editors. Why was Fastow not able to spin her story to be more favorable to Enron? What did he request from McLean?
30. Why was Fastow happy to be given Cliff Baxter's responsibilities after Baxter left Enron?
31. Just enjoy the paragraph on 468 which begins, "Lea and Andy had just arrived..." In fact, enjoy that whole section.
32. How did Fastow give Kristina Mordaunt \$750,000 to become his general counsel?
33. How did Fastow respond to news of Skilling's departure?
34. How did *The Wall Street Journal* discover that Fastow ran the LJM's?
35. What reason did Fastow give Mark Palmer for not wanting to talk to the *Journal* about the LJM's?
36. Why did Fastow accuse McMahon of writing the Watkins memo? Describe their meeting about it. Did Fastow stop accusing McMahon?
37. What happened to Kopper's laptop with the details of his and Fastow's crimes?
38. How did Fastow respond to the *Journal*'s first story about LJM? How did he respond to the increased investigation into LJM?
39. How did Greg Whalley decide that he should fire Fastow? What role did a call from Bowen and a discussion with Fastow and Glisan about liquidity play in Whalley's decision?
40. How and why did Fastow disclose his earnings from the LJM's to the board?
41. Why, on October 23, did Fastow not want to draw down the bank lines that backed their commercial paper? What was McMahon's response?
42. Why was Fastow relieved of his CFO duties? Who replaced him?
43. What methods had Fastow put in place to track cash and debt maturities?
44. Why, in the end, did the board fire Fastow?
45. What did Fastow and Kopper agree to say about RADR?
46. How forthright was Fastow to the special committee, on January 15, 2002?
47. How did Fastow and his wife settle their criminal cases?

Group 2: Businesses

Topic D: The Gas Bank: pp 22-3; 40-5.

1. What were take-or-pay contracts for natural gas?
 2. How did Lay use a spot market to solve problems with Transco's take-or-pay exposure? How did this affect Lay's reputation?
 3. Why were customers interested in Skilling's gas bank?
 4. Why were producers hesitant to supply Enron's gas bank? How did Enron get the gas they needed without locking in suppliers to contracts? What risks were involved?
 5. Describe Enron's arrangement with Kaiser. What made this arrangement interesting?
 6. How did Enron encourage gas suppliers to lock into fixed-price contracts?
 7. Why did Skilling want to trade on the cash flow from the gas bank? How would trading be a change for Enron?
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Topic E: Compensation and Corporate Culture: 48-9; 63-4; 71-4; 109; 124-5; 132-134; 169-70; 176-7; 181-4; 186; 194-5; 197-8; 209-10; 211-4; 216-21; 250; 255-7; 288-9; 303-4; 307-8; 309-311; 318-9; 324-338; 343-4; 405-6; 419-21; 429-32; 434-5; 442-3; 462-3; 465; 478-86; 506-8; 525; 537; 546; 551-2; 582; 613; 622-4; 627-9; 632-3; 637-8; 649-51; 660-2.

1. How did Jeff Skilling encourage a meritocracy at Enron by changing compensation policies?
2. How did Rebecca Mark want to improve operations? Why did Rich Kinder reject her proposal?
3. How were bonuses for developers determined at Enron?
4. How did Skilling criticize Ray Bowen's approach to retail energy?
5. What factors favored the power plant deal in Puerto Rico? What weighed against it?
6. Why did Enron diversify? Why did they value quick profits over holding down costs?
7. What is a chief risk officer? Why was Rick Buy underqualified for the job?
8. Why did Jeff McMahon find confusing about the finance division after coming on as treasurer?
9. How did John Olson, at Merrill Lynch, rate Enron? What happened to Olson? How did his successor, Donato Eassey, rate Enron?
10. Why did Enron have a problem with liquidity? Why were they interested in hiring Mike Jakubik?
11. Why did Jakubik find his interviews with Skilling and Andy Fastow odd? What happened to him when we was hired?
12. Why was Victor Kaminski's group moved out of Risk Assessment and Control (RAC), into wholesale?
13. What was the goal of the PRC (Performance Review Committee)? How was it run?
14. How was the news at the December 13, 1999, finance committee meeting? How was the mood at the party a few hours later?
15. Why did Victor Kaminski propose a company-wide risk assessment?
16. What were McMahon's concerns about Fastow and LJM? How did Fastow respond to them? How did Skilling respond to them? How was the conflict resolved?
17. Why was Ben Glisan named treasurer? What advice did Bowen give Glisan upon being named treasurer? Did Glisan take Bowen's advice?
18. In January 2001, why did Cliff Baxter want to leave Enron? Why did he stay?
19. Why were the board of directors not concerned about Fastow's high compensation in February 2001?
20. How did Glisan respond to the March 2001 Kindall/Kaminski report?
21. How did Causey and Buy respond to Jordan Mintz's March 2001 memo?

22. Why did Kevin Kindall and Stinson Gibner resign, in June 2001?
 23. Why did Skilling resign in August 2001? How did Lay respond to Skilling's resignation? How did McMahon and Bowen respond? How did Fastow respond?
 24. What happened to Rebecca Carter after Skilling resigned, and why?
 25. What was the mood at the Woodlands managers meeting, in September 2001? Who acknowledged wrongdoing at that meeting?
 26. How did Buy explain, to Victor Kaminski, the change in atmosphere at Enron once Skilling left?
 27. How did Lay describe the challenge to his employees on October 23, 2001? How did they respond to him?
 28. Why were Enron employees blocked from selling shares from October 26, 2001 to November 12, 2001? Were they harmed by the block?
 29. How much money was put aside for retention bonuses after the deal with Dynegy collapsed? What problems arose for dispersing the bonuses?
 30. Why were employee severance packages capped at five thousand dollars, on December 3, 2001?
 31. What does Eichenwald call the "first myth about the Enron fiasco" (637)? Why is it a myth?
 32. Was Cliff Baxter's death a suicide? Explain.
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Topic E: Rebecca Mark, Enron International, and the Dabhol project: 61-2; 64-5; 71; 72-5; 77; 79-80; 82-5; 120; 124-5; 158-60; 184-5; 187-91; 200-1; 208; 214; 215-6; 275-6; 321; 340-1; 348-9; 356-7; 360-2; 364; 367; 368-70; 372-3; 374; 376-8; 382-3; 443-4; 453; 473-4.

1. How did the strategy of building in Dabhol conflict with Enron's energy-trading strategy?
2. What problems did James Baker III describe with the Dabhol project?
3. What problem existed for the Richmond plant? When was the problem noticed?
4. Why was Enron Global Power and Pipelines (EPP) started? Be specific about the benefits to Enron.
5. What problems arose for the Dominican plant?
6. How did Enron resolve the problems of conflict of interest between EPP and Enron? Who benefitted from this solution? Who stood to lose?
7. Why was the Dabhol project scrapped in 1995? Why was it revived?
8. What errors were made in Puerto Rico and which led to the explosion?
9. Why were the qualities of international deals irrelevant to whether Enron would make them?
10. What happened to Rebecca Mark's deal with Shell? Why did Ken Lay and Jeff Skilling oppose it?
11. What did Skilling propose to do with Enron's international projects, in November 1997? How did Mark respond?
12. Why did Mark leave Enron International? Where did she go from there? Why did Amanda Martin follow her?
13. What investments did Enron make in Brazil under Mark? How did Joe Sutton want to expand Enron's Brazilian presence?
14. How did Skilling and Sutton propose to finance their purchase of Elektro? What potential risks surrounding Elektro were ignored?
15. What was the minimum bid established by the Brazilian government for Elektro? How much did Enron bid?
16. What concerns did the directors have about Enron's direction, in October 1998? How did Skilling allay these worries? How was the worry about liquidity mitigated?
17. How did Enron lose half of its investment in Elektro, in January 1999?
18. Why were the Enron directors dazzled by the Dabhol plant in February, 1999?

19. Why did Skilling decide he wanted to sell Enron's international assets?
 20. Why did Project California make Skilling a little nervous?
 21. Describe the conflict between Sutton and Skilling over the value of Enron's international assets? Why was Lay concerned about Skilling's evaluation?
 22. How did Sutton present a problem for Project Summer, the deal to sell off Enron's international assets? How was the problem resolved?
 23. What concerns about Dabhol were expressed in an anonymous letter to Enron, in summer 2000?
 24. Why was Project Summer terminated in September, 2000? How did Skilling and Baxter proceed?
 25. How were Enron's Dabhol managers helping the Maharashtra electricity board stay out of hock? What was the real problem in India?
 26. How did John Duncan defend Enron International? Why did Skilling disagree?
 27. How did Lay enlist Colin Powell to help with Dabhol?
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Topic G: Retail Energy (EES): 81-2; 89-91; 92-4; 96-103; 148; 160-1; 340; 391-2; 420-1.

1. Why was Jeff Skilling interested in establishing a retail energy division? Why was Andy Fastow chosen to start the retail energy project?
 2. What ideas for retail energy did Ken Rice discuss with Fastow? How did Fastow implement them?
 3. According to Victor Kaminski, what was wrong with Fastow's predictions for retail energy after deregulation? How, according to Kaminski, did Fastow fail to understand hedges?
 4. Why did Ray Bowen leave Citibank to work for retail energy? What problems did he discover? What did Gustav Beerel show Bowen about the numbers? How did Fastow respond to Beerel's worries?
 5. What problems did Skilling find in Fastow's initial plans for retail energy?
 6. Why did Fastow leave retail energy? Where did he go?
 7. What problem did Lou Pai find in developing the retail energy market? How did Skilling respond?
 8. Why did Bowen leave Enron's retail division?
 9. Why did EES suffer huge losses from its bet that prices would fall?
 10. What problems arose at EES from faulty assumptions about the values of contracts?
 11. At the end of 2001, when EES claimed to be in the black, what did Wanda Curry estimate their losses at? How did Pai explain the problem? How did Skilling respond?
 12. How did EES avoid reporting losses, even though the losses were substantial?
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Topic H: California: 91-2; 94-5; 110-1; 115-6; 323; 341-3; 346-7; 354; 358-9; 372; 378-80; 389; 391; 392; 393-4; 399-400; 402-4; 406; 408-12; 417; 454-5; 457; 464-6; 467-8; 665; 673-4.

1. Why was Enron interested in acquiring Portland General? Why did proposals for a joint venture fail?
2. Why, under California's deregulation was there a discrepancy between what most consumers paid and what power cost? What other problems existed with California's deregulation?
3. How did Jeff Skilling propose to make money on California's deregulation?
4. What is a long position? How did Enron set up a long position in California?
5. Describe three loopholes in California's deregulation rules that allowed for cheating the system.
6. How did the Forney Perpetual Loop exploit the California market?
7. How did Death Star and Fat Boy exploit the California market?
8. How did Get Shorty exploit the California market?
9. Why was the California energy crisis suspicious in May, 2000?

10. Why were residents in San Diego not protected against rising rates?
11. Why did Gray Davis, in August, 2000, accuse energy traders of creating the energy crisis?
12. How did Skilling suggest ameliorating the California energy crisis, in his call with Davis? How would Skilling's solution allow Enron to take advantage of mark-to-market accounting?
13. What dismayed Enron's lawyers about the California Energy trading ploys?
14. How did the Enron traders make money by reporting partial-megawatt deliveries? What did Richard Sanders make the traders do about such trades?
15. What did Sanders tell Jim Derrick, on November 20, 2000, about Enron's liability in the California energy crisis?
16. How did Enron make money from manipulating congestion?
17. What did the Yoder and Hall memo say? Why did Mark Haedicke tell Sanders to collect every copy of the memo?
18. Why was Skilling worried about the health of California utilities which owed Enron money? How did he solve the problem?
19. Who did Alan Greenspan and Lawrence Summers blame for the energy crisis? Explain.
20. How did Ken Lay suggest solving the crisis?
21. How did Davis's approach to the crisis differ from that suggested by Greenspan, Summers, and Lay?
22. Why, according to Skilling, did the California crisis have little effect on Enron's fourth quarter earnings? What did he neglect to mention?
23. How did the Bill Lockyer see Enron's role in the energy crisis?
24. How was the California energy crisis ended? How did this affect Enron's stock?
25. When did Skilling find out about the scams perpetrated by Enron traders in California?
26. In the end, was Enron responsible for the California Energy Crisis?

Topic I: Enron Broadband (EBS): 150-1; 204-5; 228-9; 236-8; 271; 279-80; 290-1; 296-8; 305-7; 322; 352-3; 357; 398; 432-4; 471; 668; 673-4.

1. Where were Enron's first forays into the Internet started?
2. How did Joe Hirko fund the fiber-optic network linking Portland and Los Angeles?
3. What is bandwidth trading?
4. Why was Enron interested in Modulus Technologies? Describe the role that InterAgent would play in the plans of Hirko and Scott Yeager.
5. Why had Enron Communications distributed private stock options to its employees? Why was Jeff Skilling upset about it? How was the matter resolved?
6. Who did Skilling appoint to head Enron Communications, in June 1999? What experience did they have in telecommunications?
7. What problems with Enron Communications did Rex Shelby notice in June, 1999?
8. Why was Skilling sent to lead Enron Communications, in November, 1999?
9. Why did Ken Lay want Rupert Murdoch involved in the broadband business? How did Lay present the state of Enron Communications?
10. Did Enron Communications have a good product, according to Bill Collins? Explain.
11. What role did Enron Communications want for Sun Microsystems and its Java language? Why was Scott McNealy interested?
12. Why was Enron Communications renamed Enron Broadband? How did Enron's relationship with Sun Microsystems affect its stock price?
13. Describe the venture between EBS and Blockbuster, starting in March, 2000. How long did Ken Rice

- consider the deal before making it?
14. Why did EBS want to sell part of its network fiber? To whom did they sell it?
 15. Why was the Blockbuster deal dissolved? What were each sides' complaints? How could Enron have avoided entering into the doomed arrangement with Blockbuster?
 16. Why did Enron decide to fold EBS into energy trading?
 17. Why were Hirko and Rice indicted?
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Topic J: Azurix: 187-8; 190-3; 210; 219; 229-32; 238-40; 253; 257-8; 271-5; 277-8; 285-6; 316-317; 347-9; 362-4; 404-5; 532; 548.

1. What hopes did Rebecca Mark and Cliff Baxter have for a new division devoted to water? How did Ken Lay like their idea?
 2. Why did Amanda Martin follow Mark to Azurix?
 3. Why were the directors wary of starting the water division, in July, 1998? Why, specifically, did Norm Blake, Pug Winokur, and Ken Harrison object?
 4. How did Andy Fastow propose to fund Azurix' purchase of Wessex without harming Enron's balance sheet?
 5. How was Azurix run differently than other start-ups?
 6. Why did Mark want a commitment from Enron to send water business to Azurix? Did she get it?
 7. Why did Azurix overbid in Argentina? How did Mark relay the news to Lay?
 8. Why did Martin want to postpone the Azurix IPO? How did Jeff Skilling respond?
 9. How did Azurix IPO go? Why was Mark disappointed afterwards?
 10. What problems faced Azurix immediately in Argentina?
 11. Why did Wessex have to cut its prices seven weeks after the Azurix IPO?
 12. Why did Mark want to report disappointing fourth quarter earnings in 1999? How did Skilling respond? In what direction did Lay and Skilling decide Azurix had to go?
 13. What is EBITDA? Why did Mark want to grow EBITDA despite incurring losses? Did Lay and Skilling approve?
 14. Why was Skilling concerned about Azurix's credit rating? Why were Mark and Rod Gray not concerned?
 15. What happened to Mark's proposal for on-line water trading?
 16. Why did Mark leave Azurix? What were the terms of her departures?
 17. Why did Enron repurchase public shares of Azurix?
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Group 3: Accounting and Finance

Topic K: The Valhalla Oil-Trading Scandal: pp 15-19; 34-39.

1. How did Louis Borget and Thomas Mastroeni use a "book-out" to manipulate profits?
2. How did Borget and Mastroeni explain their use of altered bank records?
3. Describe Ken Lay's response to the Valhalla book-out scandal.
4. Why were David Woytek and his auditors removed from investigating the Valhalla scandal?
5. How did Andersen evaluate the problems with Valhalla?
6. Why was Borget eventually fired?
7. How did Mike Muckleroy fix the Valhalla problem?

Topic L: Finance and Internal Accounting: 53-61; 66-9; 72; 85-7; 116-7; 121-3; 124; 132; 139-142; 148-50; 151; 156; 158-60; 164-5; 168-9; 178-9; 190-3; 195-6; 199-200; 202-3; 204; 223-6; 286-7; 293-6; 298; 300-3; 347; 350-2; 353-4; 357-8; 375; 376; 391; 405; 469-70; 513-5; 520; 522; 527-8; 530; 547-50; 554-63; 567-8; 571; 575-8; 584-5; 593; 594-6; 609-10; 611-2; 614-7; 619-23; 626-31; 632-3; 635-6; 657-8.

1. What is mark-to-market accounting? How does it differ from standard gas industry (accrual) accounting? Why did Jeff Skilling want to use mark-to-market accounting?
2. Why did David Woytek call the Enron accounting proposal mark-to-guess?
3. How would mark-to-market accounting lead to problems with future revenues?
4. How did Skilling have a personal interest in using mark-to-market accounting at Enron?
5. Why did the SEC initially turn down Enron's proposal to use mark-to-market accounting? How did Enron respond?
6. Why did Enron insist on using mark-to-market reporting for 1991?
7. What problems for mark-to-market accounting did Toni Mack describe in her May 1993 article for *Forbes*?
8. How did Skilling propose to use mark-to-market accounting for the clean fuels division?
9. How did Andy Fastow err about interest rate exposure?
10. How did Rebecca Mark miscalculate rates of return? How was this error addressed?
11. How did mark-to-market accounting create problems for the sales of the cogen plants Texas City and Clear Lake? How did Skilling propose to avoid taking a loss on the sale of those plants?
12. Why did Carl Bass not think much of Rick Causey?
13. How did Causey make the loss on Calpine "disappear in plain sight" (142)?
14. Describe the dispute over the accounting for Bonneville Power. How was it resolved?
15. How did Bass undermine Enron's accounting practices by working to change real estate regulations?
16. Describe the proposed, but nixed, investment plan with Barclays Bank. Why did Enron decide not to hire Barclays as a consultant?
17. How, according to Mark, did Skilling's trading operation increase profits? How did they think Skilling's methods affected Enron International?
18. What profits did Enron report for 1997? What should their total earnings have been?
19. Why did John Stewart believe that the sale of seven percent of retail should have been recorded as twenty million dollars in 1997, rather than sixty-one million? Was the entry changed?
20. How did Ben Glisan help Enron meet its 1998 first-quarter earnings projections?
21. What was Project Trident? How did Enron fund it?
22. How did Causey and Dave Duncan argue that Arthur Levitt's remarks about dangerous accounting practices were not aimed at Enron?
23. Describe the scam involving Chase and Enron (and Mahonia).
24. How did mark-to-market accounting create pressure on wholesale trading?
25. What are hedges? Why did Enron want a hedge for Rhythms NetConnections?
26. Why did Andersen disapprove of a sale to Condor as a means to remove Yosemite certificates from Enron's books? How was the problem resolved? (See also p 301.)
27. What did Enron gain from the mirror-image transaction with Merrill Lynch? What did Merrill Lynch gain? What was actually traded?
28. Describe the arrangement with Merrill Lynch regarding the Nigerian power barges. What worries were raised about the transaction at Merrill Lynch? How were they dispatched?
29. How did Project Nahanni create fake cash flow for Enron?
30. What problem arose for selling the Nigerian power barges from Merrill Lynch back to Enron? Why

- were the barges still a liability for Enron six months after reporting profits from their sale? (See also p 347, and pp 353-4.)
31. How did Enron make its earnings projections for 1999, with \$500 million in cash flow; and \$125 million in profits, in the last few weeks? Be specific.
 32. Why did Arthur Levitt want to separate accounting consultancy from auditing? What resistance would he face?
 33. Why did Enron sell the airplanes they had acquired in the Cochise deal to a Bankers Trust entity? What agreement was made with Bankers Trust?
 34. How did Enron exceed its second quarterly earnings projections for 2000 by two cents a share?
 35. What were Jonathan Weil's concerns about mark-to-market accounting? What did he learn from his meeting with Causey?
 36. How was Jim Chanos alerted to worries about Enron's accounting? Why did he bet that Enron's stock would fall as of November 2000?
 37. How did Enron deal with its problems with cash flow in December 2000?
 38. Describe the proposed deal between Qwest and Enron? Why didn't Skilling like the deal?
 39. Why did Enron have a cash crisis after September 11, 2001? Why did Fastow authorize payments to Michael Kopper during the crisis?
 40. Why was Bass particularly upset about the billion dollars of unrecognized losses and the \$1.2 billion equity charge that Enron was going to have to announce?
 41. What problem could arise from Enron's stock being undervalued?
 42. How did Fastow report the state of Enron's liquidity in early October 2001?
 43. Why did Causey object to including the \$1.2 billion reduction in shareholder equity in the third quarter 2001 press release? Why did Duncan object to labeling the \$1.01 billion losses from the Raptors as non-recurring? What did the release finally contain?
 44. Why did Enron's management and directors feel good about the state of the company before the October 23, 2001, conference call? How did they feel after the call?
 45. What happened to Enron's commercial paper after the October 23, 2001, conference call? When did the Enron finance group first notice a problem?
 46. Why did Greg Whalley want to remove Fastow as CFO? How did he convince Ken Lay to get rid of Fastow?
 47. Upon taking over as CFO, what did Jeff McMahon find out about Enron's method for tracking their cash? What did he find out about their maturities schedule?
 48. What problems arose for determining Enron's debt, on October 24, 2001? What estimate did Glisan provide?
 49. How had Fastow misused EOG shares?
 50. How did Enron solve their problems with commercial paper, on October 25, 2001?
 51. When were the corporate bankruptcy experts from Weil, Gotshal & Manges first called? What did they think were Enron's least suspect assets?
 52. How did Enron get its 2002 projections, which it used in the negotiations with Dynegy?
 53. What prevented Enron from releasing financial statements, in late October, 2001?
 54. Why did Enron not pay its bills on November 8, 2001? Why did it pay its bills the next day?
 55. Why did Enron suddenly owe \$690 million more on November 12, 2001?
 56. How did Enron traders keep their business going despite wary trading partners? How did their actions worsen Enron's cash drain?
 57. Why was Dynegy upset by the 10-Q on Monday, November 19, 2001? Why was Enron technically insolvent, that day?
 58. Why did Enron's stock fall twenty-three percent, on November 20, 2001?

59. Why couldn't Steve Bergstrom convince Whalley to stop the traders from using cash collateral for their trades?
 60. Why did Enron and Dynegy meet with the banks to negotiate a new deal after Thanksgiving, 2001? Who, notably, from Dynegy did not attend the meetings? What were the terms of the new deal? How did Dynegy respond?
 61. What did Ray Bowen do immediately after the Dynegy deal collapsed? What problems did he encounter?
 62. What happened to Enron's stock price right after the collapse of the Dynegy merger?
 63. Why did Enron distribute \$55 million in bonuses at the end of November, 2001?
 64. When and why did Enron file for bankruptcy?
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Topic M: Special-Purpose Entities: Generally: 53-4; 106-8; 116-7; 121-3; 124; 132; 141-2; 147-8; 151; 160-1; 163-4; 201; 221-2; 227-8; 231; 232-4; 244-6; 248; 249-53; 263-4; 289-90; 291-2; 367-8; 372; 381-2; 386-8; 412-3; 450-2; 453-4; 455-6; 458; 554; 578-9; 585-6; 589; 591-2; 594-8; 600; 601; 624; 634-6; 638-9; 655-6; 657-8; 664-5; 667-8; 670-2.

1. What are the purposes of special-purpose entities?
2. Describe the restrictions on legal uses of special-purposes entities. Why did Andy Fastow call the three-percent rule ridiculous?
3. How did Cactus work?
4. How did making Enron Finance a profit center change its role? What problems with the change did Amanda Martin, Ken Rice, and Cliff Baxter fear?
5. What problems arose for the sale of Enron's co-gen plants? How was a special-purpose entity used to solve these problems?
6. "Fastow's plan would increase Enron's long-term exposure, all to avoid a quarterly loss." (121) Explain.
7. Why did Martin not get involved with the wind farm sales from Zond?
8. How did Carl Bass's attempt to change real estate regulations undermine the SPEs?
9. Why did Ray Bowen move into Fastow's special-projects group?
10. How did Fastow and Michael Kopper keep track of their illicit earnings from the SPEs?
11. What was the purpose of Merchant Partners LP?
12. How did Fastow, in conversation with Jeff Skilling, respond to worries about a conflict of interest with his investment fund?
13. Why didn't Fastow like Jim Timmins' equity fund proposal?
14. What was the purpose of LJM, the fund which was originally named Martin? How did David Bermingham at Greenwich NatWest evaluate the fund?
15. Why, according to Victor Kaminski, was having the CFO running a fund which invested in Enron a bad idea? Consider also the opinions of Baxter, Rice, Martin and Bass, on pp 251-3.)
16. What resistance did the board have to Fastow running LJM?
17. How did the fund imagined by Timmins differ from Fastow's first LJM fund?
18. How did the success of the Rhythms hedge lead to increased uses of SPEs?
19. Why did Jeff McMahon want Kopper not to attend staff meetings? Why did Fastow demand that Kopper attend?
20. What were Stuart Zisman's objections to Raptor I? How were they received by Mark Haedicke?
21. Why did the Enron board ask Fastow to disclose his earnings from LJM?
22. Why was Rick Buy interested in joining LJM? Why did the offer to Buy deepen the conflict of interest?
23. "If any real third party had cut deals with Enron that generated profits like that, company executives

- would have hung their heads. But Fastow beamed as he reviewed the results (387-8).” Explain.
24. How did Fastow defend not disclosing his earnings from LJM? Why did he not want them disclosed?
 25. What did Jordan Mintz discover about Skilling’s signatures on LJM transactions? Why was this troubling?
 26. Why did Mintz retain the law firm Fried, Frank?
 27. Why did Skilling ask Fastow to choose between LJM and Enron? Which did Fastow choose, and why?
 28. What earnings from the LJMs did Fastow report to the board, on October 23, 2001? Was his report accurate?
 29. Why did Enron have to revise its accounting for four years, to include Chewco and JEDI? How much outside equity did Chewco have?
 30. How did Ben Glisan lie to McMahon about his involvement in LJM and Chewco?
 31. Why did the SPEs lead Rick Causey to refuse to release financial statements, at the end of October, 2001?
 32. When and why were Glisan and Kristina Mordaunt fired?
 33. According to Skilling, in his November 27, 2001, interview, was he responsible for overseeing the LJM deals? Why did he sign one approval sheet?
 34. What, according to Eichenwald, is the, “Closest Skilling had ever come to suggesting that Fastow might have cheated the company” (635)?
 35. What did Joe Berardino say, at the December 12, 2001, congressional hearing, about illegal acts within Enron? Why were Causey and Lay surprised and upset?
 36. How did Fastow lie at his January 15, 2002, interview for the Powers investigation?
 37. What did Ken Lay say he knew about the SPEs to the Powers investigators?
 38. How did Skilling defend his own actions regarding the SPEs, under oath, to Congress?
 39. How did Kopper settle his criminal case? What did he tell prosecutors about the SPEs?
 40. When and how did Fastow talk to prosecutors about the SPEs?
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Topic N: Special-Purpose Entities: Chewco and the JEDIs: 53-4; 65-6; 95-6; 116-7; 144-8; 152-8; 161-4; 206-9; 304-5; 307; 313-4; 348; 461-2; 514-5; 571-4; 578-9; 581; 582; 594-8; 599; 638-39; 655-6; 657; 664-5; 667-8; 670-72.

1. Describe the restrictions on legal uses of special-purposes entities. Why did Andy Fastow call the three-percent rule ridiculous?
2. How did Fastow propose to use Calpers investments?
3. What problems arose for the sale of Enron’s co-gen plants? How was a special-purpose entity used to solve these problems?
4. Why did Fastow propose moving Calpers investments from JEDI to JEDI II? What problem arose for the shift? How was Chewco supposed to solve the problem?
5. Why did Ron Astin want the Enron board to approve Fastow’s involvement in Chewco?
6. Describe the conflicts of interest present in the Chewco negotiations.
7. How were the last Chewco investments finally secured? Who were the final investors?
8. What were Big River Funding and Little River Funding? Describe their role in the last Chewco investments.
9. Who was the independent investor in Chewco? What was his relation to Enron?
10. How did Chewco get a fee for agreeing to take more money? Where did the money go?
11. Describe the purpose of Project Grayhawk. Did it work?
12. Why did Jeff McMahon want to buy out Chewco? What did he offer? What did Michael Kopper and

Fastow want?

13. When Chewco was finally bought out of JEDI by Enron, what was the profit? To whom did it go?
 14. What arrangement was made between Fastow and Kopper to run LJM2? How was this transfer related to the Chewco sale?
 15. When did the *Journal* start to investigate Chewco? Did Ken Lay already know about Chewco? How did he respond?
 16. Why did Enron have to revise its accounting for four years, to include Chewco and JEDI? How much outside equity did Chewco have?
 17. What was the smoking gun, discovered by Andersen on November 2, 2001, that proved that Chewco did not have three percent independent equity?
 18. Why were Enron officials upset that Joe Berardino suggested, at the congressional hearings of December 12, 2001, that Chewco was connected to illegal acts at Enron?
 19. What did Fastow say about his knowledge of Chewco to the Powers investigators on January 15, 2002?
 20. What did Lay say about his knowledge of Chewco to the Powers investigators?
 21. How did the Powers report finally evaluate Chewco?
 22. What did Kopper tell prosecutors about Chewco, in summer 2002? Why?
 23. When and how did Fastow talk to prosecutors about Chewco?
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Topic O: Special-Purpose Entities: RADR: 53-4; 141-4; 152; 160-1; 163-4; 352-3; 420; 471; 667-8; 670-2.

1. What are the purposes of special-purpose entities?
 2. Describe the restrictions on legal uses of special-purposes entities. Why did Andy Fastow call the three-percent rule ridiculous?
 3. What was Alpine Investors designed to purchase? Why?
 4. Who were the independent investors in Alpine Investors? Why was Jordan Mintz uncomfortable about the arrangement?
 5. Why did Alpine Investors not work as an SPE? How did Fastow respond?
 6. Who were the investors in the two RADR funds?
 7. How did Fastow get repaid for his investment in RADR? How much money did he make, initially?
 8. Who else, at Enron, benefitted from RADR? How?
 9. What did Michael Kopper tell prosecutors about RADR, in summer 2002? Why?
 10. When and how did Fastow talk to prosecutors about RADR?
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Topic P: Special-Purpose Entities: Rhythms, Swap Sub, LJMs, and Raptors: 53-4; 174-5; 185-6; 221-2; 223-6; 227-9; 232-4; 235-6; 238; 240-53; 258-60; 261; 262-64; 264-71; 277; 279; 282-4; 289-90; 291-6; 298-302; 304-5; 311-3; 314-6; 320-1; 322-5; 326; 327-9; 330-6; 344-6; 352-4; 355-6; 367-8; 371; 372; 381-9; 392-3; 395; 397-9; 400-2; 407; 412-3; 421; 432-5; 436-7; 439-41; 450-2; 453-4; 455-6; 457-60; 461-2; 494-5; 500-1; 502-3; 508; 511; 512-3; 515-7; 520-1; 522-6; 528-9; 531-4; 537-40; 542-3; 544-5; 547; 549-50; 554; 579-80; 585-6; 589; 591-2; 594; 600-1; 611-2; 615; 618; 624; 634-6; 638-40; 655-6; 657-8; 664-5; 667-8; 670-2.

1. What are the purposes of special-purpose entities?
2. Describe the restrictions on legal uses of special-purposes entities. Why did Andy Fastow call the three-percent rule ridiculous?
3. What was the purpose of Merchant Partners LP?

4. Why was Jeff Skilling excited about Enron's investment in Rhythms NetConnections? What worry did he have?
5. How would a hedge alleviate worries about Rhythms? Why did a good hedge seem impossible?
6. How did Fastow, in conversation with Skilling, respond to worries about a conflict of interest with his investment fund?
7. How would Martin/LJM solve the Rhythms problem?
8. Why were Fastow and Michael Kopper eager to establish Martin/LJM? How did David Bermingham at Greenwich NatWest evaluate the fund?
9. What objections to Fastow's fund did Ben Neuhausen have? How did Dave Duncan respond?
10. What was the role of Swap Sub? How was it funded?
11. What did Victor Kaminski figure out about Martin/LJM being a bet on the Enron stock price?
12. Was having the CFO running a fund which invested in Enron a good idea? (See also pp 251-3.)
13. Why did NatWest sign on to the LJM fund? Why did CSFB sign on?
14. How did LJM resolve a problem with the Cuiaba power plant?
15. What resistance did the board have to Fastow running LJM?
16. How was Kaminski's analysis of the problems with LJM rewarded?
17. Why did Enron not want LJM to hedge the stock that Enron contributed? How did the Sails transaction get around the problem? (See also p 282.) How did it benefit Fastow?
18. Why did LJM pay Fastow \$550,000, in August 1999?
19. Why was the sale of Enron's portion of Cuiaba odd?
20. How, in Fastow's conception, would LJM2 differ from LJM? Why were banks interested in LJM2?
21. What worries about LJM2 did Schuyler Tilney and Robert Furst from Merrill Lynch describe to Skilling? How did he respond?
22. How did Fastow mislead the board when it decided to allow him to proceed with LJM2.
23. Why was Jeff McMahon upset that Fastow had tried to raise funds for LJM2 from banks that worked with Enron?
24. How did NatWest, CSFB, and Fastow do with LJM1?
25. How did the restructuring of LJM1 affect the Rhythms hedge? Why did Enron not report the losses?
26. Why did McMahon want Kopper not to attend staff meetings? Why did Fastow demand that Kopper attend?
27. How did LJM help Enron improve its books (\$500 million in cash flow; \$125 million in profits) for 1999? Be specific.
28. How did Condor end up with the Yosemite certificates, after Andersen ruled it could not buy them from Enron?
29. Describe the purpose of Project Grayhawk. Did it work?
30. How did Talon protect Enron? How was it, "Nothing more than Enron itself" (312)?
31. What did Bermingham notice about Swap Sub that his superiors at NatWest did not know? How did he proceed?
32. "The deal did nothing. It didn't protect against losses... Enron just wanted protection from having to report losses (315)." Explain.
33. Why were Bermingham, Giles Darby, and Gary Mulgrew confident they could bring Fastow in on their Swap Sub scam?
34. Who else did Fastow and Kopper bring in to the Swap Sub purchase?
35. Why did Enron buy back its stake in MEGs? Why did McMahon object?
36. According to McMahon, in conversation with Sutton, how much was Fastow making on LJM?
37. What was Southampton? How did it buy Swap Sub? How was Enron cheated?
38. How did LJM2 sell the Polish power plant?

39. How much money did the Natwest bankers make on Swap Sub? How much did Ben Glisan and Kristina Mordaunt make?
40. Why did the board of directors approve Raptor and Talon? What were they not told?
41. Why was Raptor II created? Who funded it?
42. How closely did Rick Buy scrutinize the end-of-year LJM transactions?
43. Who worked on the sale of network fiber from EBS to LJM2? Why was the DASH suspect?
44. Why did LJM2 buy the Nigerian power barges?
45. How much money did Fastow make from Swap Sub?
46. How much money, and to whom, was dispersed from LJM1 on July 14, 2000? From where did the money come?
47. What were Stuart Zisman's objections to Raptor I? How were they received by Mark Haedicke? (See also p 372.)
48. Describe how the third Raptor, used to hedge New Power, worked. Why was the structure irrational? What was its real purpose?
49. What did the "smoking gun" document regarding LJM2 say?
50. What was Skilling's oversight role in transactions with LJM?
51. Why did the Enron board ask Fastow to disclose his earnings from LJM?
52. What oddities did Jordan Mintz notice when reviewing the LJM files?
53. Why did the Raptors collapse in value? How did Fastow and Rick Causey use a costless collar to prop up Raptor I? Why was the costless collar absurd?
54. Why was Buy interested in joining LJM? Why did the offer to Buy deepen the conflict of interest?
55. "If any real third party had cut deals with Enron that generated profits like that, company executives would have hung their heads. But Fastow beamed as he reviewed the results (387-8)." Explain.
56. At the LJM2 conference in Florida, what profits did Fastow report for the Raptors?
57. How did Dave Gorte contradict Fastow's claims about LJM2?
58. Who, did Mintz determine, was not performing proper oversight on LJM?
59. How were the LJMs putting inside information up for sale? How did Causey and Buy respond to the Mintz memo of December 7, 2000?
60. Why was Andersen force the Fishtail deal to be renegotiated?
61. Why was the Braveheart deal shaky?
62. Describe the side deals made with CIBC. Why were such deals a problem?
63. How did the two healthy Raptors hide problems with the two sickly Raptors? Why did Carl Bass at Andersen oppose the arrangement? What did Bass suggest, instead? How was the matter resolved?
64. How did Fastow defend not disclosing his earnings from LJM? Why did he not want them disclosed?
65. How did Braveheart prevent losses from the failed Blockbuster deal?
66. How were the Raptors threatened by Enron's falling stock price? How did Enron prop up the Raptors?
67. How was LJM's interest in Enron wind different from its other investments?
68. What did Mintz discover about Skilling's signatures on LJM transactions? Why was this troubling?
69. Why did Mintz retain the law firm Fried, Frank?
70. Why did Skilling ask Fastow to choose between LJM and Enron? Which did Fastow choose, and why?
71. How did Fastow's resignation from LJM benefit Enron in the Cuiaba sale?
72. What arrangement was made between Fastow and Kopper to run LJM2?
73. How did an unopened email about the Raptors lead to an \$1.2 billion overstatement of Enron's equity?
74. When did LJM have its first appearance in a national newspaper?
75. What happened to Kopper's records of his and Fastow's illicit earnings?
76. Why were the lawyers at Vinson & Elkins handling the Watkins investigation unhappy, upon review, with LJM? Why did they not deem LJM illegal? (See also p 517.)

77. How did Duncan's memos regarding the Raptors misrepresent Andersen's position?
78. What did Greg Whalley want to do with the failing Raptors? What did Causey want to do? What did Ken Lay decide to do, and why?
79. How did Fastow want to respond to press inquiries about LJM? Why did Mark Palmer object to Fastow's strategy? How did Lay resolve the conflict?
80. What did Kaminski tell the Andersen accountants about his analysis of the Raptors, in his email to Kimberly Scardino? Why did Kaminski's email upset Global Finance?
81. Why was Kopper owed money from Raptor II, by October 3, 2001? Why was Kaminski unhappy about paying it?
82. Why would Kaminski not sign the papers for the unwinding of the Raptors?
83. What portion of the write-downs Lay announced, in the third quarter 2001 analysts call, did Palmer initially tell John Emshwiller were due to LJM? How, when, and why did he revise that figure?
84. Was McMahon candid when asked by Jim Derrick about pressure from Fastow on bankers to do business with LJM? Explain.
85. What did the October 19, 2001, *Wall Street Journal* article say about Fastow's compensation from LJM? What did Lay think about it? What did Pug Winokur think about it?
86. How much did Fastow tell the board, on October 23, 2001, that he earned from the LJMs?
87. Why was McMahon angry to see Kopper in his Enron office on October 26, 2001? How much did Kopper bill Enron for the wind deal, that day?
88. How did Glisan lie to McMahon about his involvement in LJM?
89. What did the SEC demand Enron file, by November 5, 2001, concerning the LJMs?
90. How did the Powers investigators find out about Mordaunt's investment in Southampton?
91. When and why were Glisan and Mordaunt fired?
92. When and why was the Rawhide debt trigger hit?
93. According to Skilling, in his November 27, 2001, interview, was he responsible for overseeing the LJM deals? Why did he sign one approval sheet?
94. What, according to Eichenwald, is the, "Closest Skilling had ever come to suggesting that Fastow might have cheated the company" (635)?
95. Was McMahon candid at the December 4, 2001, House Energy and Commerce Committee hearing? Explain.
96. What did Joe Berardino say, at the December 12, 2001, congressional hearing, about illegal acts within Enron? Why were Causey and Lay surprised and upset?
97. How forthright was Fastow at his November 14, 2001, press conference? How forthright was he at his January 15, 2002, interview with the Powers investigators?
98. How much knowledge of the Raptors did Lay reveal in his January 16, 2002, interview with the Powers investigators?
99. Why were Causey and Buy dismissed from Enron?
100. How did Kopper settle his criminal case? What did he tell prosecutors about the SPEs?
101. Why was Glisan sent to prison?
102. When and how did Fastow talk to prosecutors about the SPEs?

Topic Q: Arthur Andersen: pp 31-2; 138-140; 148-50; 172-3; 195-6; 225-6; 233-4; 255; 262-4; 286-7; 289; 317-8; 350-2; 373-4; 375-6; 378; 390-1; 400-2; 406; 426-8; 464; 513; 520; 521-2; 524; 526-31; 543-4; 547-50; 553; 567; 570; 590; 592-3; 594-8; 610; 615; 638-40; 642-5; 647-8; 651; 653-4; 657-8; 666-7.

1. Why was Andersen chosen by Enron as both auditor and consultant? What factors weighed against this decision?
2. Why was David Duncan chosen to succeed Stephen Goddard to oversee Enron accounts at Andersen?
3. What concerns did Carl Bass voice about Rick Causey and the Enron account? How were they handled at Andersen?
4. Describe the conflict between Enron and Andersen over Bonneville Power. How was it resolved?
5. Why was Carl Bass moved out of trading?
6. How did the market respond to the Waste Management and Sunbeam scandals for Andersen?
7. Why did Ben Neuhausen at Andersen object to Andy Fastow's Martin fund?
8. How did Gary Goolsby respond to worries, from Debra Cash, Tom Bauer, and Carl Bass, that Duncan was too close to Enron to perform proper accounting?
9. Why did Bass move to the Professional Standards Group, instead of structured finance with Duncan?
10. Why did Bass object to the Cuiaba sale?
11. Why did Andersen disapprove of a sale to Condor to remove Yosemite from Enron's books?
12. How did Andersen respond to the SEC promises, in December 1999, to step up enforcement?
13. Did Andersen's review for 1999 find any problems for LJM1 or LJM2? Explain.
14. How did Andersen respond to Arthur Levitt's proposal to separate consulting from auditing?
15. What role did Andersen serve in dealings between Enron and LJM2?
16. How did Trent Lott respond to Levitt's proposal to separate consulting and auditing?
17. Why was the letter from Ken Lay to Levitt, opposing the separation, ironic?
18. Describe the auditor independence compromise that Levitt adopted.
19. How did Duncan want to hide two sickly Raptor for the purposes of fourth quarter reporting in 2000? Why did Bass object? How was the matter resolved?
20. Why did Bass think that Enron would have to restate its earnings based on the Azurix disaster? Why did Duncan not insist on Bass's recommendation?
21. Why did Rick Causey want Andersen to remove Bass from any Enron dealings? Why did Andersen accede to Causey's demand?
22. How was Andersen sanctioned by the SEC after the Waste Management Scandal?
23. Why did John Stewart want to fix the memos from Andersen about the Raptors, in September 2001? How had Duncan misrepresented the opinions of Stewart and Bass?
24. What did Nancy Temple instruct Stewart to do with Enron documents? Why did Stewart resist? How did Temple justify her instructions? What compromise did they later reach?
25. How did Duncan respond to the October 23, 2001, conference call?
26. Why did Andersen enlist Shred-It to help destroy documents?
27. When did Andersen stop shredding? Why?
28. What did Joe Berardino say at the congressional hearing of December 12 that upset Enron officials?
29. What did Andersen's lawyers discover in preparation for interviews with the Energy and Commerce Committee about Andersen emails?
30. What happened to Andersen in the wake of the Enron scandal? What role did Duncan play?
31. How did Duncan find out that he was fired?

Group 4: Investigations and Collapse

Topic R: Investigators: Sherron Watkins: 95-6; 460-1; 470; 476-7; 486-90; 494; 495-502; 504; 505-6; 508; 512-3; 517; 527; 537; 567; 568; 635-6; 651; 652-3; 654; 662-3; 665; 666.

1. What was Sherron (Smith) Watkins' first job at Enron? Describe her character.
2. How did Watkins end up working with Andy Fastow again, in May 2001? What was her new job?
3. How did Watkins react to learning about the Raptors, on July 30, 2001?
4. What did Watkins write in her anonymous memo to Ken Lay? To whom else did she show the note?
5. How did Lay initially respond to the Watkins memo?
6. How did Rick Causey respond to the Watkins memo?
7. Was Watkins satisfied with Lay's initial response to her memo? How did she proceed?
8. Why did Watkins meet with Kristina Mordaunt before meeting with Lay? Why was this a bad idea?
9. What advice did Watkins get from the in-house lawyers about meeting with Lay?
10. How did Rick Buy respond to Watkins' request for advice?
11. Why did Jim Hecker at Andersen start investigating Enron?
12. Why did Jim Derrick seek legal advice about handling Watkins?
13. How did Jeff McMahan support Watkins?
14. What recommendations did Watkins make in her August 22, 2001, meeting with Lay?
15. How did Lay proceed after his August 22, 2001 meeting with Watkins?
16. Who did Fastow blame for the investigation triggered by Watkins?
17. What happened to Watkins when Fastow found out that she wrote the memo?
18. Did McMahan support Watkins or Fastow? Explain.
19. What happened to Michael Kopper's laptop with the details of his and Fastow's crimes?
20. What did Ron Astin say to the Vinson & Elkins investigators of Watkins' charges about LJM? Why did Vinson & Elkins not pursue the suspicion further?
21. What were the preliminary results of the Vinson & Elkins investigation? How did they arrive at their preliminary results? How did Lay respond?
22. How did the legal team from Vinson & Elkins of Joseph Dilg and Max Hendrick conclude the investigation arising from the Watkins memo?
23. How did McMahan respond to Watkins' overtures for a job after Fastow was fired?
24. How did the House Energy and Commerce Committee get a copy of the Watkins memo?
25. When did Watkins become known as the Enron whistle blower?
26. How did Ray Bowen and Lay assess Watkins' motives?

Topic S: Investigators: Bears and Journalists: 375; 376; 391; 418; 422-5; 449; 490-4; 502-3; 504-5; 506-8; 518-9; 523; 531-2; 533-5; 536-40; 547-50; 566-7; 571; 572-4; 629-30; 648; 652-3; 658-9.

1. What were Jonathan Weil's concerns about mark-to-market accounting? What did he learn from his meeting with Rick Causey?
2. How was Jim Chanos alerted to worries about Enron's accounting? Why did he bet that Enron's stock would fall as of November 2000? (See also p 391 and p 418.)
3. How did Bethany McLean become interested in the Enron story?
4. What concerns about Enron did McLean mention in her February 14, 2001, call with Jeff Skilling? How did Skilling respond?
5. How did Andy Fastow use a Toyota analogy in his meeting with McLean and the *Fortune* editors? Why

- did he stop using the analogy?
6. Why were McLean and her *Fortune* editors emboldened to run their negative Enron story after talking with Skilling and meeting with Fastow?
 7. Who is Mark Roberts? What problems did he find with Enron?
 8. Why did John Emshwiller think that Skilling ran the LJM's?
 9. How did Emshwiller find out that Fastow ran LJM?
 10. What did Skilling tell Emshwiller about why he resigned?
 11. What problems with Enron did Steve Kean urge Ken Lay to address, in his August 2001 email to Lay?
 12. What did Fastow tell Mark Palmer was the reason he did not want to talk to the *Wall Street Journal* about LJM?
 13. What was the focus of the first *Journal* article to mention Enron? Why were Enron managers pleased?
 14. Why did Robert Hannan, at the SEC, take notice of Fastow's partnerships?
 15. How did Emshwiller get access to private LJM documents?
 16. What crisis management steps did Palmer want to take, in early September? Why did Dave Delainey, Causey, and Fastow object?
 17. What happened to Michael Kopper's laptop with the details of his and Fastow's crimes?
 18. Why did Palmer tell the *Journal* to send in written questions, instead of interviewing Enron officials?
 19. How much of Enron's \$1.01 billion third-quarter loss did Palmer initially tell Emshwiller were attributable to LJM? How did he change this number? Why?
 20. Why was Palmer relieved about the *Journal*'s October 17, 2001, article about Enron's third-quarter report? How did Fastow respond?
 21. Did Enron bury the \$1.2 billion equity reduction in their third-quarter earnings press conference? Explain.
 22. Why did the *Journal* criticize Enron, on October 18, 2001? How did Causey and Lay interpret the criticism?
 23. How did the *Journal* reporters get LJM documents? What did the documents show?
 24. Why, according to Fastow, was the *Journal* attacking Enron? Why did he think they were unjustified in doing so?
 25. What two things did Lay learn in the *Journal*'s October 19, 2001, article? Why did this information upset him?
 26. How did Pug Winokur and the other directors want Enron to respond to the *Journal*?
 27. What did Richard Grubman and David Fleischer ask Lay about in the October 23, 2001, conference call? How did Lay respond?
 28. How did J.P. Morgan Chase advocate contrary positions regarding Enron in late October, 2001?
 29. Why did Rebecca Smith and Emshwiller start to research Chewco on October 25, 2001? What response did they get from Enron, especially Palmer?
 30. What two events revived the Enron story in January, 2002?
 31. What was the Castaneda allegation? How was it investigated? Was it true?

Topic T: Investigators: Internal and Andersen Dissenters: 309-10; 340; 372; 379; 383-7; 388-9; 391-2; 392-4; 395; 419; 421; 427-32; 434-5; 439-40; 462-3; 471-2; 476; 493; 503; 513; 518; 522-6; 528-9; 531; 540; 542-3; 547-50; 553; 564; 567-8; 572-4; 580-1; 589; 591-3; 594-6; 597-8; 598-9; 600-1; 610; 618; 641; 642-3; 644; 648; 651; 655-9; 664-5.

1. Why did Victor Kaminski want to do a company-wide risk assessment? Why was Rick Buy uncomfortable? How did Kaminski proceed?

2. Why did Jordan Mintz set out to learn everything about LJM? What were his initial concerns?
3. How was Buy conflicted about the virtues of LJM?
4. What did Jeff McMahon tell Mintz about Enron?
5. How did Mintz's conversations with Dave Gorte and Rick Causey convince him that LJM did not have proper oversight?
6. What did Wanda Curry find discover in her investigation of EES?
7. Why did Mintz object to the LJM2 and LJM3 offering documents?
8. What did the memo written by Stephen Hall and signed by Christian Yoder reveal about Enron's California trading? What happened to the memo?
9. What did Mintz discuss in his December 7 memo to Causey and Buy? How did they respond?
10. Why did Mintz bring the issue of Andy Fastow's compensation to Causey's attention, on February 2, 2001? How did Causey respond?
11. What did Carl Bass tell John Stewart about Enron's questionable deals? How did Stewart respond?
12. What changes did Mintz recommend in his March 2001 memo? How did Michael Kopper respond?
13. What dangers did Kaminski's analytic team find with total-return swaps?
14. What dangers did Kaminski's analytic team find with corporate guarantees?
15. What dangers did Kaminski's analytic team find with Enron's cash position?
16. How were Whitewing and Marlin risky because of their trigger events? Explain the gasoline-on-the-fire analogy. How did Ben Glisan respond to the worries about trigger events?
17. What steps did Glisan take in response to Kaminski's team's report?
18. How did Causey and Buy respond to Mintz's March 2001 memo? How did Mintz evaluate their response?
19. Why did Kevin Kindall leave Enron?
20. How did Greg Whalley respond to the Kindall/Kaminski report?
21. In an August, 2001, email, what problems with Enron did Steve Kean urge Ken Lay to address?
22. What did Fastow tell Mark Palmer was the reason he did not want to talk to the *Wall Street Journal* about LJM?
23. Why was Stewart horrified by Dave Duncan's Enron records?
24. What did Vasant Shanbhogue discover about the Raptors hedge? Describe the insurance analogy.
25. What documents did Nancy Temple order destroyed? Why did Stewart resist?
26. What did Kaminski's September 29, 2000, email to Kimberly Scardino say? Why was Ryan Siurek upset about it?
27. Why did Kaminski refuse to sign off on any Raptors documents, on September 30, 2001?
28. Why did Kaminski instruct his team to forward their emails to private accounts?
29. Why was Kopper owed money on October 3, 2001, for the Raptors? How did Shanbhogue describe the payment?
30. What is FIDO? What did it show, on October 9, 2001?
31. How did the finance division try to take advantage of Kaminski's October 2001 recruiting trip? Why were they unable to do so?
32. According to Michael Odom, why did Andersen need to destroy documents? When would they have to stop shredding?
33. What advice did Ray Bowen give Greg Whalley, on October 19, 2001, for restoring Enron's credibility?
34. Why did Andersen offices in London start shredding Enron documents? Why did Andersen offices in Portland not start shredding Enron documents?
35. Who suggested Bill McLucas of Wilmer, Cutler as an internal investigator? What was the initial response inside Enron?
36. How did Lay and Palmer learn about Chewco?

37. When was McLucas first called to initiate an internal investigation?
38. What were McLucas's first recommendations to Enron, on October 26, 2001?
39. What was Bill Powers hired to do, and by whom?
40. How did McLucas's team from Wilmer, Cutler find out about Kristina Mordaunt's deal with LJM?
41. How did McLucas's team find out about the Chewco side agreement with Barclay's?
42. Why did Lay want to announce the discovery that Chewco had failed and that four years of financial reports would have to be restated? Why did McLucas dissuade him?
43. How did McLucas convince Palmer to stop speaking freely to the media?
44. How did Glisan explain approving Chewco, to McMahan and Causey, given the side document? What did McMahan and Causey think of Glisan's explanation?
45. How did the Powers committee (including Deloitte & Touche, and Wilmer, Cutler) discover about Swap Sub and Southampton? How did they proceed?
46. When and why were Glisan and Mordaunt fired?
47. Why, and when, did Andersen stop shredding Enron documents?
48. What did Andersen's lawyers discover in preparation for interviews with the Energy and Commerce Committee about Andersen emails? How did the discovery effect the criminal investigation of Enron?
49. What effect did the revelation of document destruction at Andersen have on the media's attention to the Enron story?
50. Why did Powers contemplate resigning from Enron's special investigative committee?
51. How forthright was Fastow in his January 15, 2002, interview with the Powers committee?
52. "Andy was not responsible for Enron's accounting" (656). Explain.
53. What did Lay tell the Powers committee about his understanding of the Raptors? How did his interview with the committee change Lay's view?
54. What was the Castaneda allegation? How was it investigated? Was it true?
55. In the end, what did the Powers report say?
56. What role did Kaminski and Bass play in the congressional hearings?
57. Why were Hall and Yoder celebrated after their congressional testimony?

Topic U: Investigators: The Government: 179-80; 407; 413-7; 503; 508; 534; 535-40; 543-4; 546; 547-50; 552-3; 582; 586-8; 589; 599; 602-3; 612-3; 618-9; 627; 629-30; 633-49; 651-2; 652-4; 658-9; 664-5; 666-8; 670-5.

1. Why did Robert Hannan, at the SEC, take notice of Andy Fastow's partnerships?
2. What happened to Michael Kopper's laptop with the details of his and Fastow's crimes?
3. Why did the Washington office of the SEC initiate an Enron case? Which SEC office already had an Enron case open? What did they request from Enron, on October 17, 2001?
4. Why, according to Rex Rogers, would a formal investigation by the SEC be unwelcome?
5. Why did the Ft. Worth SEC office have to cede their investigation to the Washington office? Who took the lead in Washington?
6. Why was Harvey Pitt at the SEC upset about Ken Lay's refusal to comment on Enron's finances?
7. What is Section 21(a) of the SEC's rules on cooperation? How did invoking Section 21(a) force Enron to disclose materials by November 5, 2001? What materials did Enron have to disclose?
8. Did Enron meet the SEC's November 5, 2001, deadline? What happened?
9. What did Mark Paoletta's House Energy and Commerce subcommittee investigate? Why was David Cavicke especially interested in investigating Enron?

10. What did Jeff Skilling say to the SEC, in early December 2001, that slightly implicated Fastow?
11. Why was Jeff McMahon impatient in his December 4, 2001, interview with the House Energy and Commerce committee? Why did he not provide details on the Rhythms hedge?
12. What questions might the House Energy and Commerce committee have asked McMahon in order to get better information?
13. How did Congressman Paul Kanjorski voice the “first myth about the Enron fiasco” (637) in a congressional hearing on December 12, 2001?
14. What did Joe Berardino say at the congressional hearing of December 12, 2001, that upset Enron officials? How was he mistaken?
15. Why did the SEC go to court to compel Fastow’s appearance? How did Fastow respond?
16. Why did Fastow and Kopper agree to say that Fastow never received money from RADR?
17. Who was the first Enron official to agree to testify in exchange for immunity? How was his testimony received?
18. Why did Enron have difficulty cooperating with criminal investigations in December 2001?
19. Why did the US attorney’s office in Houston stop investigating Enron?
20. How did Michael Chertoff solve the problem of the diffuseness of Enron’s criminal investigation?
21. What did Andersen’s lawyers discover in preparation for interviews with the Energy and Commerce Committee about Andersen emails? How did the discovery effect the criminal investigation of Enron?
22. How, according to Chertoff, should the Andersen email deletions have been prevented?
23. Who is Leslie Caldwell? How did she end up running the Enron criminal investigation?
24. How did George W. Bush distance himself from Ken Lay in December, 2001?
25. Why was the SEC skeptical about the likelihood of a criminal case against Enron, in January, 2002? Why was the FBI more optimistic?
26. How did the revelation of Lay’s phone calls to Don Evans and Paul O’Neill revive the Enron story, in January 2002?
27. Why did John Ashcroft recuse himself from the Enron investigation?
28. How did the House Energy and Commerce committee get a copy of the Watkins memo?
29. How did Caldwell and the SEC learn the details of the Andersen document destruction?
30. When did Sherron Watkins become known as the Enron whistle blower?
31. What was the Castaneda allegation? How was it investigated? Was it true?
32. Which Enron officials refused to testify at the House Energy and Commerce committee hearings?
33. What did Skilling say when he testified for the Senate?
34. What role did Victor Kaminski and Carl Bass play in the congressional hearings?
35. Why were Stephen Hall and Christian Yoder celebrated after their congressional testimony?
36. How was Dave Duncan used by the government against Andersen? What happened to Duncan? What happened to Andersen?
37. How did Congress act to reform securities laws after the Enron and WorldCom scandals?
38. Why did the government have more evidence against Kopper than against Fastow? How did Kopper settle his criminal case?
39. How did Fastow plead, on October 2, 2002? What were the charges?
40. How did Ben Glisan settle his criminal case?
41. Why was Leah Fastow indicted?
42. Under what terms did the Fastows plead guilty?
43. How did Skilling plead, on February 19, 2004? What were the charges? How many years in prison did he face?
44. What charges did the Enron task force bring against Lay? How did Lay plead?

Topic V: Dynegy: 565-6; 568-9; 570-1; 572; 582-4; 585-6; 588-9; 589-90; 590-1; 593; 594; 597; 600-6; 608-12; 613-5; 616-8; 619-23; 624-6.

1. Why did Chuck Watson first reach out to Ken Lay in October, 2001?
2. Why did Jeff McMahon and Greg Whalley look for companies interested in a merger with Enron? Why did Mark Muller suggest Dynegy?
3. What did Steve Bergstrom think that Whalley and Mark Frevert wanted to do with Dynegy? How did he respond to the idea of a complete merger?
4. On what general merger conditions did Watson insist when he and Lay met at Lay's home on October 27, 2001? On what did they agree about the names and leadership of the newly merged companies?
5. Why did Ben Glisan take the lead on the due diligence for the merger? What did McMahon ask Glisan before assigning the task? How did Glisan respond?
6. How did Whalley describe the problems with Enron to Bergstrom, on October 29, 2001? Why did Bergstrom distrust Whalley's explanation?
7. How did salaries at Enron compare to salaries at Dynegy? Why did the figures unnerve Watson?
8. Why was McMahon upset with Glisan, after his deal with LJM was discovered by the Powers investigators? How did the information about Glisan affect the merger negotiations?
9. Why did Dynegy insist that Lay would have to resign, on November 5, 2001?
10. Why was Watson upset about Enron's 8-K filing? How did Lay respond?
12. What happened to Enron's stock when news about the merger with Dynegy leaked?
13. Describe the dispute over the exchange rate in the original merger agreement. Why was there a discrepancy? How was the dispute resolved?
14. On the morning of November 8, after the exchange rate discrepancy was settled, what still needed to be done for the merger?
15. What problem did Moody's present to the merger? How was it resolved?
16. How much cash did Dynegy give Enron, as part of the merger agreement, on November 9, 2001? How much were they scheduled to give at closing?
17. Why did Lay decline his severance package?
18. When did Dynegy learn about the Rawhide trigger?
19. What information, beside the Rawhide debt repayment, surprised Dynegy in the 10-Q filed on Monday, November 19, 2001?
20. Why was Watson upset about the money Dynegy gave Enron? Where did the money go?
21. Why did Enron and Dynegy meet with the banks to negotiate a new deal after Thanksgiving, 2001? Who, notably, from Dynegy did not attend the meetings?
22. What were the demands in Dynegy's last eight-point plan for the merger? Did Enron agree to them?
23. Why did Watson terminate the Enron merger?