



University of Tennessee, Knoxville
**Trace: Tennessee Research and Creative
Exchange**

University of Tennessee Honors Thesis Projects

University of Tennessee Honors Program

Spring 5-2004

Enron: Where Are They Now?

Aaron Montgomery Vickers
University of Tennessee - Knoxville

Follow this and additional works at: https://trace.tennessee.edu/utk_chanhonoproj

Recommended Citation

Vickers, Aaron Montgomery, "Enron: Where Are They Now?" (2004). *University of Tennessee Honors Thesis Projects*.
https://trace.tennessee.edu/utk_chanhonoproj/802

This is brought to you for free and open access by the University of Tennessee Honors Program at Trace: Tennessee Research and Creative Exchange. It has been accepted for inclusion in University of Tennessee Honors Thesis Projects by an authorized administrator of Trace: Tennessee Research and Creative Exchange. For more information, please contact trace@utk.edu.

Enron: Where Are They Now?

Aaron Montgomery Vickers
Senior Honors Project
4/30/04

Table Of Contents

Introduction	1
The Collapse Firsthand	2
The Fastows, First to Fall	9
Jeffrey Skilling at Rock Bottom	13
Conclusion	15
Works Cited	16

Introduction

The fall of Enron from one of the largest and most respected companies in America to one of the largest failures has been possibly *the* major business event in the new millennium. Almost anyone interested in American business has some knowledge of the conspiracies and frauds that Enron's top executives knowingly committed. However, the questions that are all too often left unaddressed in this story are: What happened to the people of Enron? Where are they now? How did the fall affect them?

Should you
use the
word
"alleged"
in here?
more?

The answers to these questions vary greatly depending upon where one found him or herself in Enron's hierarchy when the collapse took place. .

The innocent employees who lost their jobs when Enron declared bankruptcy and began selling off assets fall into one category. Thanks to the gracious help of Mr. Frank Vickers, the former VP of Gas Marketing for Enron's wholesale energy trading business, this paper provides a detailed account of the situations and emotions that normal, hardworking Enron employees dealt with throughout the time period from September of 2001 to early 2002 when everything fell apart. For many people, their life savings were decimated and finding new employment was difficult. Others, however, found a way to use their Enron experiences as an inspiration to create their own opportunities as entrepreneurs.

The top executives who caused the fall fit into another category. The United States Justice Department has been working tirelessly the past two-plus years to bring ^{to justice} those involved in the fraudulent accounting and deals that preceded the collapse ~~to~~ ~~justice~~. Of the three top executives implicated in the scandal, the government has charged two with a host of crimes: former CEO Jeffrey Skilling and former CFO Andrew

Fastow. To date, no charges have been filed against former Chairman Kenneth Lay, but at some point in the future, Lay will likely face similar charges. This paper will provide a glimpse into the current situations that both Skilling and Fastow face.

The Collapse Firsthand

Three years ago, Frank Vickers thought he had it made. He had recently been promoted to Vice-President of Gas Marketing for Enron, the company to which he had dedicated most of his career. Like many of his colleagues at Enron, Frank was an ultra-competitive workaholic. His hard work, however, seemed to be paying off. In his early forties, Frank was a VP. Enron had paid for him to get his Masters in Business Administration in 1996 from the University of Houston where Frank made straight A's while still working full-time. He had come a long way and he deserved it.

Frank was raised in the small town of Montgomery, West Virginia by his father Earl, a prominent attorney and politician, and his mother Betty, a public school social worker. Frank was a standout basketball player known for his work ethic and intensity. At one time, he broke his ankle but played on through true determination and grit. In fact, he did not even realize it was broken until an x-ray several years later revealed that he had once broken it. After an all-state high school career, Frank went to college at Virginia Tech and walked on to the Tech basketball team. He played basketball there for two years before quitting the team to focus more on his schoolwork. Upon graduation from Virginia Tech, Frank went home and began working with a small energy company, where he frequently competed with Enron. In so doing, he developed a relationship with the management of Enron. After a few years, the managers at Enron must have grown

tired of competing with Frank so they offered him a job. He then spent the next twelve years working for them.

In early 2001, Frank's life was going really well. He was a VP for the core division of one of the most successful and admired companies in the world. He lived in a big house in a nice neighborhood, but more importantly to him, he had two great sons, Tanner and Peyton, and a wonderful wife, Robin. His job was pressure-filled and competitive, but he loved the challenge. However, when the wheels began to fall off in the fall of 2001, Frank faced some of the most trying times of his life.

When Frank thinks back about the story, it all starts with the terrible events that took place on September 11, 2001. He remembers being down on the ordinarily frantic trading floor when the attacks took place, bringing the operation to a somber halt. The attacks of 9/11 deeply affected the people of Enron, as they affected all Americans. However, before they had even processed that tragedy, the collapse of Enron began. As Frank recalls, "the next thing you know, there is a conference call and Skilling announces he is resigning." This resignation was very unexpected to Frank and the other employees. Jeff Skilling had only been the CEO for about six months after dedicating his entire career to reaching the position. Furthermore, Skilling claimed to be resigning to spend more time with his family. This seemed unusual to Enron employees who knew that during his rise to the top, Skilling had divorced his wife and seemed to love Enron more than anything else.

After the announcement, Frank explains that two camps developed within Enron. One group basically thought "Great! We are all better off with the more conservative, old-school leadership style of Ken Lay." They described Skilling's style as too

aggressive with too much “hocus pocus.” The other camp said, “If *that* guy is leaving, the nuances and strange things he brought to the table are gone. If it is too good to be true, it probably isn’t true.” These people realized the gravity of the situation and rightfully, as it turned out, feared the worst.

Frank was part of the camp that was fine with Skilling’s resignation. He credits that fact to his ultra-competitive nature. He said that throughout his life his work ethic had gotten him where he needed to be and he naively thought that he could overcome anything with hard work. The other Enron employees who agreed with Frank probably based their opinions upon similar reasons. These employees were the best and brightest in the industry and everyone knew it.

After Skilling left, senior management tried to assure both the analysts and the workforce that business would go on as usual and that everything was fine. They offered “comfort stock” to the employees, which is basically stock options that were given to ease the tension. Due to the heightened interest in Enron’s condition, more questioning about the financial stability of the company occurred.

When problems were discovered, the credit agencies lowered Enron’s ratings. Frank explained that “Moody’s and S&P can change your rating with no real oversight but the world looks at the ratings like a barometer.” The downgrade of Enron’s credit ratings created huge cash flow problems for Enron because virtually all of their contracts contained clauses that required their ratings to stay above a certain level. Even though Enron was clearly in big financial trouble, management would deliver a daily update that would amount to saying “Business as usual. There’s nothing to worry about.”

When Frank reported to work on December 3, 2001, he learned that late the day before, Enron had filed for Chapter 11 Bankruptcy protection. As he said, most of the workforce was not sure what exactly that meant for them. After the bankruptcy, they had to figure out how to talk to clients. They had to walk the line between wearing their business hats, reassuring partners and clients, and telling the cold truth which was that they had no idea what was going to happen in the future.

To free up as much cash as possible, management looked to sell the various business units. Meanwhile, Frank described, "You come to work. You have to walk through fifteen to twenty mobile news units, stopping and trailing everybody. It was not unusual to watch the news and see friends and colleagues asked very personal, accusing questions." Productivity was diminished by the daily stress that all of the employees faced. "It's not possible to go through and put your best ten-hour day in. This corporate event was suddenly made very personal. You see highly-educated, well-motivated, overachievers, 99.9% of whom are good people, no longer cast in that light. Now, they are cast as cheating, unethical, fraudulent people. The news wanted to put a face on the tragedy and the faces they chose were often those of the innocent."

During this trying time at work, Frank and, undoubtedly, most other Enron employees were faced with a constant burden in their personal lives. Overnight, these proud employees began trying to avoid talking about or even mentioning Enron. Some people could not take the pressure and left Enron. Others had no real choice. They had families to support and were not financially secure enough to simply quit their jobs. Those who stayed could not escape the scandal, even in the community. Frank said that he faced mainly insensitive comments and questions everywhere from the grocery store

to the movie theater. He hated the questions because he knew that it was impossible to explain something that he, himself did not even understand. His senses were heightened during this time period and he became very defensive. He thought, "Why me? What if? What next?" All of these questions were further concentrated into a very limited time period for resolution. "Days go by and you can't recollect where you have been and what you have done. It is a very surreal, slow-motion type of thing."

On January 25, 2002, former Enron Vice-Chairman, Cliff Baxter committed suicide, shooting himself in the head. He was only forty-three years old and a multi-millionaire from his time as an Enron executive. He was also married and had young children. Frank explained that Baxter's suicide "defined the reality of the whole event. The response was saddening but in many cases, people thought, 'I understand how that can happen.' Six months prior, I could never have understood it." This terrible event provided a tragic glimpse into the stress with which Enron employees were coping.

Frank was part of the wholesale trading business, which was viewed as Enron's crown jewel. In mid-January of 2002, UBS Warburg and Enron reached an agreement in which UBS Warburg would purchase the wholesale energy trading business. Frank and the other managers were informed that of the 800 people in the wholesale marketing department, UBS Warburg only wanted to keep 200. So Frank would spend his weekdays calming the workforce and his weekends in meetings going name by name down the list of employees, deciding who would stay and who would go. Frank had been given the duty to let people go before but always with good reason. Now, however, he was forced to lay off 75% of his employees and worse, he had to explain to them that they may not get any severance pay. "Layoffs are always a difficult thing but the

emotions were amped to the max in this case. Some people got very emotional. It was a very ugly, deep thing. You have to walk through your peers while a human resources person escorts you to the door. Then, you have to walk through the media circus outside to your car.”

Frank remained in a similar position with UBS Warburg until Warburg decided to close their operation in Houston and move to Connecticut. Further, they chose to reduce the workforce again from 200 to 80. Although UBS Warburg agreed to allow Frank special permission to remain in Houston while the others moved to Connecticut, Frank decided it was in everyone’s best interest for him to move on to a new company. He is now Managing Director for Cinergy Corporation’s unregulated energy division, where he manages their long term strategic gas marketing efforts.

Looking back, Frank feels that the collapse of Enron will always be a dark cloud over his life. Whereas someone who survives other types of tragedies is admired, he knows that no ex-Enron employee will ever feel proud about Enron. Enron will not seem to go away for Frank and the other former employees. A couple of weeks ago at a party, in fact, Frank was twice introduced to strangers as ‘an ex-Enron employee.’ He feels ashamed that of all things to be remembered for, he is remembered for that.

When asked what the other former Enron employees are doing today, Frank reported that there are a variety of scenarios that developed out of the collapse. Many are working for other energy companies, utilizing the skills they developed at Enron to help its competitors. Others have struggled deeply, remaining unemployed for two to three years. Some people who were within months of retirement were left with nothing.

People have suffered in their personal lives as well. Many of his former colleagues faced problems such as divorce and personal bankruptcy.

Frank Vickers's story provides an interesting glimpse into the life of a former Enron employee during and after the collapse. All of those who survived this tragedy will carry emotional scars for a lifetime. Many have had their lives virtually destroyed, but for all of the sad stories, there are some inspiring ones.

Rising Out of the Collapse

Although Enron's collapse and layoff of thousands of employees was a terrible event in the careers of everyone involved, many of these people have used their experiences at Enron to create their own entrepreneurial opportunities. Shortly after Enron declared bankruptcy in December of 2001, a group of Houston businesspeople teamed up to form the Resource Alliance Group (RAG), a non-profit organization intended to keep ex-Enron employees in Houston as entrepreneurs. One of the founders of RAG, John Elder, said, "The conclusion was that the most valuable thing at Enron was the employees. We feared Houston would lose major talent, and we wanted to keep these people working in Houston" (Leopold 1). RAG's purpose was to show the former Enron employees how to run a business and provide the necessary support to get them started. Within only three months, RAG had facilitated the opening of twenty-five businesses in the Houston area. RAG remained in operation until October of 2002, when its founders deemed they had fulfilled their goals. Following are a few of the interesting companies that RAG helped get started.

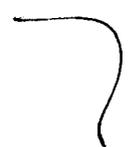
RAG's first success story was Mobius Risk Management. Mobius is a company that works for large, high energy-consuming companies to help them cut energy bills and

find low cost energy providers. Mobius turned a profit of almost \$1 million in its first six months of operation and has grown tremendously to date after signing a deal with Harrah's Entertainment in 2002 to evaluate energy use at Harrah's 25 casinos (Leopold 2). Today, the former Enron employee who started Mobius, Eric Melvin, is still the CEO and president, and this company that started with a staff of three now has an executive management staff twice that size. More information on Mobius Risk Group can be found at www.mobiusriskgroup.com.

Another former employee, Eric Eden, has used the creativity he cultivated in his eight years with Enron to design and sell a permanent sprinkler system that one can use a hose with so that underground pipes do not have to be installed. His Watering Made Easy system is now sold at hardware stores, Lowe's stores, and Wal-Mart stores throughout Texas, as well as on his website, www.wateringmadeeasy.com. When reflecting on his decision to go into business, Eden said, "One thing I was asked when I interviewed at Enron eight years ago was whether I was a risk-taker. I had to remind myself that I am" (Leopold 3).

Many other former Enron employees have likewise converted the knowledge and creative guidance they received at Enron into successful business ventures. Stories like these help to provide some positive news to offset the horrible fact that thousands of people lost their jobs abruptly, often receiving little or no severance. Clearly, perseverance and determination can help one to overcome a huge setback and turn tragedy into triumph.

The Fastows, First to Fall

} 
Next page

The husband-wife duo of Andrew and Lea Fastow are the first former Enron executives to go to prison for their misbehaviors while at Enron. Andrew Fastow was the Chief Financial Officer for Enron when the scandal was uncovered. It was discovered that Andrew Fastow was the mastermind behind the off-balance sheet financing and related party transactions that enabled Enron to hide billions of dollars in debt and inflate earnings dramatically. In addition, these illegal off-balance sheet financing tactics created millions of dollars of income for the Fastow family.

Upon concluding the investigation into Andrew Fastow's involvement in the Enron debacle, the Justice Department charged and indicted Fastow on 98 counts of fraud, money laundering, insider trading, and other charges. By some accounts, Fastow could have been sentenced to up to 100 years in prison ("Is 10 Years"). However, the government knew that quite possibly the only way to bring down Enron's two senior executives, Jeffrey Skilling, former CEO, and Kenneth Lay, former CEO and chairman, was to gain the cooperation of Fastow. For this reason, the government offered him a plea bargain in which he would plead guilty to two counts of conspiracy and in return would serve a mere ten years in prison. In addition, he would forfeit approximately \$29 million in cash and other assets that he had obtained illegally through his dealings with Enron when he created companies such as LJM (the first initials of his wife and sons) and Chewco (named for the "Star Wars" character Chewbacca) to hide debt ("Ex-Enron CFO").

In order to encourage Andrew Fastow's acceptance of the plea agreement, the government also pursued charges against his wife, Lea, who was the former Assistant Treasurer at Enron. Lea Fastow was charged with and indicted on six counts of

conspiracy and filing false tax returns last April. Because the couple has two young sons, they were naturally concerned with what may happen if both of them were facing concurrent prison terms. As a result, Lea also agreed to plea bargain. She would plead guilty to one count of filing a false tax return relating to money her husband had illegally earned while working for Enron. In return, she would face five months in prison and five more months of house arrest. When the deal with Lea was struck, Andrew accepted the deal he had been offered. However, quite recently, some new developments have arisen in Lea Fastow's case that may or may not impact Andrew's cooperation with Justice Department officials.

On April 8, the Wall Street Journal reported that Lea Fastow had withdrawn her plea agreement and decided instead to face trial for the six charges for which she was originally indicted. By withdrawing the plea agreement, she faces a maximum of 37 years in prison (Hanford 1). Her reason for making this move was that the judge presiding over her case, Judge David Hittner, made it apparent that in sentencing Mrs. Fastow, he would not simply accept the plea bargain but instead would most likely deliver a sentence closer to about a year in prison. As the presiding judge in the case, this is certainly Judge Hittner's prerogative, but it is very rare for federal judges to deny the government's plea agreements. A very interesting sidebar to Judge Hittner's participation in this case is that he lost about \$40,000 on the collapse of Enron's stock value in late 2001 (Cohen 1). He did, however, disclose the loss last year at a government hearing. At the time, Mrs. Fastow's attorneys did not move for Hittner to recuse himself of the case because they felt that her plea agreement would be upheld.

Now, however, Lea Fastow is facing trial which will begin on June 2 in Brownsville, TX and will be presided over by none other than Judge Hittner.

It will be very interesting to see whether this development will impact the cooperation of Andrew Fastow in the government's pursuit of Kenneth Lay and Jeffrey Skilling. At this point, most people familiar with the case seem to believe that Mrs. Fastow's troubles will not hinder Mr. Fastow's participation. They cite two main reasons for their opinions. For one, the government prosecutors could greatly increase Andrew Fastow's sentence if he fails to provide the kind of help he agreed to originally (Emshwiller 1). Additionally, the prosecutors have done everything they could do to help the Fastows. In this case, they could simply blame the judge for causing the problems (Hanford 1). Clearly, the Fastows' roles in the Enron scandal will continue to take shape in the news media as Andrew Fastow's testimony is used to convict other executives and Lea Fastow goes to trial.

One final point that demands some attention is the ten year sentence that Andrew Fastow received. Although most people can understand the government's intentions in letting Fastow plea bargain, many people are disappointed to see such a key figure in the demise of a great American company face such little jail time. James Judge, CFO of NStar, an energy company based in Boston, said, "I certainly don't think the punishment was too harsh. Fastow's manipulation of the financial statements for personal gain devastated Enron investors, cost thousands of decent and hardworking Enron employees their jobs, and shook investor confidence globally." In fact, a recent survey by CFO magazine found that 45% of CFO's polled believed that Fastow should have received more jail time while only 5% think his punishment was too harsh ("Hard Time"). Frank

Vickers, the former VP of Gas Marketing interviewed herein, had an opinion on this matter. He said, "For a long time, my happiness was based on how many years he would get. Now, though, I've turned the corner. His life, as he knows it, is over. The sentencing doesn't affect me, for better or worse. Technically, though, he probably did not get a long enough sentence. I'd say probably more like a thousand years would be appropriate." Many other former Enron employees can probably sympathize with Mr. Vickers's feelings on the matter.

Jeffrey Skilling at Rock Bottom

Former CEO Jeffrey K. Skilling, who only served as CEO from February to August of 2001 when he suddenly resigned, has been one of the primary targets for the Justice Department during its investigation into Enron. Skilling became famous for building Enron into a successful conglomerate when he served as President, but is now preparing to go to trial to defend himself on 42 counts of conspiracy, fraud, and insider trading (McLean 37). He was indicted on February 19 of this year after nearly three years of investigation into his role in the Enron scandal.

The case against Skilling thus far is shaping up to be a very difficult one for prosecutors. It seems that direct evidence linking Skilling to the fraudulent dealings at Enron has yet to be found. In addition, Skilling gave very few orders via email or in writing, preferring instead to speak personally with people. To top it all, Skilling is essentially claiming ignorance for many of the deals that brought Enron down. He says that his advisers and accountants signed off on everything, leading him to believe that nothing illegal was taking place. It will be the government's task to prove otherwise in the coming months.

The good news for the prosecution is that they have gained the cooperation of other key executives, like Andrew Fastow, who will be able to testify to verbal directives that Skilling issued. The bad news is that Skilling never seemed to be dumping Enron stock. Instead, he sold much of his stock in 1999 before the real frauds began and instituted an automatic stock sale through his broker that began in November of 2000. It should be very difficult for prosecutors to prove insider trading took place under such a scenario.

In the wake of Enron's collapse, Jeffrey Skilling has struggled mightily in his personal life. At one point, after the suicide of Skilling's friend and colleague Cliff Baxter, Skilling remarked, "I view my life as over. Depending on how it plays out, it may reach a point where it's not worth sticking around" (France 32). Most recently, Skilling made the news when he was arrested in New York City at 4 am on April 9 ("Enron's Ex-CEO"). Apparently, Mr. Skilling had been out drinking that night. At some point, he began acting strangely, allegedly pulling open other bar patrons' clothes and accusing them of being with the FBI. At this point, the police department was notified. The police took Skilling to the New York Presbyterian Hospital where a blood test confirmed that he had been drinking heavily that night. Interestingly, the \$5 million dollar bond which Skilling posted in February when he was indicted required that he "refrain from excessive use of alcohol" ("US Prosecutors Want"). Now, prosecutors are calling for a federal judge to review Skilling's release, a development that will surely create even more problems in his life.

Clearly, the collapse of Enron has had a devastating effect on Jeffrey Skilling's life, even if he is cleared of any wrongdoing. He is left at 50 years of age with no career,

a destroyed reputation, and no support from seemingly anyone outside of his family. All that is left right now is the fortune he made by selling Enron stock, but if the government has its way, he will lose that soon enough as well.

Conclusion

Enron's demise, perhaps the most publicized business collapse in our country's history, is, at its root, a personal story for each of the employees. Some have spent the last few years moving on, whether that means finding new jobs or creating their own opportunities as entrepreneurs. Others have found themselves the subjects of government investigations and prosecutions, never knowing who they can trust. Indeed, every person involved will carry the scars from the situation forever, never being allowed to celebrate their survival but always instead being ashamed of the fact that they worked for Enron.

Very
True

Works Cited

- Cohen, Laurie. "Dilemma for All: Judge's Losses On Enron Stock." The Wall Street Journal Online. 22 April 2004. The Wall Street Journal.
<<http://online.wsj.com/article/0,,SB108259448695090159,00.html>>
- Emshwiller, John. "Fastow's Wife Withdraws Plea Deal." The Wall Street Journal Online. 8 April 2004. The Wall Street Journal.
<<http://online.wsj.com/article/0,,SB108135174237876716,00.html>>
- "Enron's Ex-CEO Taken to Hospital After Acting Erratically, Police Say." The Wall Street Journal Online. 10 April 2004. The Wall Street Journal.
<<http://online.wsj.com/article/0,,SB108154983736579109,00.html>>
- "Ex-Enron CFO Fastow, Wife Plead Guilty, Will Cooperate in Probe." Fox News Online. 14 January 2004. Fox News.
<<http://www.foxnews.com/story/0,2933,108356,00.html>>
- France, Mike, Wendy Zellner and Mike McNamee. "The Case Against Jeff Skilling." Business Week. 1 March 2004, p. 32-35.
- Hanford, Desiree. "Fastow May Be Less Helpful After Wife's Plea Withdrawal." The Wall Street Journal Online. 8 April 2004. The Wall Street Journal.
<http://online.wsj.com/article/0,,BT_CO_20040408_001620,00.html>
- Leopold, Jason. "Enron But Not Forgotten." Entrepreneur.com. Entrepreneur Magazine. January 2003.
<http://www.entrepreneur.com/Magazines/Copy_of_MA_SegArticle/0,4453,305293----1-,00.html>
- McCafferty, Joseph. "Is 10 Years Enough?" CFO February 2004 Vol. 20, Issue 2 p. 15.
- McCafferty, Joseph. "Hard Time." CFO Mar. 2004 Vol. 20, Issue 3 p. 17.
- McLean, Bethany and Peter Elkind. "Now It's Skilling's Turn." Fortune. 8 March 2004, p.37-38.
- Mobius Risk Group. <<http://www.mobiusriskgroup.com>>
- "US Prosecutors Want Ex-Enron CEO Skilling's Bond Reviewed." The Wall Street Journal Online. 21 April 2004. The Wall Street Journal.
<http://online.wsj.com/article/0,,BT_CO_20040421_013087,00.html>
- Vickers, Frank. Personal Interview. 19 April 2004.
- Watering Made Easy. <<http://www.wateringmadeeasy.com>>

UNIVERSITY HONORS PROGRAM

SENIOR PROJECT - APPROVAL

Name: Aaron Vickers

College: Business Administration Department: Accounting and IM

Faculty Mentor: Richard L. Townsend

PROJECT TITLE: ENRON: Where Are They Now?

I have reviewed this completed senior honors thesis with this student and certify that it is a project commensurate with honors level undergraduate research in this field.

Signed: Richard L. Townsend, Faculty Mentor

Date: 5-3-04

Comments (Optional):

Very interesting -