

Exploration of Communication Networks from the Enron Email Corpus¹

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Enron - What happened?

Enron was formed in 1985 under the direction of Kenneth Lay through the merger of Houston Natural Gas, a utility company, and Internorth of Omaha, a gas pipeline company. The company was based in Houston, Texas. Within 15 years Enron became the nation's seventh-biggest company in revenue by buying electricity from generators and selling it to consumers.

The company quickly adapted to the deregulation of the energy market by positioning themselves as an energy broker: Enron identified areas where energy needs were higher than energy capacities, built power plants in such regions, sold the plants before their value diminished, and moved on to new areas with mismatches of power needs and capacities [28]. Later the company applied and expanded their middlemen skills and derivative trades to newer markets such as TV ad time and bandwidth. In 2002, Enron employed 21,000 people in more than 40 countries [10].

From 1985 on, Arthur Andersen, LLP (Andersen) had been Enron's auditor. Andersen earned tens of millions of dollars from accounting and internal and external consulting services for Enron, which was one of Andersen's largest clients worldwide. Enron employed many former Andersen workers. In 1999, Enron officials began to separate losses from equity and derivative trades into "special purpose entities" (SPE); partnerships that were excluded from the company's net income reports. An example of such an SPE was Raptor, a liaison of Enron executives, who bought equity shares in two companies, New Power Co. and Avici, with loaned stock money from Enron. Enron profited from the increase of the value of the SPE's shares but had Raptor booking the losses, thus excluding them from their financial reports. The systematic omission of negative balance sheets and income statements from SPEs in Enron's reports

resulted in an off-balance-sheet-financing system [28].

In December of 2000, president and chief operating officer Jeffrey Skilling took over the position of chief executive from Kenneth Lay. Lay remained chairman while the Enron stock hit a 52-week high of \$84.87. In August 2001 Skilling surprisingly resigned, stating personal reasons for quitting. Lay was named as Enron's chief officer and CEO again in 2001 [20]. In the same month Sherron Watkins, Enron's Vice-President of Corporate Development who became famous as Enron's whistle-blower, wrote an anonymous letter to Lay in which she accused Enron of possible fraud and improprieties such as the SPEs [31]. Andersen knew of the information provided by Sherron Watkins.

In October 2001 the losses transferred from Enron to the SPE's totaled over \$618 million and Enron publicly reported this amount as net loss for the third quarter. By the end of the year Enron disclosed a reduction of \$1.2 billion in the value of shareholders' stake in the company. One of the people associated with the crash was Andrew Fastow, chief financial officer, who had supported Enron in inflating profits and hiding debts [28].

On October 31, 2001, the Securities and Exchange Commission (SEC) started an inquiry into Enron. Enron subsequently ousted Fastow and announced that the SEC investigation revealed that the amount of losses for the previous five years was actually \$586 million. The market reacted with a fast and sharp drop of the value of Enron's shares to levels below \$1 in November 2001. Being forced to transfer stocks in order to satisfy the losses, Enron became insolvent and filed for bankruptcy in December 2001. The fallout and investigations into the Enron collapse continued throughout 2002. Lay resigned as chairman and CEO in January of 2002, and less than two weeks later from the board [1].

Long before Enron's official insolvency, Andersen had possessed knowledge of Enron's organizational situation and financial performance

In March of 2003 Enron announced a plan to emerge from bankruptcy as two separate companies. In July the company filed a reorganization plan stating that most creditors would receive about one-fifth of the \$67 billion they were owed.