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If *Barbarians at the Gate*, the best-selling book and movie of the vicious $25 billion takeover battle for RJR Nabisco, captured the greed and power-mongering of the 1980s, then the spectacular collapse of energy giant ENRON on 2 December 2001 - then the biggest bankruptcy in corporate history, that sparks Lucy Prebble's play - ripped open the catastrophic fault line of unchecked economic avarice, vanity, incompetence, lies and greed that leads to Bear Stearns, Lehman Brothers, HBOS, Icelandic banks and all the other meltdowns of this young century.

Proud of its tough and aggressive culture, ENRON was America's seventh largest corporation. It had taken 16 years for it to grow from about $10 billion of assets to nearly $70 billion, building plants and supplying natural gas and electricity. It took 24 days to go bankrupt. A company praised by many pundits as a new business model that met and exceeded its financial targets with ease was described, in hindsight, as a house of cards built over a pool of gasoline, so fast did it disintegrate.

So who was responsible? Certainly two men who descended from their sumptuous offices on high, down individual glass staircases to the trading floor at ENRON's high-rise HQ in Houston, Texas. One was Kenneth Lay, ENRON chairman, who founded the company in 1985. The son of a poor Baptist preacher who went on to gain a PhD in economics, Ken Lay, now in his early 60s, was an early apostle of deregulation of the energy industry who lobbied Washington to allow prices to float on the market tide and no longer be capped by politicians. He found sympathetic ears in two Texas oilmen, George Bush Senior, who helped secure billions of dollars of subsidy for ENRON, and George W Bush, who as governor of Texas was only too happy to pick up the phone to Washington on behalf of the friend he called 'Kenny Boy'. On the other staircase was CEO Jeffrey Skilling, admired and feared for his incandescent brilliance.

When Jeff Skilling, born in 1953, applied to Harvard Business School, the professor asked him if he was smart. He replied: 'I'm fucking smart.' He and Lay were known as 'The Smartest Guys in the Room'. Skilling, who had joined in 1990 and was promoted to CEO in February 2001, was the man with big ideas. The biggest of all was that, instead of being just an energy company that delivered power by pipe and cable, ENRON should become a stock market for natural gas and electricity, transferring energy into financial instruments that could be traded like stocks and shares. Lay, driven totally by the love of money, and inspired by Ronald Reagan's phrase 'the magic of the marketplace', eagerly fell in with the vision. As ENRON's mark-to-market 'profits' built and built, its share price

'ENRON IS A COMPANY THAT DEALS WITH EVERYONE WITH ABSOLUTE INTEGRITY.'

Kenneth Lay, founder and chairman of ENRON

'IN MY VIEW KEN LAY IS A PERSON WHO PUTS EARNINGS BEFORE SCRUPLES RATHER THAN REACTING TO THE DISHONESTY IN FRONT OF HIM.'

Independent auditor's report

rocketed. Because executives got paid largely in stock, the stock price was king.

But it was all smoke and mirrors, a game of numbers. In reality ENRON's profits were heading south fast. Plants that cost billions to build were performing badly or not even functioning. Skilling moved into selling broadband and lost. He talked of selling weather futures. ENRON was becoming a financial fantasyland still paying million dollar bonuses based on imaginary profits when it was really $30 billion in debt. It was a debt that needed hiding. Skilling called on chief financial officer Andrew Fastow, who set about creating hundreds of companies called special purpose entities, with exotic names like Jedi and Raptors, in which he stashed the company's debt where it posed as assets.

Most industry analysts who Dollar rate company performances were seduced. Ninety-six bankers invested as much as $25 million each. Salivating at projected returns of 2,000 per cent, this Who's Who of Wall Street included JP Morgan Chase, Credit Suisse, Merrill Lynch, Citibank and Deutsche Bank. When a lone-voice analyst, John Olson, working for Merrill Lynch, questioned what was going on Fastow bullied the bank into firing him and then rewarded it with two contracts worth $50 million. While Fastow nurtured his Raptors, ENRON's traders were cleaning up in California which, thanks to Lay's lobbying, now had a deregulated power market. In 2001 America's richest state suddenly had power shortages and a programme of rolling blackouts saw cities go dark, people trapped in elevators, hospitals postpone operations, roads in gridlock and schools closed. By shutting down plants and shipping power out of state to create shortages, prices went up by as much as 400 per cent when the lights were turned back on. They were making even more on top by betting that the price of energy would go up. ENRON's traders had turned the power industry into a casino and were yanking the economy of California on a leash. It's a reflection of the attitude of the traders at this point that several of the strategies deployed in California were given names inspired by their favourite science fiction films and comic books. It is reckoned energy traders cost California $30 billion.

While Lay, Skilling and the other execs urged ENRON staff to invest their pensions in stock in 'the world's greatest company' - named 'the most innovative in America' for the sixth consecutive year by *Fortune* magazine - they were busy cashing in their shares which had soared to $95 each. Skilling banked $66 million. In four years Ken Lay earned $300 million in salary and stocks. Fastow pocketed $60 million in stock option proceeds and side deals on his special companies. Lou Pai, who ran the ENRON Energy Services (EES) division left the company with $250 million and became the largest landowner in Colorado. On his watch, EES racked up losses of $1 billion.

Inevitably, just like the Maxwell fraud, ENRON's figures no longer made sense. In March 2001 *Fortune* published an article 'Is ENRON Overpriced?' in which Bethany McLean asked how exactly does this company - which was posting a first quarter profit of $536 million - make its money? Fastow flew to New York to bully McLean into 'better understanding the questions she was asking'. *The Wall Street Journal* began to dig. On 14 August Jeff Skilling, increasingly volatile but able to see where ENRON was bound, resigned suddenly as CEO citing 'family reasons'. Taking his role, Lay stated, 'absolutely no accounting issue, no trading issue, no reserve issue, no previously unknown problem issues' are involved.

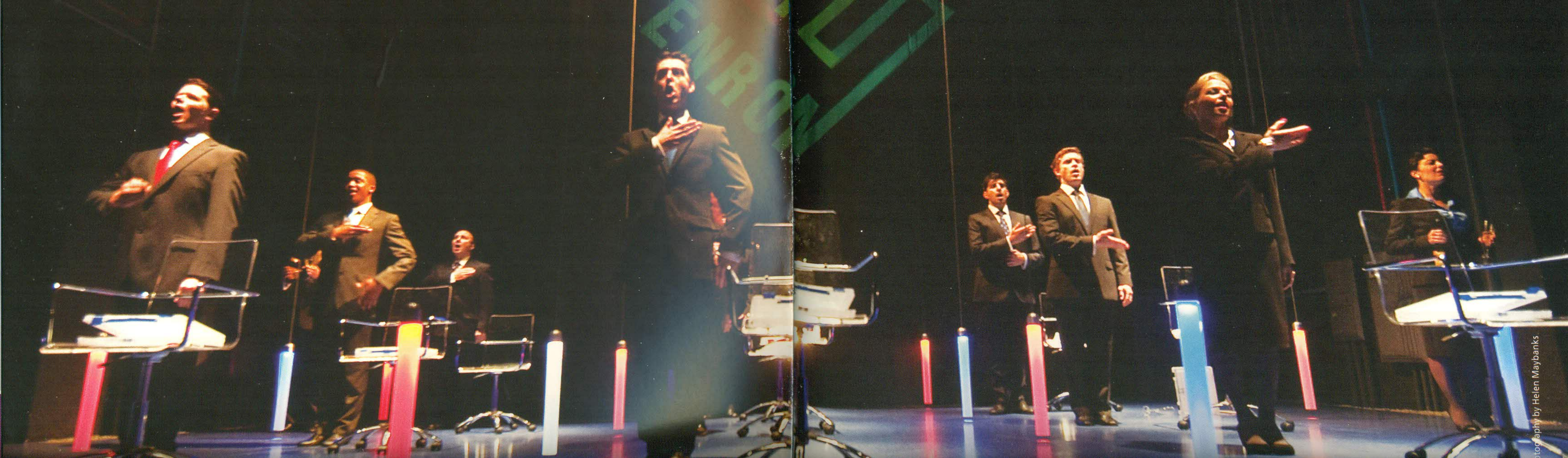
Later in the year on 23 October Lay was convincing a meeting of staff in Houston that the company 'was in the best shape it's ever been'. But a few blocks away ENRON's accountants Arthur Andersen, America's oldest accounting company, were shredding more than one ton of paper that showed that billions of mark-to-market profits were really losses. When ENRON filed for bankruptcy on 2 December its share price was just $1. Its 21,000 staff in Houston were given $4,500 severance pay and 30 minutes to clear their desks in a building they dubbed the 'Death Star'. They lost $1.2 billion in pensions and investments.

Skilling, blaming press persecution and panicky investors, was defiant. 'I did not do anything in all the time I worked for ENRON that was not in the interests of shareholders,' he told Senate hearings, but in October 2006 he was sentenced to 24 years on multiple counts of fraud and conspiracy. Kenneth Lay, also guilty and looking at 45 years, died of a heart attack. George Bush Snr attended his funeral. Andy Fastow's ten-year sentence was reduced to four for giving 'exceptional' assistance to prosecutors. Arthur Andersen, which banked $1 million a week from ENRON, was barred from auditing and collapsed, throwing 29,000 staff out of work.

Bethany McLean, who went on to write *The Smartest Guys in the Room* about the scandal, believes that ENRON is more than just a story about numbers or deceitful accounting. 'It is like looking at the flipside of so much possibility that ended terribly. It started with a lot of people who thought they were changing the world and over time they became victims of their own hubris, victims of their own greed.'

Why wasn't the fraud spotted sooner? Lawyer Bill Larach, the king of shareholder lawsuits against big companies, is in no doubt. 'ENRON is the story of synergistic corruption. There are supposed to be checks and balances in the system. The lawyers are supposed to say no, the accountants are supposed to say no, the bankers are supposed to say no, but nobody who was supposed to say no, said no. They all took their share of the money from the fraud and put it in their pockets.' From the standpoint of 2009 that sounds chillingly familiar.

Tim Bouquet is a freelance writer and author of *Cold Steel: Lakshmi Mittal and his Multi-Billion-Dollar Battle for a Global Empire* (Abacus £8.99)



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