

Collapse of enron



**ASSIGN
BUSTER**

Collapse of Enron

ENRON was an American energy company in Huston, Texas and was formed in 1932 in Omaha, Nebraska. It was recognized as the leading subsidiary of holding company, InterNorth in 1979 and in 1985 they change its name to Houston Natural Gas to Enron. It built a large headquarters complex in Omaha. However, the departure of ex-InterNorth CEO Samuel Segnar six months after the merger allowed former HNG CEO Kenneth Lay to become CEO of the newly merged company and thus from there Enron took its beginning. The CEO changed the location of headquarters from Omaha to Houston and then rebranded the entire business from the beginning. Enron's story begins from this point onwards as one of the top notch energy companies which eventually faced its downfall.

Initially Enron was involved in transmitting and distributing electricity and gas throughout the United States. The company primarily developed, built, and operated power plants and pipelines while dealing with rules of law and other infrastructures worldwide. Enron owned a large network of natural gas pipelines which stretched ocean to ocean and border to border including Northern Natural Gas, Florida Gas Transmission, Trans western Pipeline Company and a partnership in Northern Border Pipeline from Canada. The company was churning significant cash flow through its operations and was quite rich in working capital. From that point onwards, the company utilized its operations to fund its other business opportunities. These were the cash cows that made all of the other Enron companies, ventures and investments possible. They were the only part of Enron that made significant profits. In 1998, Enron moved into the water sector, creating the Azurix Corporation,

which it part-floated on the New York Stock Exchange in June 1999. Azurix failed to break into the water utility market, and one of its major concessions, in Buenos Aires, was a large-scale money-loser.

During late 2001 when Enron went bankrupt there was around twenty two thousands (22, 000) people employed in this company and it was considered as one of the world's top electricity, natural gas, pulp and paper, and communication companies, with revenues of around one hundred and eleven billion dollars (\$111 bn) in 2000.

During late 2001 it was revealed that its reported financial condition was continued considerably by institutionalized, organized, and artistically planned accounting fraud, sometimes called the " Enron scandal". Enron has since become a popular symbol of willful corporate fraud and corruption. The company went to Southern District of New York in order to protect Enron from going bankrupt but they failed to do so, their bankruptcy counsel was Weil, Gotshal & Manages. In 2004 it emerged from bankruptcy which was the biggest bankruptcy in the history of the United States Of America.

On September 7, 2006, Enron sold its last business that was remaining, Prisma Energy International Inc. to Ashmore Energy International Ltd. The scandals, lawsuits that were against the Enron director were notable because these scandals and lawsuits were settled by the Enron's director by bribing some officials and the amount of money was given to them by the director personally. This also causes the dissolution of an accounting firm of Arthur Anderson which affects the business world very badly. Enron was losing its ground badly and there was not a single aspect which could save it from the downfall which was eminent.

During early 2007 Enron changed its name to Enron Credit Recovery Corporation to reflect its status as an asset less Shell Corporation. At present its main aim is to liquidate all its remaining assets.

On August 14, 2001, Jeffrey Skilling, the chief executive of Enron, a former energy consultant at McKinsey & Company who joined Enron in 1990, announced he was resigning his position after only six months.

The reason for resigning from the company was considered as personal and not revealed to any one it was noticed by the observers that in the month leading up to his exit, the CEO of Enron sold 450, 000 minimum shares of Enron for value of \$33 million, the chairman at Enron, reassured analysts by affirming that there was absolutely no accounting issue, no trading issue, no reserve issue, no previously unknown problem issues prompting the departure.

The Enron scandal was a financial scandal involving Enron Corporation and its accounting firm Arthur Andersen, that was revealed in late 2001. After a series of revelations involving irregular accounting procedures conducted throughout the 1990s, Enron was on the verge of bankruptcy by November of 2001. A white knight rescue attempt by a similar, smaller energy company, Dynegy, was not viable. Enron filed for bankruptcy on December 2, 2001.

When the scandal was revealed, Enron shares dropped a record lowest from over US\$90. 00 to less than 50¢. As Enron had been considered a blue chip stock, this was an unprecedented and disastrous event in the financial world. Enron's plunge occurred after it was revealed that much of its profits and revenue were the result of deals with special purpose entities (limited
<https://assignbuster.com/collapse-of-enron/>

partnerships which it controlled). The result was that many of Enron's debts and the losses that it suffered were not reported in its financial statements.

The company's stock continued to fall till the end of August 2001 and behind these falls Lay the CEO of Enron named the Gerg Whalley and Mark Fervert who were previously at higher post in Enron they were named after the scandal but some observer says that Enron's investors were in significant need of reassurance not because the business of the company was difficult to understand but also it was very difficult to express its financial statements

It becomes very difficult for almost all the analysts to find out from what part Enron is making out the most of the money as all of it was done so secretly that is why it was not easily revealed. After the September 11, 2001 attacks, media consideration shifted away from the company and its dilemma; a little less than a month later Enron publicize its purpose to begin the process of cut off its lower-margin assets in favor of its core businesses of gas and electricity trading. This move included selling Portland General Electric to another Oregon utility, Northwest Natural Gas, for about \$1.9 billion in cash and stock, and possibly selling its 65% stake in the Dabhol project in India.

In October, 2001, when Enron announced that its third-quarter results were negative due to one-time charges of over \$1 billion. Enron management claimed the losses were mostly due to investment losses, along with charges such as about \$180 million in money spent restructuring the company's troubled broadband trading unit.

Additionally Enron declare that the broadband unit alone was worth \$35 billion, a claim also mistrusted. In October, 2001, the share price of Enron fell to \$20.65, down \$5.40 in one day.

<https://assignbuster.com/collapse-of-enron/>

In November, 2001, Enron's two worst upshots came true. Dynegy Inc. unilaterally disengaged from the proposed acquisition of the company and Enron's credit rating fell to junk status. The company, having very little cash with which to run its business, let alone satisfy enormous debts, imploded. Its stock price fell to \$0.61 at the end of the day's trading.

Enron's collapse also contributed to the creation of the U. S. Sarbanes-Oxley Act (SOX), signed into law on July 30, 2002. It is considered the most significant change to federal securities laws since FDR's New Deal in the 1930s. Other countries have also adopted new corporate governance legislations. This law provides stronger penalties for fraud and, among other things, requires public companies to avoid making loans to management, to report more information to the public, to maintain stronger independence from their auditors, and most controversially, to report on and have audited, their financial internal control procedures.

However, certain provisions in the legislation are currently under review in Congress. In order to prevent such event from occurring in near future the only way it to publicized all the evenys and all financial statements of such company and media people should be allow to published the information of such companies without any ristraction and a strong eye should be kept on bribery do that no official can hide any company secret and proper audit of such company should take place.

Reference:

1. Enron: Introduction, Retrieved on October 5, 2008, from <http://en.wikipedia.org/wiki/Enron>

2. Enron Scandal, Retrieved on October 5, 2008, from http://en.wikipedia.org/wiki/Enron_scandal

3. Victoria Burnett, 2002 Enron president Jeffrey McMahon stands down, Retrieved on October 5, 2008, from <http://specials.ft.com/enron/FT31GI7Q80D.html>