The enron scandal and the sarbanes oxley act

Imagine, one day you are happily planning for retirement, you've just received your retirement fund statement and your diligent savings has grown nicely over the years. Yes, you're savings is finally about to pay off.

However, in the next moment, it's gone! Completely. In place of these dreams is the nightmare of the reality that your retirement savings is now not worth the paper the statement is printed on. That nightmare is the reality many Enron investors had to face.

The investment world spun on its heels as corporate America's dirtiest little secrets came to light. Companies like Enron had been betraying investor confidence, using corporate funds as if they were their own personal slush fund, and leading their organizations down the path of destruction.

However, there is a positive to this dark, gray cloud of unethical business practices, because of these organizations, corporate America now has more comprehensive laws to help ensure that the above scenario never happens again, and investors can once again invest with confidence.

In July 1985, Houston Natural Gas merged with InterNorth to form Enron, a natural gas pipeline company. Four years later, Enron began trading natural gas. Jeff Skilling joins the company, and in 1996 becomes Enron's President and Chief Operating Officer (COO). Under Skilling's direction, Enron begins to expand quite rapidly.

One of Skilling's immediate successes and failures began with negotiations with Kaiser Aluminum and Chemical Corporation. Kaiser wanted a five-year fixed price gas contract, for their Louisiana aluminum plant.

However, Enron had no gas in that state and gas producers were not eager to lock in prices at the low levels they were at, at the time. Skilling guaranteed the gas price off the Texaco pipeline they were already using, at $2. 50 per thousand cubic feet. If prices rose, Enron would cover the difference, but if prices remained the same or lowered, Enron would make the profit.

In 1998, Enron acquires Britain's Wessex Water for $2. 2 billion. This acquisition then becomes the center of Enron's new water unit. The following year, the company introduces EnronOnline, the very first global commodity trading web site.

The beginning of the new millennium saw Kenneth Lay become Enron Chairman, just after Enron shares hit an all-time high of $90. 56 a share. The February of the following year, Skilling is promoted to Chief Executive Officer (CEO) of Enron. Six months later, Skilling resigns abruptly stating personal reasons for his departure. Lay returns to the position of Chief Executive.

On August 15th, 2001, Sherron Watkins, an Enron Vice President, sent an anonymous memo to Lay. Watkins told Lay that the questionable accounting practices being used by Enron would lead to the company's demise " in a wave of accounting scandals". Watkins would prove to be correct.

It was these fraudulent accounting techniques that would lead the seventh-largest company in the United States to crumble to its knees. Enron had virtually invented power, communications and weather securities.

Yet, instead of being heralded for this accomplishment, they would go down in history as one of America's most notorious instances of well-planned corporate fraud. The company that was named America's Most Innovative Company, by Fortune Magazine, five years running, and one of Fortune's 100 Best Companies to Work for in America, in 2000 would find their ruin in scandal.

Rumors of bribery and political pressure began to surface, casting a pall on contracts in Central and South America, Africa, and the Philippines. The $30 billion Indian MSEB contract was especially doubted, where it had been suspected that Enron had used political connection to put pressure upon the board. Borderline fraudulent accounting procedures would only add to these troubles.

Irregular accounting procedures involving the company and its accounting firm, Arthur Anderson, pushed the company to bankruptcy, by mid-November 2001. Value of Enron investors' equity per share fell quickly from $85 per share to a paltry 30 cents per share. Plummeting the blue chip stocks value.