meet Generally Accepted Accounting Principles. Enron would have to restate its earnings for the third quarter to reflect the $1.2 billion accounting mistake made back in December.[370] Fastow, fearing an investigation, ordered Kopper to destroy his laptop and any office or home computer files that contained damaging information about the LJMs.[371]

Then another unexpected catastrophe occurred. On September 11, a terrorist attack on the World Trade Towers and the Pentagon, killing more than three thousand people. The stock market halted trading. Enron's towers were evacuated as a precaution against a similar attack in Houston. The nation went into shock and mourning. Most analysts predicted a negative effect on stocks.

The credit market tightened at the worst time possible, just when people were beginning to question Enron's creditworthiness. Suddenly there were no buyers for Enron's commercial paper, the short-term loans companies rely on to meet daily expenses. Without informing Lay or the board of the crisis, Fastow and Glisan explored borrowing from Enron's guaranteed line of credit. Fortunately, the credit market improved the following day and commercial paper buyers were located. In the midst of this financial crisis, Enron paid Kopper $2.6 million to cover a tax payment related to the Chewco buyout, money he then funneled to Fastow.[372]

Preparing to Announce Third-Quarter Results: September and October 2001

As soon as the market reopened, the now-departed Skilling sold another 500,000 shares of Enron stock for $15.6 million, raising his total stock sales since April to $62.6 million.[373] A few days later, on September 25, Fastow dissolved the problematic, yet personally profitable, Raptor accounts.

The accountants closed Enron's third-quarter books at the end of September and prepared for the October 16 public

reporting of third-quarter financial results. Enron's stock sat at a dangerously low $27.20 a share. Lay, Whalley, Causey, and Fastow had just two weeks to decide the extent of Enron's public confession, although the formal filing of quarterly financial statements to the SEC was not required until mid-November.

Enron employees remained in the dark about the company's true financial situation. Many of them never met Fastow and were fond of Lay. They assumed Lay would never permit the deeds suggested in hostile media reports. Lay conducted online employee forums, where he encouraged employees to follow his lead in purchasing Enron stock at the current bargain prices. Indeed, Lay did purchase $4 million of Enron stock; simultaneously, he sold $24 million of stock to cover his personal expenses.[374]

October began with good news. Enron sold some natural gas assets in India for $388 million, though there was still no buyer for its $3 billion Dabhol power plant. Upper management reached an agreement for Northwest Natural Gas to buy Portland General for $1.55 billion in cash and $270 million in stock. Northwest Natural Gas also took on $1.1 billion in Portland General debt.[375] Enron's stock price started to rise and then leveled off in the low to mid-thirties.

However, the broadband division had an $80 million loss on only $4 million in revenue.[376] Quarterly projections could only be met with the help of $84 million in mark-to-market profits. Total sales for the year would be announced at $138 billion, more than annual sales in 2000, but nowhere near the early 2001 projections. On top of all this, cash flow from operations was a negative $753 million.

Lay had grappled with many crises. He now faced two more: restating earnings due to $1.2 billion in uncollectible Raptor hedges, and informing investors that Enron had $7 billion worth of losses hidden by SPE transactions. Wall Street demanded greater financial transparency. But the company would collapse if the severity of Enron's accounting manipu-

lations became public knowledge. Enron's debt-to-equity ratio would soar, forcing credit agencies to downgrade Enron's debt ratings. The SEC would formally investigate, leading to a massive stock dumping. Enron's stock price could disintegrate further, triggering more debt payments it could not pay. The company could be bankrupt, all within a few weeks.

Fastow and Causey had already hidden $7 billion worth of losses from investors. Lay now faced a decision that would directly impact all 20,000 employees—how honest should he be? Wall Street analysts assumed Enron had undeclared losses of about $2 billion. Lay sought counsel from his executive team. Whalley wanted to begin his term of office with a clean slate by charging as much as possible to the Skilling regime. Other executives felt confident that Enron could reasonably explain losses totaling $1.2 billion. The stock price would decline, but the company wouldn't be destroyed, as would happen if $7 billion in losses were unexpectedly announced. Enron would then have another three months to improve operating revenues before acknowledging additional hidden loses.[377]

> <u>DECISION CHOICE.</u> *If you were Ken Lay would you announce:*
>
> *(1) $7 billion in losses and risk financial collapse,*
>
> *(2) $2 billion in losses to match Wall Street expectations, or*
>
> *(3) $1.2 billion as recommended by some executives?*
>
> *Why?*