joined Arthur Andersen's PSG, which would give him even greater authority to provide guidance on contentious issues. Given his years of experience with Enron's accounting methodologies, Bass became the natural choice to offer a ruling on SPE deals, advice Duncan typically ignored.[168]

Lay and Skilling expected Enron's stock price to continue to multiply. They split the stock in 1999 in order to maintain a level of affordability. All previous stockholders doubled their total shares, though each share was worth half of its previous value. Shortly after the stock split, the stock price escalation stalled. Stock that had increased in value by 40 percent the first half of the year stabilized at about $40 during the second half of the year. Once again, Enron's negative cash flow status after three quarters needed to be inverted.

Nigerian Barges for Sale: October through December 1999

Mark's international business dealings, particularly the evaporation of water industry profits, contributed to Enron's stock problem. Azurix, burdened by high overhead costs, was outmaneuvered on several important competitive bids by two French companies. When Argentina privatized its water system, Mark outbid her competitors for the water company. Unfortunately for Enron, she bid $438.6 million for the water company when the next highest bid was only $150 million, costing Enron an extra $288 million for the purchase. Altogether, Mark overbid her competitors by more than $1 billion during this buying spree.

Making matters worse, Mark's purchase in Argentina did not include the water company's main office building, and the company's recordkeeping was in shambles. A national crisis arose when Argentineans, many of whom opposed the concept of privatizing water, began complaining about the taste of Azurix-supplied water. Azurix's stock dropped 40 percent when investors were informed that fourth-quarter profit targets would be missed.[169] The Argentina fiasco reaffirmed Skilling's belief that Enron's future should be trading commodities, not owning companies.

Skilling's disappointment with Enron's stock price was slightly offset when the company's first foray in the Internet was successful. On November 29, 1999, Enron Online went online. Energy trades could be made online rather than over the telephone. In addition to buying and selling energy, Enron now served as the middleman, taking a little piece of every energy trade.[170] The initial startup costs were huge, involving more than 350 employees, but so was the payout. Enron catapulted itself into the hottest investment arena—Internet companies—and the new business gave Enron an insider's view of competitor trading practices. Once again, Enron was one step ahead of everyone else. Within just a few months Enron Online would become the biggest e-commerce site on the Internet.[171]

With the year coming to a close, Fastow orchestrated seven deals in eleven days between Enron and the LJMs to provide Enron with some badly needed cash. These deals, which increased Enron's revenue by $229.5 million, enabled different business units to meet quarterly projection targets.[172] Fastow was now everyone's savior.

The accounting methods used for many of these deals violated GAAP, but Fastow and Causey had previously violated GAAP without being caught. For instance, Enron booked $16 million in profit when LJM2 paid $30 million for 75 percent of a malfunctioning power plant Enron owned in Poland. Why would LJM2 agree to such a deal? They had nothing to lose because Enron verbally agreed to repurchase the malfunctioning power plant for $32 million the following quarter, generating a $2 million profit for LJM2.[173] In the heat of negotiations, Fastow demanded that an Enron lawyer be dismissed for bargaining too hard on Enron's behalf.[174]

So many quick deals had to be made to support Enron's stock price that Fastow needed participation from companies not under his direct control. He first targeted Merrill Lynch, the nation's largest brokerage firm. Merrill Lynch earned $40 million in investment banking fees from Enron in the previous two years. Fastow requested that Merrill Lynch create a company called "Ebarge" to purchase three electricity-generating power barges off the coast of Nigeria that no one else wanted. A $28 million sale price would generate $12 million in profits for Enron, improve Enron's cash flow from operations, and enable the business unit to meet its projected targets.

> <u>DECISION CHOICE.</u> *If you were a Merrill Lynch investment banker earning large fees from doing business with Enron and were contacted by Andy Fastow to participate in Ebarge with guaranteed profits would you:*
>
> *(1) accept the offer,*
>
> *(2) reject the offer and risk losing future fees from Enron, and/or*
>
> *(3) notify Arthur Andersen about these secret side agreements?*
>
> *Why?*