



Sunday, August 7, 2005

Enron's brazen behavior stranger than fiction

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In his legendary book "Adventures In The Screen Trade," novelist and screenwriter William Goldman emphasizes that an aspiring screenwriter cannot rely on truth alone, but must convey a "believable reality."

Some events are simply too ridiculous for an audience to believe, however true they may be.

For example, if you hear the story of Enron, you will find it hard to believe that anyone could prosper from such horrible business practices, such brazen accounting misrepresentations, such utterly inhumane management habits, and such massive reserves of utter incompetence and unblinking arrogance.

Most of all, you will find it hard to believe that many of the key figures in this massive fraud that cost billions and hurt thousands of people may have done nothing illegal.

To some extent, the dubiousness of Enron's outrageous behaviors prolonged its success. The 1990s produced a "stranger than fiction" ethos on Wall Street that led to many absurd behaviors, including investments in technology companies that made no money and had no plans to make money. Instead of treating Enron's empty promises as "too good to be true," Wall Street felt they were too bold to be false.

As we read the details of Enron's malfeasance in Bethany McLean and Peter Elkind's excellent book, "The Smartest Guys In The Room," our emotions roller-coastered between anger and disbelief. How could a company that was generating little cash rack up \$38 billion in debt?

The web of deceit that fueled Enron's rise and fall betrays a logic so twisted that only cartoon character Homer Simpson could capture the essence of it. As Homer once explained to his wife, "Marge, it takes two to lie: one to lie and one to listen." Enron's leaders may have perpetrated a huge fraud, but they appear to have done so in broad daylight, in front of oblivious guards, through conveniently open windows.

We cannot capture in this article the details so gruesomely documented in McLean and Elkind's book, so we recommend it to anyone who wants to truly understand how Enron disguised debt as income, claimed profits from deals that were losing money, kept huge amounts of debt off of their balance sheet, bullied and/or deceived banks, analysts, regulators and credit ratings agencies, paid lavish salaries and bonuses, and did so without ever quite explaining how they made money.

Unbelievable? Not to the investors who lost everything.

Enron's culture conceived by president/COO Jeff Skilling and endorsed by founder/CEO Ken Lay, presented the foulest possible face of capitalism.

Fans of Harry Potter know that he is famous as "the boy who didn't die" when the evil wizard Voldemort tried to murder him. Understanding why Harry didn't die is one of the key mysteries in the popular novels. Jim Chanos of Kynikos Associates is "the man who didn't buy" -- The Enron story, that is.

Understanding why is simple: He read the 10-K filing and, most importantly, the cash flow statement. It didn't add up. Moreover, he knew what he knew, which was telecom, and he recognized Enron's broadband story for a pack of lies (the entire industry was falling apart, but Enron claimed outrageous opportunity in their venture, which had yet to make a dime).

He also was surprised by Enron's low return on capital, its high debt (despite the billions in debt that was



hidden in "offbalance-sheet" entities), its insider deals, and the incomprehensibility of certain sections of the third-quarter 2000 filing. He sounded the alarm, and shorted the stock. Said Chanos: "As soon as anyone looked, they could see the stuff we saw."

Chanos spoke to Fortune reporter Bethany McLean, coauthor of "The Smartest Guys In The Room." Her February 19, 2001, article asked some very basic questions, such as "How exactly does Enron make its money?" Tough questions, scandal and bankruptcy followed.

The article was not only the beginning of the end for the Enron company, but also for Arthur Andersen, its accountants. Much has yet to be decided in the courts, and many books already are in print, covering the lurid details of graft, deception, inter-office affairs, and, sadly, the suicide of Cliff Baxter -- one of Jeff Skilling's top aides.

We opened with the advice of a screenwriter, so let us end with a movie quotation. Andy Fastow named most of his schemes after elements from "Star Wars." We recall that the great Jedi Knight Obi Wan Kenobi asked Luke Skywalker, as we now ask our readers, "Who is the greater fool? The fool, or the fool who follows him?"

-- Lance Helfert and Kinko's Inc. founder Paul Orfalea are the co-founders of West Coast Asset Management Inc., a private independent money manager in Ventura. Orfalea sold his interest in Kinko's two years ago. Vice President Atticus Lowe contributed to this column. Please e-mail questions to info@wcam.com. The principals of the firm or their clients may own shares in the companies they write about.

