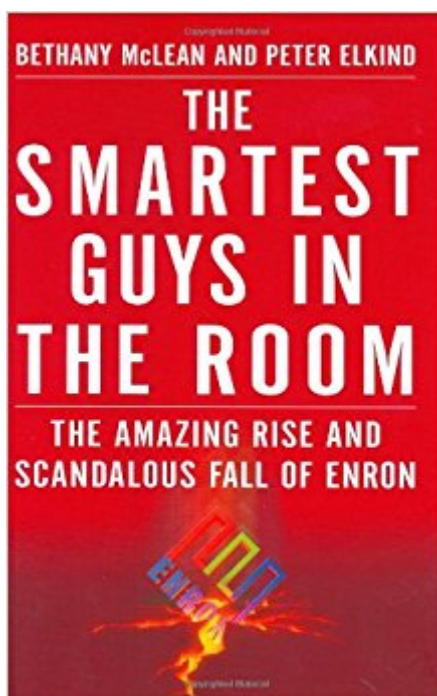


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Smartest Guys In The Room: The Amazing Rise And Scandalous Fall Of Enron



Synopsis

Until the spring of 2001, the Houston energy giant Enron epitomized the triumph of the new economy. Feared by rivals, worshiped by investors, Enron seemingly could do no wrong. Its profits rose every quarter; its stock price surged ever upward; its leaders were hailed as visionaries. Then a young Fortune writer named Bethany McLean wrote an article posing a simple question - How, exactly, does Enron make its money? - and the company's house of cards began to collapse. Though other business scandals would follow, none has had the shattering effect of Enron's bankruptcy, which caused Americans to lose faith in a system that rewarded top insiders with millions of dollars while small investors, including many Enron employees, lost everything. Despite enormous media coverage of Enron, the definitive story of its astonishing rise and fall comes alive for the first time in this gripping narrative, by McLean and her Fortune colleague Peter Elkind. Drawing on a wide range of private documents and well-placed sources, many of them exclusive, McLean and Elkind lead you behind closed doors and deep into Enron's past, to pierce the veil of secrecy that has surrounded the company's inner workings and corrupt culture. *The Smartest Guys in the Room* is fundamentally a human drama -- of people drunk on their own success, people so ambitious, so certain of their own brilliance, so fueled by greed and hubris that they believed they could fool the world. The book explores the motives, thoughts, and secret fears of a fascinating array of characters, including:

- * Ken Lay, the genial but clueless CEO who reveled in the trappings of his office but ducked the responsibilities. From the earliest days of Enron, his weakness allowed greedy lieutenants to run amok.
- * Jeff Skilling, the brooding, mercurial genius who was the architect of Enron's greatest triumphs-and its ultimate disgrace. "I am Enron," he once boasted. As the company unraveled, so did Skilling.
- * Rebecca Mark, the glamorous "It" girl of Enron International who raced around the globe in high style and battled Skilling for control of the company.
- * Andy Fastow, the brutally ambitious, deeply insecure whiz kid. Inside Enron his colleagues marveled at how his complex schemes allowed the company to scam Wall Street-not realizing that he was secretly scamming Enron.
- * Ken Rice, the Midwestern farm boy who was seduced by Enron's fast-money culture and who cashed in while hyping a high-tech business that didn't exist.
- * Cliff Baxter, the manic deal maker and Skilling confidant who resented Fastow's murky self-dealing. "He's a goddamn master criminal," Baxter would rail.

Just as Watergate was the defining political story of our time, so Enron is the biggest business story of our time. And just as *All the President's Men* was the one Watergate book that gave readers the full story, with all the drama and nuance, *The Smartest Guys in the Room* is the one book you have to read to understand this amazing business saga.

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Customer Reviews

This book will be especially valuable to those who have a keen interest in "the amazing rise and scandalous fall of Enron." I also commend to their attention Smith and Emshwiller's 24 Hours: How Two Wall Street Journal Reporters Uncovered the Lies that Destroyed Faith in Corporate America. The "smartest guys in the room" included Kenneth Lay, Jeffrey Skilling, Rebecca Mark, Andrew Fastow, Kenneth Rice, and Clifford Baxter. Whereas Smith and Emshwiller explored the same company as investigative reporters, McLean and Elkind seem (to me) to have approached their subject as corporate anthropologists. Both books reach many of the same conclusions as to what happened...and why. Two significant differences are that Smith and Emshwiller limit their attention primarily to a period in 2001 extending from October 16th (when Enron announced huge losses caused by two partnerships) to December 3rd (when Enron filed for Chapter 11 bankruptcy); McLean and Elkind cover a two-year period of the company's "amazing rise and scandalous fall." Also, McLean and Elkind devote far more attention to each of the "smartest guys"; Smith and Emshwiller seem far less interested in them, except in terms of the impact of their mismanagement and corruption. Let's say there are two books about the collapse of the twin towers at the World Trade Center; one focuses on the human tragedies associated with it whereas a second book addresses design, construction, and structural issues. Obviously, both approaches are valid. McLean and Elkind suggest that the eventual collapse of Enron was caused less by the greed of senior-level Enron executives than it was by their arrogance and incompetence. Their lack of basic business acumen is astonishing as is their defiance of regulatory agencies and contempt for

customers.

There's blame galore to go around for the spectacular downfall of Enron Corp in that sober year of 2001. Accountants, rating agencies, regulators, lawyers, consultants, bankers--and these are just the bad actors outside the corporation. Look inside, where Bethany McLean and Peter Elkind treat their readers to a thorough journalistic scouring, and the smell of the rot almost wafts off the pages. The authors rightly spend the vast majority of the book examining the personalities and circumstances that allowed the company to become what it was at the end of its life. Mix a potion that's one part hardscrabble Harvard MBAs, one part energy deregulation, and one part hysterical bull market, and you've got a financial molotov cocktail. Sadly, as we all know now, it was largely the little guy who paid the price for all the hubris of the players in this story, a fact that tends to get lost in the authors' painstaking recreation of the most complicated shell game in history. But the story of Enron's fallout could provide the material for a whole other book. In this one we get the tale of the players, people like Ken Lay, Jeff Skilling, Rebecca Mark and Andy Fastow, all filled with an equal mix of remarkable brilliance and fatal arrogance. All are indicted by these authors as rabid players in a game they made up themselves, deeming themselves beyond the petty world of rules and regulation. But coming in for equal excoriation is the system itself, the web of enablement and intimidation that allowed Andy Fastow to quietly hammer together the company's coffin in the form of a maze of phantom accounting entities designed to prop up the appearance of the corpse inside.

It is by now a cliché that arrogance and myopia contribute to many a downfall, whether the downfall is personal or corporate. This book proves that point aptly. Hubris and a sincere belief that Enron could do no wrong in the world contributed to an atmosphere of injudicious superiority. Combine that tumultuous atmosphere with ineffective, weak-willed executives and poor business management skills, Enron always was a precarious edifice awaiting its fate. At least, such is the narrative that the authors offer. They argue that Enron, over the past 15 years, repeatedly found itself in financial trouble, and, rather than come clean to the Street, used financial engineering strategies to make its numbers appear better than they were. This practice arose out of a fanatical devotion to the company's stock price; the company's stock price would not continue to rise if the company missed the Street's earnings expectations for the quarter. Since so much of the executives' wealth was tied up in Enron stock and options, financial shenanigans became a self-fulfilling prophecy. After all, the authors point out, if most of your wealth is tied up in a company's stock, don't you have an incentive to do everything possible to keep its stock at a high

level? Certainly, at this point, financial chicanery becomes more attractive than financial fidelity. Therein lies the fundamental flaw of Enron (as well as numerous other bubble companies): the very compensation scheme created by the company to inculcate a sense of loyalty in its executives created a conflict too gross to manage adequately.

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