

March 13, 2005

The Last Days of Enron

By [KURT EICHENWALD](#)

It has become the icon for an era of excess: the precipitate collapse of [Enron](#), played out over the final weeks of 2001.

Now, Kenneth L. Lay, Enron's former chairman, faces federal charges that he lied about the company's financial state in those weeks; his criminal trial is scheduled to begin next January.

A new book, "Conspiracy of Fools: A True Story" by Kurt Eichenwald, a reporter for [The New York Times](#), provides a behind-the-scenes look at Enron's rise and fall, including those crucial final days before its demise. The narrative was reconstructed through more than a thousand hours of interviews and thousands of documents, including records of secret witness statements to law enforcement officials. Following is Part 1 of excerpts from the book, which will be published tomorrow by the Broadway Books imprint of Random House; Part 2 of the excerpts will appear next week in Sunday Business.

KEN LAY settled into his black Mercedes 600 SL on the morning of Oct. 24, 2001, easing out of his parking space at the Huntingdon condominiums. From the lot's entrance, he turned onto Kirby Drive, the tree-lined road that served as a thoroughfare through River Oaks, Houston's wealthiest neighborhood.

The neighborhood's elegance melted into Allen Parkway, the most direct route downtown. Ahead, the morning sun rose behind a glittering tower that defined the architectural rhythm of Houston's skyline. It was the headquarters of [Enron](#) - his Enron - the once-obscure pipeline company that in a matter of years had been transformed into a politically connected energy colossus.

Lay glanced at the dashboard clock. Shortly before 7, early for his commute. But already, he knew that this would not be a normal day.

His company was under attack; Lay was sure of it. Stock traders who had bet that Enron's share price would fall were whispering rumors - no, lies - about his company. The Wall Street Journal was running a series of articles suggesting Enron had played games with its finances.

They just don't understand.

March 20, 2005

Washington, We Have a Problem ...

By [KURT EICHENWALD](#)

In *Enron's* final weeks, years of incompetence, mismanagement and crime finally emerged into public view. But behind the scenes, a desperate - and at times farcical - effort was unfolding to avert what proved to be its inevitable destruction.

A new book, *"Conspiracy of Fools: A True Story"* by Kurt Eichenwald, provides a detailed look at Enron's rise and fall, including those crucial last days. Following is the second of two sets of excerpts from the book, published by the Broadway Books imprint of Random House. In the first excerpts, published [last week](#), signs of significant trouble at Enron emerged, including questions about whether an off-the-books entity named Chewco had been accounted for properly. Public rumblings of problems had set Enron's stock price into a tailspin and put its survival in question.

IT was early evening in Houston on Oct. 26, 2001, and Ken Lay, [Enron's](#) chairman, was at his desk, building up to his next move. He called to his secretary.

"Rosie," he said. "I need to talk to Alan Greenspan."

Within minutes, Lay was connected to the Fed chairman.

"Alan, I was calling to update you on our situation," Lay said. "We've had a pretty rough 10 days or so."

"Yes, Ken, I've been reading in the papers," Greenspan replied. "Sorry you're going through all this."

"Thank you," Lay replied. He gave a rundown of the recent events and of Enron's attempts to shore up its situation.

"But I think it would be a good idea for the Fed and the Treasury to begin monitoring what's going on," Lay said, "Just to see what might happen if we don't pull this out."

Lay had done his best to alert every top finance official in the government of Enron's precarious state. In addition to Greenspan, he had phoned his friends Don Evans, the secretary of commerce, and Paul O'Neill, the secretary of the Treasury. Neither had been in, but an O'Neill assistant had returned the call and suggested that Lay telephone O'Neill on Sunday at his Washington apartment in the Watergate complex.

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The next day, a contingent of partners at Arthur Andersen, Enron's accounting firm, trooped into the office of Rick Causey, Enron's chief accounting officer, for a Chewco update. The group - including David Duncan, Tom Bauer and Deb Cash, the three top Andersen partners on the Enron account - were shown a whiteboard where a sketch of the Chewco structure had been drawn.

Causey laid out the details, beginning with the possible control of the entity by Michael Kopper, a longtime Enron finance executive, and the role of his lover, Bill Dodson. From there, Causey described issues that suggested that the equity stake of one of the other "investors" was in fact nothing more than a loan. Causey looked stricken. "I didn't know about any of this until I spoke with Ben," he said, referring to Ben Glisan, Enron's treasurer. "I promise."

The room was heavy with tension. "This is deeply troubling, Rick," Duncan said.

Bauer agreed. "Based on this information, it looks like Enron may have actually sponsored Chewco," he said.

But they still didn't have enough evidence to prove it.

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ONE of the only visible hopes for Enron's survival was a merger with Enron's chief competitor, [Dynergy](#). Potential lenders and Dynergy had to be briefed on the state of the company, provided the information they needed to make a decision. But Jeff McMahan, Enron's newly appointed chief financial officer, couldn't handle the due-diligence demands; he had other roles to play.

McMahan decided. Ben Glisan, the treasurer, had to take over the job of helping everyone with their due diligence for the merger. But McMahan had concerns. Glisan had been close with Kopper, close with Andrew Fastow, the recently deposed chief financial officer who appeared to have enriched himself mightily with Enron cash using a series of off-books partnerships. Had Glisan allowed himself to get embroiled in Fastow's schemes?

There was only one way to handle this. He called Glisan into his office and told him to take a seat.

"Ben," he said. "I need to know where you were on all this partnership stuff."

McMahon's face was stern. "I cannot afford to have you working on deals to save the company if you've been compromised. So I need you to assure me. Do you have any involvement in any of this?"

Southampton. That was the name of the partnership Fastow and Kopper had urged Glisan to invest in. He had received a million dollars, just weeks after making a \$5,600 investment. He had been compromised.

"I'm not involved in anything," he said.

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Paul O'Neill, the Treasury secretary, was enjoying a Sunday afternoon in his apartment at the Watergate. The telephone rang, and he walked over to answer. "Please hold for Ken Lay," a woman's voice said.

The line clicked. "Paul," Lay said, "I appreciate you letting me call you at home today."

"It's fine, Ken. Good to hear from you."

"I'm just calling to update you on what's been going on at Enron," Lay said, "And to recommend that you ought to have somebody at Treasury monitor what's going on."

Given the size of the company in the energy markets, Lay said, it would make sense for the government to have some contingency plans in place.

"Things have moved very fast in the past 10 days or so, and so far we haven't seen any way to stop it," Lay said.

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That same night, at his home in the Kalorama section of Washington, Harvey Pitt, the chairman of the Securities and Exchange Commission, gripped a copy of that day's [New York Times](#) in fury.

He was reading a lengthy article that reviewed recent events at Enron, which had led to an S.E.C. investigation. But a comment in the article from Mark Palmer, Enron's spokesman, set Pitt on edge.

"Mr. Palmer of Enron disputed any suggestion that Mr. Lay did not have a grasp of the investments at issue, saying Mr. Lay was handicapped in talking about them because of the S.E.C. investigation. 'There is not a whole lot we can say, or should say, about them,' Mr. Palmer said."

Enron was refusing to answer the most basic questions for investors - and blaming the S.E.C.!

Despicable!

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Pitt hefted himself out of his chair, heading to his study. He wanted to reread this article, mark it up with a highlighter and then call a staff meeting, right away.

Pitt was in his study, speaking into the telephone. "Their statement here just drove me through the wall," he said. "We can't have people claiming that they would tell the world what was going on but for the fact they're under investigation."

On the line were several S.E.C. officials, including Steve Cutler, head of enforcement, and Linda Thomsen, who was running the Enron inquiry. For several minutes, the group thrashed through the issues.

Then the idea struck Pitt. Section 21-A. The commission's rules on cooperation. They could be used to compel Enron to talk. A company had never been forced to explain what was going on right in the middle of the investigation. But why not?

"I want to send them a demand under 21-A, that they file something explaining what's happened," Pitt said.

Enron certainly couldn't refuse.

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The next morning, Oct. 29, Don Evans, the commerce secretary, returned from a trip to St. Louis and found Lay's message to call. He phoned right back.

"Don, thanks for calling," Lay said. He launched into his familiar dialogue about Enron's problems and his suggestion that it called for government monitoring.

But this time, he pressed for a favor.

"Our biggest concern is with the credit rating agencies in New York," he said. "If we lost our investment-grade rating, it would probably destroy us. If there's anything appropriate that Commerce could do to be helpful on that, we'd love to have that kind of help."

Evans's response was noncommittal.

"I'll look into it," he said.

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Around lunchtime, Evans was over in the Treasury building for the weekly meeting of the administration's economic team. The group of economic policy makers was just making its way into the small conference room used by O'Neill.

Evans pulled O'Neill aside. "I wanted to tell you, I received a call from Ken Lay," he began.

He recounted their conversation. "We've decided that we're not going to intervene in this situation," he said.

"Ken called me, too," O'Neill replied. "We've made the same decision."

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That same afternoon, Bill McLucas and his partners from Wilmer, Cutler & Pickering - the law firm brought in to handle the investigation by a special committee of Enron's board - received a call from the S.E.C.'s enforcement division. It was Linda Thomsen, alerting them that the agency had become deeply concerned about Enron's failure to disclose more detailed information about the partnership transactions that were the subject of so much market scrutiny.

"You guys need to explain a lot, in pretty short order," Thomsen said.

Enron had until Nov. 5, Thomsen said, to reveal what it knew about the arrangements, particularly those involving the LJM funds, the partnerships managed by Fastow. The company needed to file a document known as an 8-K, laying out every detail. In exactly one week.

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On the afternoon of Oct. 30, Jim Derrick, Enron's general counsel, glanced up from his desk. One of his best lawyers, Kristina Mordaunt - now general counsel in corporate development - had just arrived. Anxiety was written all over her face.

"Kristina?" Derrick said. "What can I do for you?"

Mordaunt walked in. "There's something I want you to be aware of," she said.

Derrick waited. Mordaunt glanced at the floor, then plunged ahead. "I invested with an entity affiliated with LJM," she said simply.

She didn't say the word. Southampton. She didn't mention her million-dollar return, shoveled her way

after a few weeks. Derrick's reaction was almost grandfatherly.

"Kristina," he said. "We've all done things we regret." But this had to be examined more closely, he said.

"What I want you to do is go down and find the folks from Wilmer, Cutler," he said. "I'll let them know you're coming."

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Within the hour, Mordaunt was in a room with Joe Brenner and Reed Brodsky, two Wilmer, Cutler lawyers handling the investigation.

"I have a duty as an Enron employee to answer your questions, and I'll fully cooperate," she said. "But I don't want to be part of any political witch hunt."

She told the tale without embellishment. She had been approached more than a year before by Kopper, who she thought was acting on Fastow's behalf. He presented this opportunity, which he described as a derivative option.

"Why do you think Kopper came to you?" Brenner asked.

"I don't know."

"Was anybody else approached?"

Mordaunt shook her head. "I don't know."

A pause. "I can't get into Andy's head," she said.

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THE first package of information provided for Dynegy's due diligence arrived from Enron that same day. Hugh Tarpley, Dynegy's head of mergers and acquisitions, pored through the numbers, trying to calculate the potential financial performance of this would-be merger partner.

Tarpley found the answer deep in the package. Enron projected earnings per share of \$1.80 for 2001. But the real delight was 2002 - \$2.25 a share. But how? There was nothing explaining what Enron was planning to do to achieve such stellar results.

During a negotiating session later that day, Tarpley decided to ask Dave Delainey, head of Enron's retail division.

"Dave," Tarpley said. "I'd really like to get a copy of Enron's business plan for 2002."

Couldn't happen, Delainey said. "We don't have a business plan available," he said.

How then, Tarpley asked, did Enron get its 2002 projections, if it didn't know what it was planning to do?

Delainey shrugged. "We just increased the prior year's results by 25 percent," he said simply.

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The smoking gun on Chewco arrived that same week, on Nov. 2, a Friday.

It came in one of several cardboard boxes, forwarded by Wilmer, Cutler to the office of David Duncan, one of the Arthur Andersen partners. Duncan handed the records over to two of his partners, Tom Bauer and Deb Cash, who began looking through them.

Bauer reached in box No. 7 and pulled out a file. Inside was a two-page letter agreement, dated Dec. 30, 1997. Bauer studied the document; it was signed on behalf of the company by Jeremy Blachman, an Enron vice president. Kopper had signed for Chewco.

The document was perplexing. It provided that a \$6 million distribution from JEDI, an entity owned by Enron and Chewco, would fund some sort of reserve account. Bauer read it through again.

What reserve account? What in the world was this?

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Over the next 24 hours, the Andersen accountants pieced together the mystery. It soon became apparent that this information changed everything about the accounting for Chewco.

The letter was the proof of a secret side-agreement used to get the Chewco deal closed. The \$6 million had been placed in a reserve account to secure a portion of the money provided to Chewco by Barclays Bank - supposedly an investor in the deal. With the \$6 million secured, Barclays did not have that cash at risk. Chewco was short by at least that amount of the 3 percent outside investment required to be considered an independent entity.

There was no question. The accounting failed. Chewco was not a valid special-purpose entity.

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"Chewco is not a failed S.P.E.," Causey said confidently, using the abbreviation for such special-purpose entities. "It's valid."

It was that same evening. Causey's team had been working furiously, as time inched toward the deadline for the filing demanded by the S.E.C. Ten people had been roped in for this meeting - seven from Enron, one of its lawyers from Vinson & Elkins and two accountants from Andersen - to make the final assessment on Chewco. After Duncan and Bauer arrived, Causey announced they had formally concluded Chewco was fine.

"What's your view on Dodson as an equity holder?" Bauer asked.

"I'm not sure he can be counted as a related party," Causey replied.

Kristina Mordaunt picked up the point. "Texas state law doesn't legally recognize homosexual relationships."

Unreal. Enron was hanging a huge accounting decision - impacting income statements and balance sheets going back years - on state anti-sodomy laws.

"I believe for accounting purposes, the assessment of whether Dodson is a related party has to rest on a lot more than just the legal status of their relationship," Bauer said.

But there was a more important issue, Bauer said. What about that side letter?

Causey stayed silent for a moment.

"What side letter?" he asked.

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Bauer's bombshell set off a frantic search for the letter. They found it among a pile of records on a side table. Causey read it, blanching.

"I've never seen this before," he mumbled.

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Monday, Nov. 5. The deadline for Enron to file its answer that had been demanded by the S.E.C. But too much had happened. The failure of Chewco had thrown the company's calculations into disarray. Enron pleaded for more time. The S.E.C. gave three days. No more.

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An entirely new accounting team, this time from Deloitte & Touche, swarmed over Enron's financial records. But this time, the accountants weren't working for the company - instead, they had been retained by Wilmer, Cutler, on behalf of the special committee of Enron's board.

By that morning, the Deloitte accountants were digging into multiple issues - including this odd Southampton transaction, which they learned about from Kristina Mordaunt. Since her interview, Mordaunt had provided a road map for the investigators to follow and turned over all of her records. Other details turned up in Enron's own files.

An accountant was reviewing a document when something jumped off the page. He consulted his colleagues, then the Wilmer, Cutler lawyers. They all were agreed. The special committee needed to be notified immediately.

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"A million-dollar return on a \$5,000 investment?" asked Bill Powers, the director in charge of the special committee.

Yes, the Deloitte accountant said.

"Well," Powers replied, "that's not normal."

Deloitte & Touche had figured out everything. The huge return on Southampton, the millions of dollars that flowed to Fastow and Kopper. The millions more that went to Glisan and Mordaunt - two executives who not only were still with the company, but at this moment were supposedly helping to guide it through this crisis.

"We need to arrange a full board meeting," Powers said. "The directors have to be told about this."

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Glisan was at his desk later that day, when David Oxley, an executive from human resources, approached.

"Ben, I'm sorry, but you need to go home," Oxley said.

Glisan had heard about the committee's discovery. Still, he looked bewildered. "Am I fired?" he asked.

Oxley nodded. "Probably."

Mordaunt was thrown out with equal speed. It didn't matter that she came forward, she was told. She never should have invested in the deal. Her Enron career was over.

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DYNEGY had to be told. It was days from presenting a merger deal to its board. Now Enron knew that Glisan, who had provided Dynegy with the information it needed for its multibillion-dollar deal, was a liar. Maybe even a crook.

McMahon, Enron's C.F.O., handled the job of breaking the news to Dynegy's financial team. He went over to the offices of the law firm of Baker Botts, which was advising Dynegy on the deal. Rob Doty, Dynegy's C.F.O., was there, crunching some more numbers with his colleagues.

"I've got to tell you guys something," McMahon said. "We found some other employees who got payments related to LJM. And one of them was Ben Glisan."

Doty sighed. "Every time I talk to one of you guys, you tell me another new revelation. What else are we going to find out?"

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What the hell is all this?

Chuck Watson, the chairman and chief executive of Dynegy, was studying a draft of Enron's 8-K filing that the S.E.C. had demanded. Here he was, in the middle of trying to strike a merger deal with this company, then this. No one had given him a warning. Enron had just shipped over a draft, revealing details it had learned of the partnership debacle.

Watson could only shake his head. A restatement of five years of earnings. The Southampton scandal. A revelation that the company's recent \$1.2 billion equity adjustment was the result of an accounting error.

Watson contacted Lay. "Ken, you told me when we first met there was nothing else. You gave me your personal assurances!"

Lay's voice was calm.

"Chuck," he said. "I'm as surprised as you are."

Watson blustered and fumed, but by the end, the merger was still going forward. Final negotiations were about price. This was an all-stock deal, Dynegy shares for Enron shares. The issue, of course, was the ratio. Lay and Watson hammered out an agreement, based on the relative prices of Enron and Dynegy

shares. It was pretty basic arithmetic.

Soon, some investors apparently got wind of the deal. Enron's share price shot up, rising from about \$7, to the \$9 range. Enron was suddenly more valuable than just hours before.

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Past 8:30 that evening, Lay glanced around the Enron boardroom. The directors had been meeting more than an hour. It was time.

"All right, then," Lay said. "I'm calling for a motion to approve the proposed merger transaction."

John Duncan made the motion. It was approved unanimously. The deal was all but sealed. Or so it appeared.

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That night, Ray Bowen, Enron's new treasurer, signed the necessary documents, writing his name hundreds of times. He was in a conference room in Baker Botts, surrounded by lawyers and financiers.

Past midnight, almost there. Clusters of tired executives and lawyers stood around, ironing out a few minor details. Relief surged through the room. Everyone was giddy from exhaustion; there were some laughs and jokes. They had done it. They had saved Enron.

Jeff Donahue, an Enron managing director, spied Dynegy's draft release announcing the deal. He read it, chuckled and signaled to Keith Fullenweider, Dynegy's deputy general counsel.

"Hey, Keith!" Donahue called out. "You've got a typo in your press release."

Fullenweider stood. "Let me see," he said.

He walked over and read the release. "Jeff, there's no typo."

Donahue smiled. "You missed it!" he said. "Look at the price it says your board approved."

Fullenweider read the words. Enron shareholders will receive 0.2685 Dynegy shares per share of Enron common stock. He shrugged. "So?" he said. "That's the price our board approved."

Donahue's face fell. "Well," he said, "That's not the price our board approved."

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AN uproar engulfed the conference room.

The Dynegy and Enron boards had voted on different merger agreements, and didn't know it. Dynegy had approved an exchange rate of 0.2685 shares for Enron stock, while Enron had approved a higher ratio of 0.2885 - based on the sudden pop that afternoon in the stock price. That translated into a difference of about \$400 million.

Fullenweider grabbed the release and tore through Baker Botts, looking for McMahon and Mark Muller, Enron's chief deal maker. He found them in another conference room and cursed at them for messing up the deal.

Muller was stunned. "What are you talking about?"

"The exchange ratio! It's .2685!"

"No, it's not," Muller said. "It's .2885."

"No, it's not, you idiot!" Fullenweider shouted.

"I've got the board minutes right here!" Muller shouted. "That's what they approved!"

Fullenweider threw up his hands. "Yeah! I know! That's the problem!"

He shook his head in disgust. "They approved the wrong goddamn deal!" he shouted.

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The two sides, battling fatigue, retreated to separate conference rooms to ponder the latest disaster. Bowen meandered in, watching as lawyers and executives scurried in and out. He sat beside Rob Walls, a senior lawyer with Enron. This whole experience was awful, Bowen said.

He shook his head and chuckled.

"But it's just too funny to be true," he said.

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Past 3 o'clock in the morning. The Dynegy team had left in disgust, leaving the Enron executives to clean up the mess.

Muller motioned toward McMahon. "You're the C.F.O.," he said. "You need to call Ken."

"Oh, no," McMahon shot back. "You call Lay at 3 o'clock in the morning and wake him up."

Muller thought for a moment. "All right."

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The Lays were asleep when the phone rang. Linda rolled over in bed and, in the darkness, picked up the receiver.

"Hello?" she mumbled.

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The Enron team was gathered around a speaker phone.

"This is Mark Muller from Enron," he said. "I need to speak to Ken Lay. I'm sorry I woke you up."

A pause. "Can I tell him what it's about?"

"Yeah," Muller said, "You can tell him our merger's all screwed up because of him."

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Linda turned over, and passed the phone to her husband.

"Yes?" he said.

"Ken, this is Mark," Muller said. "We've got a major problem here with the numbers."

Muller spelled out what he knew.

"O.K.," Lay said, "Well, you know, the number Dynegy has is not the one Chuck and I discussed. He got it wrong. Let me call Chuck, and I'll take care of it."

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Minutes later, Watson was on the line from his home.

"Ken," he said, "That ain't the deal."

Somehow, there had been some horrible miscommunication, Watson said. But Dynegey's hands were tied.

"We're not going to change the deal, Ken," he said.

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ENRON caved - again. The deal was taken back to the company's board, which testily agreed to cut the value of the merger. It was all finally announced on Nov. 9.

Three days later, one of Andy Fastow's last remaining financial land mines exploded. In order to get better pricing for the deals, Fastow and his favorites had agreed to terms that allowed banks and investors to demand money or stock from Enron if its share price fell to certain levels or its credit rating dropped - usually below investment grade. But not always. There was one deal where the critical trigger had been placed at BBB-minus, one notch above junk. A rating bestowed on Enron that very week.

The deal, called Rawhide, came to the finance group's attention when Citibank called Bowen to notify him that the company had just hit a trigger. Bowen was flummoxed. He knew Rawhide had been used to raise more than a half a billion dollars a few years back. But what idiot would put an investment grade trigger in a finance deal?

He checked it out and found that Citibank was right. Enron owed all the money it had borrowed through Rawhide. Some \$690 million, due 15 days from the day the trigger was hit. And, until Citibank called, no one at Enron knew the repayment clock was already ticking.

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"That can't be right," McMahon protested, throwing up his hands. "That's just insane!"

Bowen was standing in front of McMahon, having just broken the news of the Rawhide trigger.

"It's right," he said simply.

"Ray, we've never done deals where we allow for debt acceleration in the investment grade category!" he shot back. "Why would someone do that?"

Bowen shrugged. "I have no idea. But we've checked it. That's what they did."

McMahon put a hand over his face. This was too much.

Bowen nodded. "Technically, we're in default."

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Enron was cracking open. It put out its quarterly filing, revealing the Rawhide debacle and the fact that it had burned through more than a billion dollars in cash in just a few days. The quarterly filing had unnerved both the market and the credit rating agencies. Its debt was put under review again, and its shares were the most actively traded on the New York Stock Exchange. That day, Nov. 20, Enron stock fell almost 23 percent, closing at just about \$7 a share.

Even at the lower price, Dynegy was paying too much. The deal had to be renegotiated, one more time.

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Enron's new GT Gulfstream corporate jet took off from Houston early the day after Thanksgiving. The cabin was packed with executives - among them Lay, McMahon, Bowen, and Greg Whalley, Enron's president. The plane was headed up to the Westchester County Airport in New York. From there, the executives would travel by car to meetings at the Doral Arrowwood, an executive conference center and hotel, for the final negotiations with Dynegy and the banks.

Almost everyone on board was an emotional wreck. Whalley alone seemed to have caught his second wind, and was preaching about the great adrenaline rush he felt with skydiving.

Lay was tired of the lecture, tired of Whalley. He turned to face him. "Greg, I've got enough of an adrenaline rush right now. I don't need to add to my list."

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That morning, Jimmy Lee, a vice chairman with [J. P. Morgan Chase](#), squeezed in a round of golf with a few colleagues before they made their way to Arrowwood for the Enron meetings. It was a beautiful day, and the contingent arrived in golf clothes.

"O.K.," Lee said as he took a seat, "Here's where we stand." Best estimate, Lee said, Enron was short about \$3 billion in liquidity. But there was a way to do this. Citibank would kick in a billion, Chase would step up for a billion. Then, another billion from Dynegy, plus a public recommitment to the merger.

"That would take care of everything," Lee said.

Rob Doty from Dynegy answered. "We're committed to this transaction, and we will step up for our third," he said. "But we have concerns that have to be addressed."

Lay listened to the harangue, achingly aware that his counterpart, Chuck Watson, wasn't in the room. In

fact, Watson hadn't bothered to come to the meeting at all. He had left it all in the hands of his lieutenants.

This, Lay knew, was a bad sign.

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That night, Ken Lay and his management team got drunk. Nothing much had been accomplished that day, though the discussions were scheduled to pick up again the next morning. So, desperate for a chance to get a reprieve, the Enron executives had ordered steak dinners at the hotel restaurant, and then downed endless bottles of wine.

"Here," Lay said late in the evening to McMahon. "Let me pour you some more."

Whalley was silent at the table. Repeatedly that day, he had warned the banks and Dynegy that \$3 billion might not be enough to save Enron; if it had to keep prepaying for physical gas, he told them, the company would burn through the new cash before the end of December.

As the night wore on, Bowen grew increasingly uncomfortable. Across from him sat Lay, looking like a broken man. This was Ken Lay - Ken Lay! Mr. Houston! - tranquilizing himself. It struck Bowen as just terribly sad.

"The banks are just stupid," Lay complained. But it would all work out, he promised. The deal would happen. Enron would be saved.

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AFTER days of negotiation, the final merger terms were completed. Enron's management agreed that it would accept a lower price and leave the company. The deal seemed done, and the Enron team headed back to the airport.

Lay took his seat on the corporate jet, looking morose but satisfied. Bowen and Whalley sat in silence. The plane was just getting ready to pull out toward the runway when a radio message came across to the pilot. The engines slowed. The pilot stood, and walked back into the passenger cabin.

"Mr. Lay?" he said. "There's a Mr. Watson who needs to speak to you right away."

The four executives dragged themselves off the plane.

"My God!" McMahon exclaimed. "Will his ego never cease?"

They walked into the terminal, and were directed to a conference room where they connected to Watson by speaker phone. His tone was ponderous.

"I've been talking to my guys over the last number of days, and there are still some problems," he said.

Everyone in the room knew where this was going. Watson was going to knock down the price again, and there was nothing they could do about it. They waited for him to lower the boom.

"And that's why we've decided," Watson said, "that we're not going to pursue this merger."

The room went dead silent.

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It was over.

That week, on Nov. 28, Dynegy's traders stopped doing business with Enron. At 8:30 that morning, a desperate call came to Dynegy from Susan Pererra, an Enron trader.

"You're cutting us off!" she shouted. "Everyone has cut us off! I don't even know why I'm here."

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Two hours later, with the formal notification that the deal was off, McMahon called the ratings agencies to let them know. Standard & Poor's was the first to downgrade the company. Its debt was now rated at junk levels.

Trading in Enron shares was suspended by the New York Stock Exchange. When it resumed, the price plummeted 75 percent, to just above \$1.

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"I'm calling this meeting of the Enron board to order," Lay announced.

It was 8:12 on Dec. 1, a Saturday. Most directors were taking part in the meeting by phone. None had much stomach for what they had to do.

McMahon gave the final presentation on the company's cash position. It ended the week with \$424 million in cash - practically nothing.

"All right," Lay said. "We now have to consider our option here, for Enron to file for bankruptcy. Does

anyone have any thoughts?"

The room was silent for a moment. "Who would've thought this?" one director, Pug Winokur, said. "I just can't believe this is happening."

There was little other discussion. "Do I hear a motion for that recommendation?" Lay asked.

John Duncan spoke up. "So moved," he said.

"All in favor?" Lay asked.

Unanimous. "The motion carries," Lay said.

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On the morning of Dec. 2, lawyers worked for hours on the paperwork before handing it off to their staff to convert to a digital format. In the Houston office of Weil, Gotshal & Manges, Enron's new law firm, the records were provided to Steven Vacek, a paralegal.

Vacek signed on to his computer, calling up the Internet site for the Federal Bankruptcy Court in New York. At 4:28 in the morning, Vacek clicked the submit button, sending the papers to New York.

Enron was officially bankrupt.

By all rights, Lay shouldn't have been stuck with the mess. He had stepped down as chief executive the prior February, handing the reins to Jeffrey Skilling, the brains behind Enron's growth. Then, in August, with almost no warning, Skilling resigned. The bombshell had left Lay with little choice; he headed back to his old post.

But Skilling's departure fanned suspicions that the company harbored terrible secrets. Rapidly, the press had lit into Enron's chief financial officer, Andrew Fastow, criticizing him for holding a second job managing the LJM investment funds, which did deals with Enron. The conflict-of-interest allegations angered Lay; the funds had helped Enron. As far as Lay was concerned, Fastow was getting tarred for his loyalty.

Lay parked near the walkway to the Enron building. He hurried up to the executive suites on the 50th floor, where he saw Rosalee Fleming, his assistant. She mentioned that Fastow needed to see him urgently.

"All right. Let him know I'm here."

Lay slipped off his suit jacket as he walked into his office. He pulled out his chair, but before he could sit, Fastow appeared. "Good morning, Andy," Lay said.

Fastow nodded. "We need to talk, Ken."

"Well, come in. Sit down."

Fastow shuffled in. As Lay took his seat, he glanced at his C.F.O. Fastow showed the strains of the last few days. Usually, everything about him was fresh and tailored. But today, his face sagged, his brow furrowed.

"Last night," Fastow began, "Ben Glisan met with some of the bankers, and they told him that they couldn't proceed with a loan to us so long as I was chief financial officer."

Grim news. Glisan, Enron's young treasurer, was a devotee of Fastow. If he couldn't persuade the bankers to do business with the man, no one could.

"You know, Andy," he said. "Certainly the board and I have been very supportive of you, both publicly and privately. But we've also said that if you ever lost the confidence of the financial community, we would have to rethink the whole thing."

Fastow nodded, his eyes downcast.

ACROSS town, Ray Bowen was standing naked in his upstairs bathroom, checking the shower temperature with his hand. As he began to step inside, the telephone rang. His wife answered the line.

"Hey, Ray!" she called. "It's Jeff!"

This couldn't be good, not at this hour. His boss, Jeff McMahon, head of Enron's industrial market business, would call this early only if there was a problem. Wrapping a towel around his waist, Bowen stepped into a toilet room where he had installed a Panasonic phone system.

"Hey, Jeff. What's up?"

"It's bad, man," McMahon said.

Bowen listened in disbelief as McMahon told the story. Enron had reached the precipice of collapse. The markets for the billions of dollars in day-to-day loans that large companies need - to pay salaries, to meet obligations, to keep the lights on - had shut out Enron.

"How ... how can that be?" Bowen stuttered.

"Don't know, but that's what I'm hearing."

McMahon paused. "I think that's it," he said. "I think they're going to fire Andy today."

No kidding. Fastow had so mismanaged the books that nobody trusted Enron with an overnight loan? Of course he was gone. And if Lay let sentimentality get in the way, Greg Whalley, Enron's new president, would pull the trigger.

"So what's the plan?" Bowen asked.

"I need your help. Whalley wants you and me to come in and help him figure it out. Can you be there by 8?"

Fifty-five minutes later, McMahon was on the fourth floor of Enron's new building when he saw Bowen hurrying toward him.

"What do you think?" McMahon called out.

"We've gotta draw down the revolvers right away," Bowen replied.

The revolvers. The billions of dollars in standing lines of credit that Enron had available from its major banks. That was disaster money, the financial equivalent of a nuclear fallout shelter. And Enron needed it

now.

The two men hustled to the 50th floor, heading to Whalley's new office. Whalley's door was closed and his secretary told the men they needed to wait.

"Greg's meeting with Andy Fastow," she said.

Minutes passed. Finally, Fastow emerged, flashing a nervous smile. Whalley pushed past and took command. "O.K.," he said. "We're meeting upstairs. Go on up, and I'll be there in a few minutes."

The men made their way to a tiny conference room upstairs, crowding around an oblong table. Fifteen minutes later, Whalley blew into the room.

"O.K., let's get going," he said. "Let's start with the organization first."

Whalley shot a look at Fastow, pointing at him.

"Andy," he said rapidly. "As we discussed, you're no longer C.F.O., effective right now."

Fastow's face fell. "Wait ..."

Ignoring Fastow, Whalley swept his arm across the table, pointing at McMahon.

"Jeff, you're now C.F.O."

What was that? McMahon wasn't sure he heard Whalley correctly.

"Excuse me?" McMahon said. "I'm C.F.O.?"

"Yes, you're C.F.O."

McMahon glanced across the table. Fastow was shaking his head, looking shocked. The moment was surreal.

"Wait a minute!" Fastow sputtered. "That was not my understanding of the deal!"

Whalley held up a hand. "Andy," he said, "I don't know the legal stuff. You get with Ken and work it out."

That was it. Whalley turned away from Fastow.

"O.K., Jeff, commercial paper. What should we do?"

"Well," McMahon said. "I think there's a good chance we'll need to draw down the revolvers."

The group tossed around the idea. Fastow shook his head. "Wait a minute," he said. "I really disagree."

Fastow pressed a forefinger against the table.

"You do this," he said forcefully, "and people are going to think there's really something wrong at Enron."

The meeting broke up, and McMahon summoned his new team to a war room across the street. Soon, the dirty secrets of the finance group's years of mismanagement spilled out.

First, McMahon asked for a briefing on the commercial paper market. Tim Despain, an executive in finance, took charge of answering. "We've been seeing the changes over the past number of days," he said. "Last week, we couldn't issue 30-day paper." Within days, Despain said, the market was shunning everything but 24-hour loans to Enron. "Then," he said, "last night, we couldn't sell the overnight paper."

McMahon gaped at the people in the room. "So, you mean to say that over the past week, we've been seeing this train wreck coming, and nobody did anything about it?"

TEN minutes later came another slap in the face.

"We don't have any method for tracking our cash?" McMahon sputtered. "That's impossible! We're a Fortune 50 company! We have to be tracking our cash!"

Bowen leaned in, shaken. "Come on, guys. I mean, how can we manage our finances if we don't track our cash?"

Despain looked back at his new bosses with a stricken expression. "Ray, I've never ... nobody's ever asked us before to focus on it," he stuttered.

McMahon sat back in his seat, lifting his eyes to the ceiling. Oh. My. God. This was Finance 101. Companies needed to track their cash to know when they were experiencing shortfalls, to know when they could pay their bills. If Enron didn't know how much cash it had, it couldn't know how much to draw down on the revolvers!

If the company didn't have a handle on its cash, then this SWAT team needed to look at when the bills were coming due. There was a lot of outstanding debt, and right now, Enron didn't have a lot of new cash available to meet those obligations.

Bowen pointed at Glisan. "Ben," he said. "Go get me the current maturities schedule." That would let him know, day by day, when Enron was expected to repay debt.

Glisan grabbed his chin. "I think I can get somebody to pull that together."

The room went silent. Bowen's mouth dropped. They're not tracking cash - and they're not tracking debt maturities?

"Excuse me, Ben!" Bowen snapped. "Am I wrong, or aren't you the corporate treasurer?"

Glisan bristled. "Yes."

"What do you mean, you think you can get one?" Bowen shot back. "You have to have a maturities schedule!"

But they didn't. With all the focus over the years on deals and earnings, the workaday, boring details had been sloughed off. Enron had been flying blind.

Glisan got on the phone, asking his executives to manually figure out when debts were due. When they reported back, he called out numbers to McMahan, who scribbled them on a white board. Then he added them up.

More than \$30 billion in debt. And the amount that was current, that Enron had to repay in the next 12 months was ...

He totaled the numbers in his head. \$10 billion. And, as best as he could tell, Enron had no means to pay it.

The chaos of Enron's finances had, at long last, been laid out for everyone to see. McMahan and Bowen set a series of emergency groups - one to come up with a way of tracking cash, another to re-examine the debt. At 10:30, Fastow telephoned to speak with McMahan.

"Look," Fastow said. "I just want you to know, if there's anything I can do to help, you know I'm behind you. You know I've always been a big supporter of yours, Jeff."

McMahan felt a wave of disgust.

Fastow kept talking. "I'm sure you're going to be able to solve this crisis, and I'm here if you need anything."

This was a moment for diplomacy. "Thanks, Andy," McMahan replied.

Seconds later, he hung up. He stared at the phone, shaking his head. "Thanks for nothing, Andy," he muttered. "We're in this crisis because of you."

That same afternoon, members of the board were formally considering Fastow's removal. None knew it had already been accomplished with surgical precision by Whalley.

John Duncan, chairman of the executive committee, spoke up. "I need to mention something," he said. "Yesterday, Mickey and I spoke with Andy about Andy's earnings from the LJM vehicles."

The call between Duncan, his fellow director Charles A. LeMaistre (who is known as Mickey) and Fastow had been planned for days. After years of standing by, not knowing how much money Fastow was pulling in from the LJM funds, the directors had finally asked. The number was far higher than anything they had been led to believe, Duncan said. Fastow admitted receiving \$45 million from LJM1 and LJM2. The words were numbing.

Norm Blake, another director, exploded. "That's outrageous!" he shouted. "We've got to terminate him."

Lay spoke. There was no doubt in his mind. Fastow had deceived him all these years.

"I agree with Norm," he said. "My recommendation is that he has to be terminated."

Things couldn't keep going like this. Mark Palmer, Enron's chief spokesman, knew it. The barrage of bad news was killing the company. Palmer consulted a public relations expert, who advised that Enron should launch its own investigation by hiring top-flight lawyers to find out what Fastow had been up to. The expert even suggested a name: Bill McLucas, former head of enforcement at the Securities and Exchange Commission, who was now a partner at Wilmer, Cutler & Pickering.

But when Palmer brought up the idea with executives around the company, nobody was interested. Things were bad enough already; they didn't need another investigation on top of everything else.

From the war room, McMahon telephoned Lay's office. Lay still seemed to believe Enron was just having a problem with bad press. McMahon wanted to let him know the truth.

"Frankly, we're completely illiquid right now," McMahon said. "We are at our lenders' mercy."

The only thing to do, McMahon said, was renegotiate the debt. But just in case, he said, Enron needed to get advice from some bankruptcy and restructuring specialists.

"Is it really that dire?" Lay said softly.

More than \$30 billion in debt, and almost no cash flow?

"Yeah, Ken," McMahon said. "It's really that dire."

That night, the crowds were thin at Kenneally's, an Irish pub 10 minutes from the Enron building. A few regulars were there, tossing back beers and devouring pizza.

After midnight, McMahon walked in, followed by Bowen. Whalley had called McMahon some time before, inviting him to stop by the pub to unwind. Minutes later, Whalley arrived, accompanied by Mark Muller, one of Enron's deal makers. As the beer flowed, the executives wrestled with possibilities.

"Would a merger solve all of this?" Whalley asked.

"Yeah," McMahon replied. "With Exxon."

"Well, who could do a merger?" Bowen asked. "Who'd be willing?" The executives kicked around the idea for a while. Then, Muller jumped in with a brainstorm.

[Dynergy](#). Enron's chief competitor.

The lunch scheduled for Oct. 25 was nothing special. Every few weeks, Steve Bergstrom - Dynergy's president - got together with Stan Horton, a pal who headed Enron's pipeline group. But that morning, Horton left a message asking if Whalley and Mark Frevert, Enron's vice chairman, could join them.

Bergstrom was intrigued. He had been pushing Enron to combine its European operations with Dynergy's. Maybe, he thought, that idea had gained appeal.

He phoned back Horton. "Listen, it'll be fine if Whalley and Frevert come along," he said. "Maybe I should arrange for us to meet in a private room?"

Horton was way ahead of him. "I've already got one booked," he said. "At the Plaza Club."

Already booked? Now Bergstrom was certain. Enron wanted to combine European operations. This was great.

A bouquet of flowers had been placed in a vase at the entryway of the Plaza Club. Whalley - accompanied by Frevert and Horton - stepped briskly past the display and were escorted to their reserved room. The executives chatted with Bergstrom awhile about their European trading operations. But then the conversation took an abrupt turn.

"Truthfully, Steve, we're not here today to talk to you about Europe," Whalley said. "We want to talk to you about a combination of the entire company."

Bergstrom stared at Whalley in shock.

Over an hour, the two sides covered a lot of ground. Then, Bergstrom interrupted the discussions.

They had to hear from Lay, he said. Chuck Watson, Dynegy's chief executive, would not even consider a merger unless Lay told him this was what Enron wanted. And if so, maybe they could get it done.

Not a problem, Whalley said. Lay would make the call.

THAT day, Enron announced its plans to draw down \$3 billion from its bank credit lines. In the Los Angeles bureau of The Wall Street Journal, two reporters, John Emshwiller and Rebecca Smith, began cobbling together an article about the drawdown. Perhaps, they decided, this was the time to mention Chewco, the off-books partnership they had discovered in some documents a few weeks before.

While writing that section of the story, Emshwiller telephoned Palmer to ask if Enron had any comment about Chewco.

"Never heard of it," Palmer replied.

Emshwiller explained that the documents he had read showed Chewco had done business with Enron and had been run by a company executive named Michael Kopper. Palmer promised to get some answers.

Within minutes, Palmer tracked down Greg Whalley in his office. He walked in.

"Hey Greg," Palmer said. "Have you heard of Chewco?"

Whalley stopped everything. His public relations guy was asking about Chewco. That meant somebody in the press was asking Palmer.

"Oh," Whalley said. "That's not good."

Chuck Watson from Dynegy was driving home in his Mercedes when the car phone rang. He tapped the button on the speakerphone.

"Chuck, it's Ken Lay."

Watson greeted Lay. Apparently, what he had been hearing from Bergstrom about a possible merger with Enron might be true. They needed to meet, Lay said, just to see what they might put together. He suggested getting together Saturday morning at his home in the Huntingdon. Watson promised to be there.

THE news on Chewco was horrible. The biggest problem, Palmer realized, was either people at Enron didn't know it existed, or simply didn't want to talk about it.

As the details eked out - Kopper, a friend of Fastow's in the finance division, ran the thing; Kopper's gay lover was the chief investor; Enron had repurchased it for a price that gave Kopper a \$10 million profit; McMahon had fought to block the deal - Palmer recognized Chewco as the final nail in Enron's coffin, proof that the company had been out of control for years.

Palmer spoke to his boss, Steve Kean, Lay's chief of staff. "Get Ken down here, get Whalley down here, get McMahon!" Palmer barked. "We've got to go through this!"

Minutes later, Palmer was on the phone when someone let him know the senior management was waiting for him in a conference room down the hall, ready to discuss Chewco.

He hung up and headed down the hall.

Waiting inside the doorway of the conference room, Whalley saw Palmer dashing toward him. How bad was it this time? He darted over to his public relations chief.

"What do they know?" he asked hurriedly.

Palmer looked at Whalley and said nothing. Whalley noticed Palmer's eyes were watering. Palmer's mouth filled with saliva as a wave of nausea washed over him. He was about to vomit, right in front of Whalley.

He turned, dashing into the men's room. He ran to the farthest sink. His stomach heaved, and he spit out the saliva flooding his mouth. The nausea passed, and he threw some water on his face. Whalley pushed into the bathroom and put an arm around Palmer's shoulder.

"Hey, come on," Whalley said. "Come sit down."

He took Palmer into a room and sat him at a table. Palmer wiped his face. "Greg!" he snapped. "I want out!"

Whalley looked at Palmer with surprise. "You want out why? We're going to be O.K. We'll get through this."

Palmer shook his head. "No, we won't Greg! The Journal knows a lot more about what's going on around here than I know, a lot more than Ken and the rest of you."

Well, there was a problem, Whalley said. Most of Enron's executives had lawyered up - they were now

all worrying about their personal liability. There weren't going to be a lot of straight answers coming out of anyone.

He pointed at Palmer. "But we're not giving anybody any outs here," he said. "Nobody's getting a severance package. Nobody."

Palmer closed his eyes. He couldn't afford to walk away without a severance package. "All right," he said. "Let's go back to the conference room."

Palmer wandered into the conference room, escorted by Whalley. He sat down on the floor in the back, covering his face with his hands.

Ken Lay came in and soon was listening to a briefing on Chewco delivered by Kean. McMahon mentioned the Chewco buyout that had given the partnership such big profits. Kean picked it up again from there.

"Now, one issue here is that the equity holder in Chewco is Michael Kopper's partner," he said.

Lay looked confused. "His partner? What, we have another partnership in this?" he asked.

"Uh, no, Ken ..."

"So what is he, a business partner?"

Several executives shifted uncomfortably. McMahon broke in. "No, Ken. It's his lover. Michael's gay lover."

The room was silent for a moment. Lay glanced at the faces around the table, and blinked.

"He's got a gay lover?" Lay shouted.

He waved his arms into the air. "What is going on here?" he screamed.

From the back of the room, there was a sharp pounding. Everyone turned to look. Palmer was slapping the floor, hard enough to hurt himself. He looked up at Lay.

"I'll tell you what's going on, Ken!" he shouted. "The Wall Street Journal knows more about what's going on at your company than you do!"

He slapped the floor again, punctuating each word.

"This ... has ... to ... stop!" he shouted. "We have got to hire someone, someone who can do an investigation!"

The explosion of anger silenced the room.

Lay looked down at the table, then back at Palmer.

"We're going to find out what's been going on," he said simply.

Twenty minutes later, Palmer was at his desk when the phone rang. He saw from caller ID that it was Jim Derrick, Enron's general counsel.

"Mark, do you have a number for Bill ..."

He stumbled on the last name.

"Bill McLucas?" Palmer asked. The former head of S.E.C. enforcement. The lawyer recommended to conduct an internal investigation.

"Yes, Bill McLucas. Who is he with?"

"Wilmer, Cutler," Palmer said. "I'll get a number."

The negotiations the next morning between Lay and Watson of Dynegy had all the give-and-take of a bank robbery. Knowing that Enron was on the ropes, Watson pushed for every advantage. He would pay no premium over Enron's market price. He didn't want its managers - or most of its international assets. And, despite Lay's protests, the merged company would be named Dynegy.

The name of Enron would disappear from the corporate landscape.

THAT same night in Miami Beach, a jazz guitarist eased into a sensual blues solo on the small stage at the Jazid club. The crowd in the woody, intimate bar swayed to the rhythm of each soulful riff.

On one side of the room, Jeff Skilling sat at a crowded table, downing a glass of white wine. None of the revelers spoke to him; none seemed to recognize him as someone who, weeks before, had been C.E.O. of Enron. And none realized that, on this night, he was approaching a nervous breakdown.

There's no way out of this.

Skilling ran it through his mind. Enron, his company - for years, his life - was imploding. Capital was evaporating. Confidence was shattered. His baby was dying.

He wiped a hand up his cheek, smearing a tear. Fatigue shadowed his red-rimmed eyes. He picked up his glass, then glanced at a passing waitress.

"One more," he told her. "Pinot grigio."

Rebecca Carter, Skilling's fiancée, sat next to him with a growing sense of alarm. She had never seen him drink this much. What was it now? Eight glasses? Ten? She reached out and touched his shoulder.

"Jeff, can we please just leave?"

"No." He didn't even look at her.

"Jeff ... "

"No." Skilling was stone-faced, unflinching.

The wine kept coming, as many as 15 glasses. Hours passed, as Skilling veered between despondency and fury. Finally, he'd had enough.

"Let's get out of here," he said suddenly.

Skilling stumbled out to the street and Carter wrapped an arm around him. The couple brushed past crowds as they staggered down Washington Street toward their hotel. With each tormented step, Skilling fell deeper into incoherence.

"It's going down," he mumbled rapidly. "It's going down."

Carter tugged at his arm to keep him moving, astonished. "Jeff, come on. You're talking about Enron."

"It's all going down." The words trailed off.

For 10 minutes they lurched along, until the elegant Delano Hotel loomed ahead. Carter maneuvered her fiancé up the terrazzo steps and into the hotel's high-ceilinged lobby.

"Come on," she said. "Let's just go to bed."

Skilling jerked away from her and stumbled across the lobby. He collapsed on a sofa before motioning for a waitress to bring him a drink. Carter sat next to him, closing her eyes as he downed another glass of wine. Finally, she gave in to her fury.

"Jeff!" she said, standing up. "You're not going to kill yourself tonight! We are going upstairs."

Chastened, Skilling followed Carter meekly to the elevators. But his mind was churning. He had no control anymore. He was giving up.

Carter dragged him into their room, and Skilling fell onto the bed, sobbing. Carter brought her hands to her head. What is going on?

"Jeff, what's happening? You're scaring me."

She sat beside him, stroking his back, murmuring reassurances Skilling didn't want to hear. Minutes ticked by, until finally he crushed the pillow.

"It's not going to be O.K.!" he shouted. "It's all going down!"

He sat up, pushing Carter back as he moved.

"Everything I worked for my whole life is gone, just destroyed!"

Skilling shook his head, tears streaming down his face. The enormity of it all suddenly crashed down on him.

"You don't understand what's going to happen!" he cried. "I'll never be able to show my face in Houston again! I mean, just the impact on all the people. Everything I've worked for is cratering!"

It's too late. His world was gone, he would be a pariah. Everyone close to him would be caught in the wreckage. Rebecca. He couldn't marry her. He couldn't.

Skilling pulled away. He was wide awake now, wild-eyed and breathing rapidly.

"Rebecca, you need to go," he said.

"Jeff ... " Carter said, reaching for him again.

Skilling recoiled. "Get away from me!"

Carter stood, astonished. "What?"

"Get out of here! Get away from me!"

Hesitation. Carter shuddered, then silently turned to leave. The door clicked closed behind her. Skilling

stayed motionless for a moment, then crumpled into the bed.

"Oh, God!" he wailed, crushing a pillow to his face.

Two days later, the trading room in the new Enron building was a swarm of activity. McMahon was in an office, on the phone with Enron's bankers, discussing plans to draw down the lines of credit. Nearby, Glisan was helping coordinate plans on where to put all the cash when it arrived. Whalley was supervising the chaos.

Kean, Lay's chief of staff, approached Whalley. "Greg, I need to talk to you," he said.

Whalley waved him away.

"No, Greg," Kean said. "I need to talk to you now."

Whalley studied Kean. "O.K.," he said. He followed Kean into a private office, then shut the door.

"O.K.," Kean said, "You need to go get on the phone with the special agent in charge of the F.B.I.'s Houston office, because we've been contacted by both the F.B.I. and the Houston police."

Whalley laughed. "Steve, tell them I'll turn myself in at 5:00. I just don't have the time right now."

"No, you don't understand," Kean protested. "It seems last night a woman turned herself in to the F.B.I."

The woman, Kean said, was a drug addict. She claimed that she and her boyfriend had found a duffle bag and took it to a crack house. She told the F.B.I. that inside the bag she had found foreign passports, plane tickets to Nairobi, weapons and ammunition. And a piece of paper referring to the Enron building and Oct. 26.

What? Sept. 11 was just weeks earlier. Now there was a terrorist threat - against Enron? For tomorrow? They had \$3 billion in loans coming in, the company was teetering toward collapse, and now they might get attacked?

"You've got to be kidding me!" Whalley said.

At that moment, McMahon wandered in. "Hey, Jeff," Whalley called. "You've got to listen to this. I'm hearing the building's blowing up tomorrow."

McMahon didn't flinch. "You don't understand," he said flatly. "The building's blowing up today."

"So what's the situation?" Whalley asked. "Are we open for business tomorrow or not?"

He was on the phone with the F.B.I. Agents had just completed a search of the crack house and found the duffle bag. There were some plane tickets inside, some bullets, but no weapons. And no reference to the Enron building.

Whalley sighed. "So we're coming to work tomorrow?"

THE thankless job had been handed to Glisan. Find out about Chewco, dig through the documents, brief the board. He met with executives to discuss the deal, including Rodney Faldyn, head of accounting transactional support. The more Faldyn heard, the more uncomfortable he felt. It didn't sound like the accounting should work. He went to see Rick Causey, Enron's chief accounting officer.

"Rick, I think we've got a serious problem with Chewco," he said.

Soon after, Tom Bauer, a partner at Arthur Andersen, Enron's accounting firm, received a phone call from Enron's accounting group.

"I need to ask," Faldyn said, "about the requirements for the 3 percent equity standard, what it takes for a special purpose entity to be considered valid."

Again? Bauer had explained this concept to Enron repeatedly - and it just wasn't hard! For an off-books partnership to be valid, 3 percent of its capital had to come from an investor independent of the company. Simple. But, year after year, Enron just tortured this rule. What about this? What about that? It was tiresome.

"What's the issue?" Bauer asked.

"Does the 3 percent have to be exclusive or any related party equity?" Faldyn asked.

It wouldn't be independent equity if it was from a related party, Bauer said. His words were greeted with silence.

"Well," Faldyn finally said, "Based on some new information, Chewco might not meet the standard."

It couldn't be true, Bauer thought.

Chewco had been used to buy out the 50 percent interest of California's state retirement fund in the collection of energy assets known as the JEDI partnership. The rest of JEDI was owned by Enron. The partnership held good properties. There was no shortage of investors who would have wanted a piece of it.

And the consequences of a mistake on Chewco could be devastating. If the 3 percent wasn't there, then

Chewco was Enron. That would knock over the next domino. If Chewco was Enron, it couldn't be half owner in JEDI. So JEDI was Enron, too. None of them were off-books. All of JEDI's revenue and income would have been Enron's. All of the company's numbers would have been wrong, dating back to the day Chewco was formed. Back to 1997.

It couldn't be true.

The Enron board met that afternoon at 12:10, joined by a stern-looking, mustached man. If not for his expensive suit, the man might have been mistaken for an Irish cop.

Lay gestured toward their guest.

"Joining us today is Mr. Bill McLucas from Wilmer, Cutler & Pickering," he said. McLucas was in Houston at Enron's request, Lay said, to help on the current crisis.

"So, Bill, we would be very interested in your thoughts regarding a legal strategy," Lay said.

McLucas stood. He summarized the events of the past few weeks, describing the challenges Enron faced. "It is critical that Enron both establish credibility with the S.E.C. and create confidence in the marketplace," he said.

The way to accomplish that, McLucas said, was to form a special committee of independent directors, who would work with lawyers and accountants to review the related-party deals.

The directors warmed to the idea.

Rick Causey just stared at Ben Glisan.

"You have got to be kidding me!" he said.

All day, Causey had been going back and forth with Glisan, Faldyn and a few others about Chewco. At each step, with each new disclosure, the story got worse.

The Chewco paperwork was a shambles. No one seemed to have a complete set of records; documents were filed haphazardly all over the place. Even so, the fragments that had been assembled painted a gruesome picture.

It appeared Kopper may have invested in Chewco, but it wasn't clear yet how much. And Bill Dodson, Kopper's lover ... how did the accounting rules view homosexuality? If Dodson was Kopper's wife, they both would have been considered related parties to Enron. That would obliterate the 3 percent outside equity.

Was it possible there was no outside equity in Chewco?