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## Lay Blames Fastow, Short Sellers, for Enron Collapse (Update3)

April 24 (Bloomberg) -- Former Enron Corp. Chairman Kenneth Lay denied committing the fraud that destroyed his company, blaming a thieving subordinate, short sellers and journalists.

Lay took the witness stand today in his own defense as his federal fraud trial entered its 13th week in Houston. The 64-year-old Enron founder testified his biggest mistake was hiring former Chief Financial Officer Andrew Fastow, who pleaded guilty to fraud charges and faces 10 years in prison.

"It was what Andy did and hid and what the Wall Street Journal with the help of short sellers wrote that kicked off a run on the bank that we just couldn't stop," Lay said. "I accept full responsibility for everything that happened at Enron. Having said that, I can't take responsibility for illegal acts that I had no knowledge of."

Lay and former Chief Executive Officer Jeffrey Skilling, 52, are accused of conspiring to defraud investors in Enron, once the seventh-largest U.S. company by sales. Skilling also is accused of insider trading; both face 25 years in prison.

"This is the performance of his life," said Brian Wice, a Houston lawyer, referring to Lay. "If he does not hit his mark on the first take and get the jury to look past what they saw in the first half of the trial, he is going to spend the rest of his life as a ward of the federal government."

Liar and Thief

Lay called Fastow, 44, accused of stealing \$25 million from Enron through off-the-books entities, a liar and a thief.

"I think it all begins with the deceit of Andy Fastow and probably not more than one or two other people," Lay testified. "A person at the very heart of our organization, the chief financial officer, was basically stealing from the company. And stealing before there ever became something called LJM or Raptors."

Lay also said stock traders who bet on the decline of a security, known as short sellers, conspired to bring down Enron.

In January 2001 short sellers got together in a "bears in hibernation meeting" to decide what company they would target for the year, Lay said. "And Enron was the target."

Finally, he said Enron was targeted by two Wall Street Journal reporters who were being fed documents about Fastow's activities and decided to go after Enron. He didn't name the reporters. Two Journal reporters covering Enron at the time were Rebecca Smith and John Emshwiller.

Spokeswoman Jennifer Dauble of Dow Jones & Co., owner of the Wall Street Journal, didn't have an immediate comment.

These three elements combined with a declining economy, the terrorist attacks of Sept. 11, 2001, and the bursting of the technology-stock bubble, caused Enron's collapse, Lay said. He said he achieved the American dream in reaching the top of Enron.

## Nightmare

"I also experienced the American nightmare," he said, gesturing at his seat in the witness box.

Lay spent much of his first morning on the stand answering the charges against him and laying the groundwork for a main theme of his defense: That he relied on outside accountants and lawyers to assure that the company's activities were legal.

Lay is primarily charged with lying to investors about Enron's financial health during the three months before it plunged into bankruptcy in December 2001. Defense attorney Mac Secret asked whether any of the statements he made to analysts and employees was ever "intentionally false."

"Absolutely not," Lay replied. "I still believe, based on the information we had at the time, that all those were accurate."

## Not an Accountant

Lay stressed that he's not an accountant and that the company's outside auditor, Arthur Andersen's office in Houston, decided how to record transactions along with former Chief Accounting Officer Rick Causey. Causey, 46, was set to be tried with Lay and Skilling before he pleaded guilty to one count of securities fraud.

If a matter was new or unusual, "that would usually then be sent on up to the Chicago office, the headquarters of Arthur Andersen, and would be taken up by some of their gurus there," Lay said.

In 2002, Arthur Andersen was convicted of obstructing an investigation into Enron's collapse, a verdict that was overturned by the U.S. Supreme Court last year.

Lay also testified about reliance on Enron's main law firm, Houston-based Vinson & Elkins, and its own lawyers. At one point, Lay said, Enron had about 250 lawyers on staff, making its in-house department one of the biggest law firms in Houston.

Lay told jurors that his management philosophy emphasized giving people room to do their jobs.

## Spread Wings

"I let them spread their wings and see what they could do," he said. "I'm more of a delegator with a decentralized approach to the business. But I never hesitate to jump in if I see something wrong or hear concerns or complaints."

Lay testified that he was "devastated" when Enron filed for bankruptcy because so many investors and employees lost so much money.

`` There was absolutely nothing in my life that even comes close to the same level of pain or the same enduring pain that that has caused," except for losing a loved one, he told jurors.

Enron's market value reached \$68 billion before its bankruptcy wiped out thousands of jobs and at least \$1 billion in retirement funds. Investors suing over the company's collapse claim accounting fraud led to at least \$25 billion in losses.

## Ramsey Out

Lay is testifying without the guidance of his lead lawyer, Michael Ramsey, a noted Houston criminal defense attorney. Ramsey, 66, had heart surgery on March 24 to clear a blocked artery and has not been available to represent Lay. Secrest, a Houston criminal appellate specialist, is conducting Lay's direct examination.

The Justice Department's Enron Task Force has secured guilty pleas from 16 Enron executives. The government alleges that Lay and Skilling used off-the-books entities created by Fastow and known under such names as Raptors or LJM to hide Enron losses from auditors and investors.

Today, Lay said he should have followed his belief that chief executives should leave the company altogether when they step down rather than stay on as chairman, as he did at Enron.

`` I should have left the company," he said. `` That was my plan and my intent, but the board and Mr. Skilling talked me out of that. I suspect that if I'd done that I wouldn't be sitting here right now."

The case is U.S. v. Skilling, 04-cr-25, U.S. District Court, Southern District of Texas (Houston).

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