# Ken Lay
# 1942–



## Former chief executive officer and chairman, Enron Corporation

Nationality: American.

Born: April 15, 1942, in Tyrone, Missouri.

Education: University of Missouri, BA, 1964; MA, 1965; University of Houston, PhD, 1970

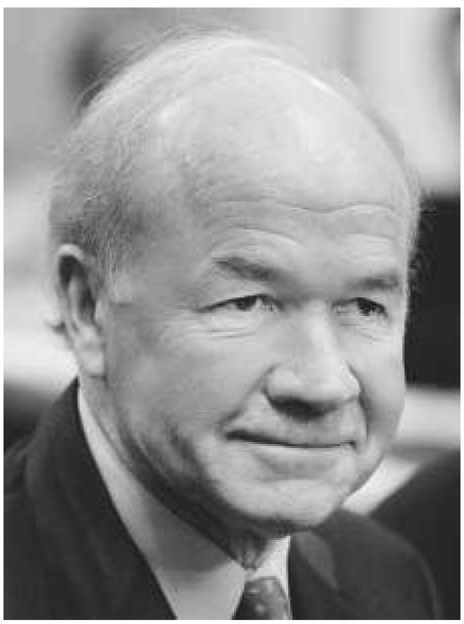
Family: Son of Omer Lay (a store owner, salesman, and lay minister) and Ruth Reese (a fa
Ayers, 1966 (divorced 1982); married Linda Ann Herrold (a legal secretary), 1982; childre

Career: Humble Oil, 1965–1968, economist and speech writer; U.S. Navy, 1968–1969, su
University, 1969–1973, lecturer and assistant professor; Federal Power Commission, 1971
U.S. Department of the Interior, 1972–1974, deputy undersecretary for energy; Florida Ga
president; 1976–1979, president; The Continental Group, 1979–1981, executive vice presi

1981–1984, president and COO; Houston Natural Gas Corporation, 1984–1985, CEO and –1986, chairman and CEO; Enron, 1986–2002, chairman and CEO; 1997, president.

Awards: Leadership Award, Private Sector Council, 1997; Business Hall of Fame, Texas, 1' Alger Association of Distinguished Americans, 1998.

■ Kenneth L. Lay's life began in poverty, but his stature rose so high that he once turned c George Bush's cabinet because he deemed the position of Secretary of Commerce to be be became a role model for chief executives, and his opinions on the future world economy a sought. Although his achievements were envied by many, he was such a nice man that few he fell from admired leader to despised failure: he looted billions of dollars for the sake of indulgence,



Ken Lay.
AP/Wide World Photos

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bringing about catastrophe for tens of thousands of victims and misery for millions more.

## FROM RAGS

Ken Lay's parents owned a feed store that went out of business; the Lays eventually move until he was 11 years old did Kenneth Lay live in a house with indoor plumbing. His childh responsibilities, as he had to work driving tractors and plowing fields, during which time becoming rich in commerce.

A good student, Lay earned a scholarship to the University of Missouri, but since all his ex took out loans and worked painting houses. A basic economics class taught by Pinkney W he decided to major in the subject. Walker persuaded Lay to stay in school to earn a maste his chances for advancement in business.

After graduation, for a couple of years Lay worked for Humble Oil, which would soon bec -time courses to work on his doctorate. In 1968 he enlisted in the Navy; Walker used his c Washington, D.C., where he worked on navy procurement. He found work teaching night University after his enlistment expired, and he finished earning his PhD. During this peri sweetheart Judith Diane Ayers and had two children, Mark in 1968 and Elizabeth in 1971.

## GOVERNMENT WORK

In 1971 Walker was appointed to the Federal Power Commission, and he made Lay his chi many people, resulting in his being appointed deputy undersecretary for energy in Octobe of the Interior Rogers Morton. In a time of power outages and oil embargoes there was m the energy crises of the 1970s as opportunities for business and thus applied for a job at F chief executive officer W. J. Bowen hired Lay as vice president in charge of corporate plan

## BUILDING A BUSINESS CAREER

Lay quickly rose to corporate president in 1976. In 1979 he moved on to a bigger company Continental Group. In 1980 he asked his wife for a separation; he was having an affair wit Herrold. The divorce was a bitter one, with custody of the children hotly contested and Ju breakdown that required hospitalization. But Lay's winning personality made people love few years after 1982—when the divorce became final and Lay married his lover—Judith a and his new wife for Christmases in Aspen.

By 1980 Lay seemed to have all he wanted. He was paid almost $400,000 per year; he ow afford most of life's luxuries; but he was obsessed with earning ever more money and buy went to Houston Natural Gas (HNG) in 1984, he helped engineer the acquisition of his fo expanding HNG's pipelines through much of the southeastern United States. It was in 198 seized his biggest opportunity.

In Omaha, Nebraska, Samuel F. Segnar, the CEO of the pipeline company InterNorth, an distressed by the venture capitalist Irwin Jacobs, who had bought about one-third of thei that Jacobs would take over the company. Thus, they looked for a way to turn InterNorth

HNG a friendly, folksy CEO who was willing to cut a deal: InterNorth would purchase Ho money that the newly merged company would have $5 billion in outstanding debt.

Segnar and his co-workers made an astonishing blunder, however: as part of their agreem they gave former HNG officers more seats on the new board of directors than were given t new company, dubbed HNG/InterNorth, bought out Jacobs's shares for $357 million, of w from employees' retirement funds. In November 1985 the new company's board of directo CEO. The entire turn of events became ironic when Jacobs said that he had never intende just invested in what he regarded as a growth stock.

HNG/InterNorth was then paying over $50 million per month on its outstanding debt, wl company's equity. In 1986 Lay began selling some of the company's holdings, including it which garnered $634 million. In 1986 Lay was given $731,000 in cash compensation, mal paid executives.

## ENRON

In 1986, after senior executives debated new name possibilities, HNG/InterNorth became avenue to greater wealth: deregulation of the natural-gas industry. He used his Washingto make political donations in order to influence Congress to make natural gas an unregulate

In January 1987 a bank contacted Enron, warning that the division in charge of managing had opened an account with a suspicious amount of activity. Oddly, Lay seemed unconcer the account, Louis Borget and Thomas Mastroeni, were given a clean bill of ethical health fact, Borget and Mastroeni were running a scam to make profits look bigger than they act dummy corporations, enriching themselves in the process through their mysterious accou $150 million as a result of the scam. Although Lay had brought Enron's indebtedness dow addition to a precipitous decline in the value of Enron's shares put the company in danger payroll. Yet, New York banks bailed Enron out with new loans. In 1990 Borget and Mastro fraud.

In 1989, as natural gas was deregulated, Lay created the Gas Bank. The idea was to form a consumer. Natural gas had been subject to large increases and drops in prices, and produ term contracts for fear that they would miss out on the next big upward spike in prices. Tl guarantee consumers long-term supplies at set rates while stockpiling reserves of natural

the Gas Bank never made much of a profit, as producers were suspicious of its potential fc
stage for Enron's worst years.

In 1990 Lay was given $1.5 million in cash compensation along with millions of shares of
important Houston civic leader by investing in charities. It was in that year that he hired .
of employment, Skilling insisted that any project he worked on use mark-to-marking acco
profit a deal was expected to make would be counted when the deal was first closed, not w
As such, while deals might take several years to actually earn money, their projected profi
against Enron's bottom line—showing profits where they had yet to be made.

In 1991 President Bush offered Lay the cabinet position of Secretary of Commerce, but W
was not important enough for someone of his stature; Lay declined. Meanwhile, Enron's c
Fastow found a new use for the Gas Bank: he created Cactus, the first of what would even
companies created by Enron. Enron would make phony deals with the Gas Bank and assu
independent company, any debts the Gas Bank incurred. By keeping Cactus off the books,
would be hidden.

Thanks to Cactus and other dummy companies created by Fastow, none of Enron's earnir
to unsuspecting observers Enron seemed to do very well. In 1993 Enron reported $387 m
totaled $453 million; in 1995, they totaled $520 million. These gains drew investors, and
May 1995 James Alexander, an executive in Enron's Global Power & Pipelines division, w
accounting of the division's finances. Lay seemed not to have acted on the warning.

Enron's corporate culture changed radically during the mid 1990s. Lay was an affable, rel
a club of old friends; with the arrival of Skilling the corporate climate became cutthroat. E
dependent on the closing of deals—any kind of deals—and employees stopped working to
for the rights to each deal made. Furthermore, the chief operating officer Skilling adopted
firing the employees rated in the bottom 20 percent at the company; ratings were based p
closed.

In 1996 Skilling turned his attention to electricity, and Lay pushed for electricity deregula
but Enron invested millions of dollars promoting the idea, winning its biggest victory in C
electricity and natural gas to the whims of the marketplace. Lay argued that electricity pri
greedy public utilities and regulators who represented the utilities more than they did the

In 1997 Lay served briefly as president of Enron after the previous president left for bette for the use of natural gas for generating power, noting that it was cleaner and cheaper tha broke down corporate divisions into small units dedicated to finding and making deals qu entrepreneurial spirit in the company. He seemed unaware of how profoundly cutthroat c had become.

Lay and Skilling decided that Enron's core business should be energy trading and that ass pipelines were of secondary importance. That year, *Fortune* magazine named Enron the r America. On November 5, 1997, Enron's board approved the creation of Chewco, an off-tl by Fastow. Chewco hid $2.6 billion in debt while inflating profits by $405 million.

In 1998 Lay helped set up a subsidiary of Enron named Azurix, which was created for his traded in water the way Enron traded in energy and fuels, and Mark lived as Lay did. Enr and his family wherever they wanted to go; he owned over 20 houses and estates in Texas lavishly decorated with antiques by his wife. Mark, too, tried to live large, but Azurix was her the way Enron had; thus, she drove Azurix into debt that was hidden by a dummy cor would try to create a trading market for broadband, which seemed like the next big comm effort because there was insufficient demand for broadband services.

One of Enron's weirdest moments occurred in 1998 when Lay and other corporate bigwig the trading floor of the Enron Energy Services divisions, which was abuzz with employees It was impressive; it was also fake. The floor had previously been vacant and had been fill though they were doing something simply to impress the visitors. This episode suggested duplicitous practices.

In 1999 Lay received a salary of $1.3 million and a bonus of $3.9 million, plus a $1.2 milli stock price, which would peak at $90 per share. These numbers did not tell the whole sto collapse showed that Lay was compensated over $200 million for the years 1999 through numerous services paid for by Enron, from vacations to meals. In June 1999 Enron's boa serve as manager for Enron's dummy companies even while he continued to serve as Enr meant that he could pay himself with fake deals between Enron and his fake companies. T companies were the Raptors, which bought and sold Enron stock, inflating the stock price about $700 million.

In 2000 California learned what Enron had wanted from a deregulated marketplace. For would insist that the catastrophe was California's fault and that Enron had done nothing had deregulated stupidly instead of intelligently. Government investigators discovered tha traded natural gas and electricity among themselves, with each trade increasing the price, to California for several times their actual market value. This practice bankrupted busines homeless, and devastated lives; Enron claimed earnings of $101 billion for the year.

In January 2001 Enron stock was valued at $80 per share. In February Skilling replaced I chairman of the board. In May the vice chairman of the board J. Clifford Baxter warned L found accounting irregularities; his warnings were not acted upon. In August Skilling resi personal reasons; accounts of his behavior suggest that he had a nervous breakdown and more time with his family, having missed his children's growing up while giving his life to Lay was reap-pointed CEO by the board of directors.

On August 15, 2001, the Enron accountant Sherron Watkins gave Lay a memo detailing th hoping he would fix the problems. He promised to protect her and actually did when Fast fire her. Even so, Watkins feared for her life and consulted Enron's security department fo of his own; he skipped a scheduled speech in Los Angeles because California's senate had that he might have been arrested. Lay's son Mark had a three-year, million-dollar contrac to attend a Baptist seminary. Lay was selling his stock rapidly, perhaps to feed his appetit Enron's impending doom; but in September 2001 he urged employees to buy more Enron and friends to do so. In October he admitted publicly that Enron was "missing" $1.2 billio

On October 30, 2001, Watkins again warned Lay about malfeasance in Enron's finances, a responsible. Instead, on October 31 he created an investigative committee from the board committee would deliver a scathing report on Enron's disastrous financial schemes, but b had become public. On December 2, 2001, Enron declared bankruptcy. Ranked seventh o billion company could not pay its bills and was over $30 billion in debt, $17 billion of whi partnerships. Enron's investors lost $67 billion. All of the company's 21,000 employees w which were invested in Enron stock; in addition, most lost their life savings, which had als

After trying to hang on during the crisis, Lay found he had no support among his employe resigned as CEO and chairman of the board, briefly remaining as a board member until he down his $60 million in severance pay after much hue and cry about the possibility of his historic disaster. On January 28 Lay's wife Linda appeared on the *Today* talk show, decla were broke and that her husband had not known about the crimes of his subordinates. Th homes and estates up for sale, though he kept his $8 million high-rise condominium in H chairman Baxter was found dead from a gunshot wound to the head in his locked automo although the circumstances were suspicious and traces of Baxter's blood found outside th

In February 2002 Watkins told a Congressional committee that Lay had been duped by F participated in the duplicitous bookkeeping. Linda Lay opened a shop in a building she ov Houston; she called it Jus' Stuff and sold the furnishings and knickknacks with which she An Enron employee remarked that the store was filled with just stuff bought with stolen n $0.26 per share.

Although some businessmen despised him, Lay remained a member of Houston's social e what he had to say. After all, he had saved the Houston Astros from leaving by leading the stadium, and he had helped charities such as the YMCA and various museums—though th removed Enron from its name because it had never received promised money. In Novemb start up EnviroFuels LP, a business selling a lubricant that made internal combustion eng

In July 2004 Lay was indicted by a federal grand jury on 11 counts including wire fraud, s statements to banks.

*See also* entry on Enron Corporation in *International Directory of Company Histories* .

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—Kirk H. Beetz

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