



Experts See Ripple Effects of Enron Verdict

By Susan Harrigan

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The guilty verdict against Kenneth Lay and Jeffrey Skilling is critically important, even though Enron's collapse already has changed how business is done in America, experts said Thursday.

Before the jury returned to the courtroom in Houston, a number of executives at other companies had been sentenced to jail in connection with a wave of corporate scandals that followed Enron's demise. And a new law, the Sarbanes-Oxley Act, was passed to toughen companies' auditing and make their managers more accountable to shareholders.

Nonetheless, if the U.S. government had lost the case against Lay and Skilling, "it would had been a disaster," said Alan R. Bromberg, a securities law professor at Southern Methodist University in Dallas.

The Enron debacle, which imperiled investor faith in U.S. corporations and the markets, forced the government to "really lay its anti-fraud (commitment) on the line," Bromberg said. "The whole thrust (by the government) was, 'We're going to root out fraud at the highest levels.'"

And Enron was high-profile. Involving one of President Bush's major contributors, Lay, it was the first in a string in corporate scandals and its demise was spectacular, causing thousands of employees to lose their jobs and ravaging the stock portfolios of countless investors.

"It really symbolized nationwide corporate greed," said Robert Seiden, a former prosecutor in the Manhattan district attorney's office who heads Long Island-based Fortress Global Investigations Corp., an investigations and security services firm. "Corporate greed and Enron became synonyms for many, many years."

Given that importance, the jury's decision to find Lay guilty on all counts against him, and Skilling guilty of most, sends powerful messages to both corporate bigwigs and ordinary Americans, securities lawyers and other experts said.

For executives, the message is that it won't help to claim ignorance of corporate chicanery, a strategy that had already failed for Bernard Ebbers, the WorldCom chief executive who was found guilty of fraud last year. "They need to know what's going on," Bromberg said. "They can't draw down these (big) salaries and options without having to know."

Seiden said many executives he works with "were looking at this case to see how Kenneth Lay would fare." He said the verdict should cause executives to realize that they "can't hide behind the accountants anymore, they can't hide behind the lawyers anymore."

Referring to Sherron Watkins, an Enron employee who warned Lay something was wrong at the company, Robert Ridge, an attorney with Thorp Reed & Armstrong, said the verdict should teach executives to "be very diligent" in following up with complaints. "It really tells you the benefit of going beyond your regular corporate lawyers" and doing an independent investigation, he said.

For the public, the Enron verdict is crucial because so many people remember the scandal, with its harsh images of out-of-work employees and unhappy investors, said Henry Hu, a corporate and securities law professor at the University of Texas Law School.

The convictions of executives such as Ebbers "didn't register" with many people, whereas "the ordinary person will know ... whether Lay or Skilling went to jail," Hu said. "I think that it will give them a little more confidence in our system of justice."

Hu said that because Enron's 2001 collapse kicked off an era when malfeasance was discovered at some of America's corporations, the verdict could be seen as "the other bookend" to that time.

But that doesn't mean that criminal prosecutions for corporate fraud are over, other people said. For one thing, the government soon will start trying "second-level" Enron cases based on evidence developed for this trial, said Ernest Badway, an attorney for Saiber Schlesinger Satz & Goldstein.

And John Coffee, a securities law professor at Columbia University Law School, said the Enron case may inspire other prosecutors to pursue cases against high-profile business people. For attorneys, the message is "the bigger the fish, the greater the glory," Coffee said. "This success will probably mean that criminal prosecutions will persist."