

The confessions of Andy Fastow

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The convicted former Enron CFO is now admitting his sins to audiences -- but also claiming that what other companies are doing today is "10 times worse" than what Enron did.

By Peter Elkind, editor-at-large



ACFE/ DICK CAROZZA

Andy Fastow at the Association of Certified Fraud Examiners's convention

FORTUNE -- *"Ladies and gentlemen, Mr. Andrew Fastow!"*

He was an improbable Las Vegas headliner, taking the stage before a packed convention hall of 2,500 fraud examiners.

For former Enron CFO Andy Fastow, who spent more than five years in federal prison for his crimes, last week's appearance before the Association of Certified Fraud Examiners was his most public step in an uphill redemptive journey -- to explain how he

became a "fraudster;" to sound provocative warnings about today's corporate practices; and even to offer a bit of revisionism on the company's 2001 collapse.

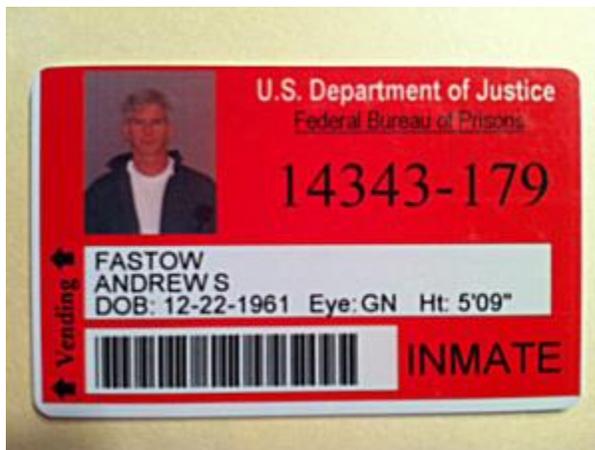
Fastow launched his talk with a broad *mea culpa*, introduced with a grim joke. "Several of you have commented to me that your organization has grown dramatically over the past 10 years," he said. "And they thank me. They said no other individual has been more responsible for the growth of your industry than me. So: *You're welcome.*"

The crowd roared.

"It's not something I'm proud of," he added soberly, after the laughter had died down.

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Fastow was initially charged with 78 counts of fraud, mostly connected to his central role in a web of off-balance sheet entities that did business with Enron, disguised the company's financial condition, and made Fastow tens of millions. He ultimately pled guilty to two counts, forfeited \$30 million, and agreed to testify against his former bosses as a government witness.



Andy Fastow's prison i.d.

Since leaving prison in 2011 and resuming life with his wife Lea and two sons in Houston, where Enron was based, Fastow has kept a low profile. Now 51, he works 9-to-5 as a document-review clerk at the law firm that represented him in civil litigation.

Fastow has given 14 unpaid talks, mostly at universities, usually with no press allowed. The first came at the University of Colorado-Boulder. He volunteered to speak to students after reading a column on ethics by the dean of the business school. Fastow has also spoken at Tufts, Tulane, and Dartmouth and is scheduled to address a United Nations group in the fall.

In Las Vegas, dressed in a blazer and open shirt, Fastow stood at the podium a bit grim-faced, his speech sometimes halting. "I'm not used to giving talk to groups this big," he explained. "I apologize to you if I feel nervous -- if I appear nervous."

"Why am I here?" he asked. "First of all, let me say I'm here because I'm *guilty* ... I caused immeasurable damage ... I can never repair that. But I try, by doing these presentations, especially by meeting with students or directors, to help them understand why I did the things I did, how I went down that path, and how they might think about things so they also don't make the mistakes I made."

"The last reason I'm here," Fastow continued, "is because, in my opinion, the problem today is 10 times worse than when Enron had its implosion ... The things that Enron did, and that I did, are being done today, and in many cases they're being done in such a manner that makes me blush -- and I was the CFO of Enron." He cited the continuing widespread use of off-balance-sheet vehicles, as well as inflated financial assumptions embedded in corporate pension plans.

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Fastow said he was prosecuted "for not technically complying with certain securities rules" -- but that wasn't "the important reason why I'm guilty." The "most egregious reason" for his culpability, he said, was that the transactions he spearheaded "intentionally created a false appearance of what Enron was -- it made Enron look healthy when it really wasn't."

"Accounting rules and regulations and securities laws and regulation are vague," Fastow explained. "They're complex ... What I did at Enron and what we tended to do as a company [was] to view that complexity, that vagueness ... not as a problem, but as an opportunity." The only question was "do the rules allow it -- or do the rules allow an interpretation that will allow it?"

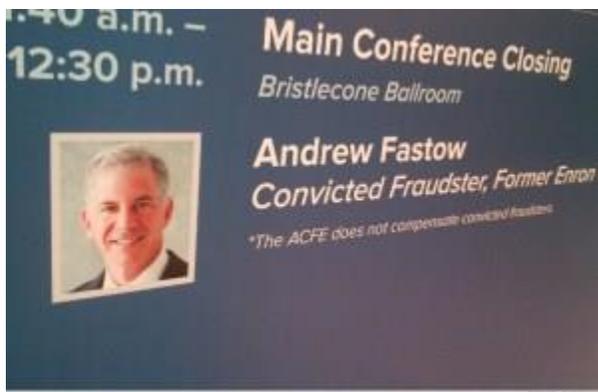
Fastow insisted he got approval for every single deal -- from lawyers, accountants, management, and directors -- yet noted that Enron is still considered "the largest accounting fraud in history." He asked rhetorically, "How can it be that you get approvals ... and it's still fraud?"

Because it was misleading, Fastow said -- and he knew it. "I knew it was wrong," he told the crowd. "I knew that what I was doing was misleading. But I didn't think it was illegal. I thought: That's how the game is played. You have a complex set of rules, and the objective is to use the rules to your advantage. And that was the mistake I made."

After speaking for about 20 minutes, Fastow took questions. He insisted on this despite the trepidations of conference organizers. "A lot of people are still angry," explained James Ratley, a former Dallas police department fraud investigator and the Austin-based group's CEO. "I was cautious that someone would create a disturbance."

The fraud group invites a "criminal speaker" to address its convention every year. But Fastow's invitation drew unusually acidic comments on a LinkedIn message board. "A total slap in the face to all of the honest and respectable investigators that could be utilized as a presenter," one person fulminated. "Just scum," was another's summary. "To be blunt," a third person wrote, "I see him as a calculating low life, as bad as an armed robber who would shoot up a bank to get the people's money."

But Ratley dismissed the criticism. "If you're a fraud examiner and you don't want to deal with a fraud perpetrator, you ought to change professions." Ratley said he had met with Fastow to screen him "for any type of evasiveness. He has not dodged, ducked, or blinked since I started talking with him." ACFE made a point of noting prominently in promotional materials that Fastow was not paid to speak. (The group did cover his travel expenses).



The sign at ACFE announcing Fastow's speech.

Among his questions, Fastow was asked about former Enron CEO Jeff Skilling's sentence reduction last month -- from 24 to 14 years. Fastow offered considerable sympathy for his former boss, against whom he had testified at trial. "Going to prison is terrible," Fastow said. "You're never comfortable. All the talk about 'Club Fed' is garbage ... You're surrounded by very violent people, very unstable people. Prisons work hard to make you uncomfortable. But that's not what's bad about going to prison. What's bad about going to prison is that you're separated from your family." (Skilling's parents and youngest son all died while he was behind bars.) Fastow added that even Skilling's reduced term is still "a devastating sentence."

Fastow went on to insist that "Enron did not have to go bankrupt when it went bankrupt ... Enron should not have gone bankrupt. It could have survived. And it was decisions made in October 2001" -- after Skilling resigned as CEO -- "that caused it go into bankruptcy" early that December. That's a highly debatable point -- but Fastow did not elaborate.

And then, the final question: "This is on a lot of people's minds. Many people vilify you for what you did at Enron, and the resulting effect on other companies, pensions, market

share, people's fortunes. How do you *grapple* with that? How do you react to that condemnation?"

"Um, well, first of all," said Fastow, looking down, "I deserve it. It's a very difficult thing to accept that about yourself. I didn't set out to commit a crime. I certainly didn't set out to hurt anyone. When I was working at Enron, you know, I was kind of a hero, because I helped the company make its numbers every quarter. And I thought I was doing a good thing. I thought I was smart. But I wasn't."

"I wake up every morning, and I take out my prison ID card, which I have with me here today. And it makes certain that I remember all the people. I remember that I harmed so many people in what I did. It encourages me to try to do the little things that I can to make amends for what I did."

"I can't repay everyone. I can't give them jobs. I can't fix it. But I just have to try bit by bit to do that. Being here is hopefully a little contribution to that."

And with that -- despite the organizer's fears that Fastow's speech might be disrupted -- the former Enron CFO received a broad round of applause. For 15 minutes afterwards, he lingered, chatting with a crowd of the fraud examiners. More than one asked to pose for a photo with Fastow, who politely agreed. An ACFE staffer who did so said she felt a bit weird about the request, but that Fastow seemed nice and she felt he was "part of history."

That over, the former Enron CFO departed for his flight back to Houston, carrying a tote bag he'd been given bearing the logo of the Association of Certified Fraud Examiners.

"Quite a bit of irony in that," Fastow remarked.

Fortune Editor at Large Peter Elkind is co-author, with Bethany McLean, of The Smartest Guys in the Room: The Amazing Rise and Scandalous Fall of Enron.