ORDEAL ENDURED

Unforeseen crisis drove **MARK PALMER'S** former high-flying employer into bankruptcy, erasing much of his net worth. Then came the investigators. Now a Brunswick Partner, Mr. Palmer endured an experience that was dark even by the standards of COVID-19.

On October 25, 2001, the phone rang on the desk of Mark Palmer, Vice President of Communications for Enron. The caller was a Wall Street Journal reporter inquiring about an Enron special-purpose entity called Chewco. • "Never heard of it," said Mr. Palmer. Promising to look into Chewco, he said he would get back to the reporter. • During his first five years as Enron spokesman, Mr. Palmer had scrambled to accommodate ever-mounting interview requests from journalists enthralled with the innovation, the boldness and the incredible growth of Enron. During that time, the value of Enron stock more than quadrupled to $90 a share. • But 2001 brought a series of setbacks: Short sellers planted skepticism in the media, the company's charismatic CEO abruptly resigned and Enron took an unexpected $1.2 billion charge against equity. The stock sank to below $20 a share. • As he set out to gather information about Chewco, Mr. Palmer still believed in Enron's capacity to recover. He still believed in the leadership of Kenneth Lay, the company's long-time chairman who had recently re-assumed the title of CEO. As for Chewco, Mr. Palmer expected to get a quick answer and move on to his next task. • But within moments, he learned from an Enron executive that Chewco might be a deeply flawed entity. Enron executives investigating the files of Andy Fastow, the company's recently departed CFO, were finding that Fastow might have improperly structured Chewco to circumvent accounting rules and enrich himself. If this suspicion were true, Chewco's obligations would turn into Enron debt, further destabilizing the company's finances and destroying what was left of its reputation. The news floored Mr. Palmer. • Exercising an authority that he arguably didn't wield, Mr. Palmer called for an immediate gathering of top management, including Mr. Lay. So distraught was he that on

ILLUSTRATION: NIGEL BUCHANAN

AFTER GOVERNMENT INVESTIGATORS SWARMED ENRON, MR. PALMER LAY AWAKE NIGHTS REPLAYING EVERY COMMUNICATION HE EVER ISSUED ON BEHALF OF THE COMPANY

the way to that meeting Mr. Palmer made a detour to the bathroom to vomit, a delay that cost him a seat at the meeting he had called. So Mr. Palmer sat on the floor of a small crowded conference room. During the meeting, when Mr. Lay failed to immediately grasp the Chewco implications, Mr. Palmer took charge by loudly slapping his hand on the floor. "I'll tell you what's going on, Ken," Mr. Palmer shouted at the Chairman and CEO. "The Wall Street Journal knows more about what's going on at your company than you do!"

Then Mr. Palmer demanded, as he had before, that Enron hire an independent investigator. This time Enron followed his advice.

Almost twenty years later, Mr. Palmer Is a Brunswick Partner and Head of the Dallas office, where he offers advice on a range of topics, most notably how to navigate a corporate crisis. To that discussion he brings a degree of firsthand experience that he wouldn't wish upon anyone. The son of a Vietnam War Navy attack pilot, Mr. Palmer grew up believing that hardship should be embraced, tackled and internalized, rather than just talked about. But the trial he endured as chief Enron spokesman during its spectacular rise and scandalous fall convinced him that Post-Traumatic Stress Disorder is a real affliction. Ever since that episode of nausea in the Enron bathroom, his gag reflex has been oversensitive. "Before Enron, I could have been a sword swallower. Ever since Enron, if I get just a little bit stressed my gag reflex is hypersensitive," he says.

The lessons he gleaned from Enron underscore a type of risk not always appreciated on the front lines of corporate communications. After government investigators swarmed Enron, Mr. Palmer lay awake nights replaying every communication he ever issued on behalf of the company, aware of the potentially criminal implications of a corporate spokesman knowingly saying anything wrong or misleading.

Mr. Palmer passed that test, in the view of the media as well as government investigators.

It's not that every communication he ever made on behalf of the company was accurate. He says, "It's awful to look back on statements that I made based on getting an answer from (an Enron executive) and having it end up being wrong." It's that the fraud at Enron was known to only a few of the energy giant's tens of thousands of employees. "If corporate fraud weren't limited to particular individuals with a particular level of power, then it wouldn't be a secret," says Kurt Eichenwald, whose 700-page masterpiece on Enron, *Conspiracy of Fools*, conveys the shock awaiting those at the company charged with investigating Mr. Fastow's deals.

During the company's fall, Mr. Eichenwald covered Enron for The New York Times. "Mark Palmer never even approached the line of being deceptive to me or I think to any reporter," says Mr. Eichenwald. While covering Enron for the Times, Mr. Eichenwald said that "If Mark told me I was going down a wrong path with my reporting, I would immediately stop. He had that kind of credibility because, conversely, when I was right, he never told me I was wrong. Mark understands that credibility is something you have to build and that the only way to build it is by being honest. He'd always do his best to get an answer and if the answer was ugly he'd give it to you."

The Wall Street Journal's Rebecca Smith and John Emshwiller played a significant role in uncovering Mr. Fastow's secrets. In their 2003 book, *24 Days*, they said they "didn't think Palmer had ever knowingly given them false information." It seemed obvious "that (Palmer) had been trying to be helpful and honest."

A University of Missouri journalism graduate, Mr. Palmer worked as a broadcast journalist before joining Fina, an oil-and-gas company, as its all-around spokesman and marketing guru. He was 35 in 1996 when a headhunter recruited him to Enron, a natural-gas pipeline company that was disrupting the industry by creating a market for trading natural gas. This innovation not only was proving to be profitable but also good for consumers. "Enron had this idea of a gas bank, and it really improved the natural gas market in the US. It solved the problem of there being shortages in one market and surpluses in another," says Mr. Palmer.

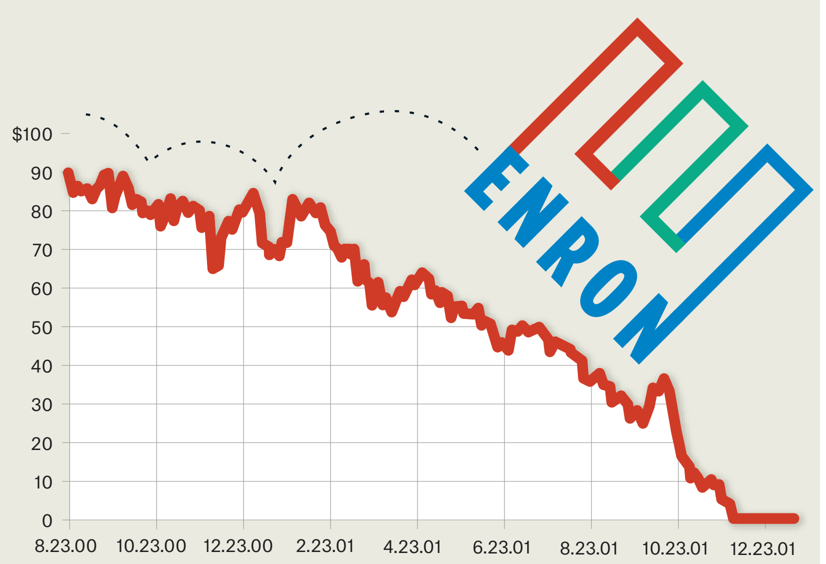
Now, a brilliant Enron executive named Jeffrey Skilling – instrumental in the gas bank concept – was pushing for deregulation of the electricity market, an effort that required approval of both federal and state regulators. "You had this patchwork quilt of crazy regulation where someone in Long Island might be paying 22 cents a kilowatt-hour for power while someone in New Hampshire might be paying 8. We felt like we could do the same thing with electricity that we had done with natural gas – even out supply and generally lower the price."

As Enron's stock rose steadily, Mr. Palmer and his team fielded an ever-growing number of interview requests initially from trade journalists, then from the world's top business publications. "We became a Wall Street darling, and a media darling. That the most innovative company in America was a former natural gas pipeline company – that was just a great story," says Mr. Palmer.

Mark Palmer (bottom right) and his much-reduced staff following the Enron bankruptcy in December 2001. Their good humor here belies the difficult times they were negotiating.

From $90 to $0

ENRON'S STOCK PRICE
from August 2000 to January 2002



Data is compiled from Enron Securities Litigation Web Site

CHART: PETER HOEY

As short sellers became suspicious about how Enron made its profits, the stock of the much-admired company began to fall. A Fortune article in the spring of 2001, followed by the unexpected resignation of CEO Jeffrey Skilling in August of that year, shook investors, whose fears seemed vindicated when Enron took a $1.2 billion charge against equity in October. It didn't help when CFO Andrew Fastow resigned under pressure one day after CEO Ken Lay expressed confidence in him. The end came when lenders lost faith, ultimately forcing Enron into bankruptcy.

An admirer of both Mr. Skilling and Mr. Lay, and a believer in their mission, Mr. Palmer said he "bought into the mission, and became like a lawyer who zealously defends his client."

As Enron became more a trading company than an energy concern, its accounting grew increasingly complex, puzzling some analysts and investors. But Enron's deals and books had the blessing of white-shoe lawyers and a blue-chip accounting firm, Arthur Anderson. Meanwhile, Enron's critics often had their own agendas, as short sellers or foes of deregulation, and Mr. Palmer pushed back hard. "As spokesperson, I zealously communicated our message," he says.

"When you're the spokesman of a company whose success played out on the free and open market, a company that's the darling of Wall Street and of the media, you develop a level of confidence that becomes arrogance," he says. "Looking back, it's shocking how full we were of ourselves."

The beginning of the end came in the spring of 2001 when Fortune ran a story asking whether Enron was overpriced. The story pointed out that few analysts understood how Enron actually made money. The stock began to fall. In August, the stock took a steep dive when Mr. Skilling, CEO only since February, resigned, citing personal reasons. Then

BRUNSWICK REVIEW · 2020

"KEN, 40 BILLION DOLLARS IN OBLIGATIONS AND NO CASH FLOW IS A PR PROBLEM, BUT BAD PR DIDN'T CAUSE IT AND GOOD PR CAN'T FIX IT"

The Wall Street Journal began questioning the accounting behind certain limited partnerships set up by Mr. Fastow.

As the stock continued to slide, Mr. Palmer felt responsible. Many of his superiors told him that Enron was suffering only a perception problem, initiated by short sellers and perpetuated by journalists who did not understand the company's complex accounting methods.

When the WSJ persisted, raising questions about the limited partnerships, Mr. Palmer asked Mr. Fastow to provide an interview about them. Mr. Fastow refused, yelling on the phone that the idea was idiotic and questioning Mr. Palmer's competence as a spokesman. "Looking back, I realize that Andy Fastow screaming at me should have been a tell-tale sign," says Mr. Palmer. "I know that dogs don't bark because they're going to bite you. They bark because they're afraid."

To make matters worse, Mr. Palmer recalls, Mr. Lay told him, "Mark, what are you doing to get the Journal to quit writing these stories? They're killing us."

Even as the SEC announced an investigation into Enron, and as the company's own executives turned up ever-grimmer details about its slipshod financial structures and in many cases improper accounting, Mr. Lay kept exhorting Mr. Palmer to somehow improve media coverage. That prompted the financial team that had replaced Mr. Fastow to sit Mr. Palmer down and show him what they had discovered to be the true state of affairs: The company had little in the way of cash flow and the value of its equity paled beside a potentially $40 billion load of debt triggered by its falling stock price and lowered credit ratings. For Mr. Palmer, that horrible news brought relief.

"I had thought this was my fault. I had thought that all of our 401(k)s were going to zero because I couldn't convince the media that they were wrong," he says. Later that evening when Mr. Lay again beseeched Mr. Palmer to silence the WSJ, Mr. Palmer replied, "Ken, $40 billion in obligations and no cash flow is a PR problem, but bad PR didn't cause it and good PR can't fix it." As Mr. Palmer puts it now, "You can't spin your way out of trouble you acted your way into."

Enron's falling stock price was creating havoc at a company that had heavily used its shares as collateral, and rising doubts about the company's financial integrity prompted its trading partners to insist upon more and more onerous terms. Growing counterparty distrust of Enron and its CFO forced Mr. Lay to fire Mr. Fastow. Because that action came only a day after Mr. Lay had publicly expressed confidence in his CFO, the firing hardly calmed nerves, inside or outside the company.

Then came the Wall Street Journal call asking Mr. Palmer about a partnership called Chewco. It turned out that some of the structures Mr. Fastow and his co-conspirators had set up were being used to disguise bad business decisions, create phony income and funnel money to Mr. Fastow and other cronies.

In the days, weeks and months that followed, Enron filed for bankruptcy protection, Mr. Lay left both the board and then the company under pressure from creditors, Congress ran rote show hearings, and federal prosecutors investigated and then brought criminal charges against Messrs. Fastow, Skilling and Lay, in addition to dozens of other Enron executives forced to plead guilty to crimes rather than risk defending themselves. How much Mr. Lay and Mr. Skilling knew about Mr. Fastow's crimes remains unclear, but both had sold massive amounts of Enron stock ahead of the company's downfall, leading to zero objectivity among potential jurors in the Houston area. The accounting firm Arthur Anderson collapsed under the weight of an Enron-related obstruction-of-justice conviction that was reversed years after the closing of the firm.

All the while, Mr. Palmer and his team continued running the Enron communications department. After Enron filed for bankruptcy protection in late 2001, Mr. Palmer's communications staff got slashed to seven from 27. Since August, that team had handled the resignations of the CEO and CFO, new president and CEO announcements, Sept. 11-related announcements, a $1.2 billion-charge against equity, news about Enron credit crunches and now bankruptcy, among other big announcements. The remaining seven team members worked around the clock often without going home, fielding as many as 400 calls a day.

Mr. Palmer slept on a boardroom couch while another member of his team slept under her desk. He showered in the company gym and saw his wife, Cozy, when she arrived to bring him fresh clothes. In the last three months of that year, he lost 35 pounds.

Recruited to take charge of Enron a month after its bankruptcy, turnaround specialist Steve Cooper encountered "the most catastrophic, most investigated, most chaotic scene you could imagine. Enron was being investigated by virtually every arm of the US government – the DOJ, SEC, FTC,

Former Enron chairman and CEO Ken Lay, center, and his attorney Mike Ramsey in 2006, about to enter a courthouse in Houston, Texas, for the second day of a trial on fraud and conspiracy charges against Mr. Lay.

PHOTOGRAPH: DAVE EINSEL/GETTY IMAGES

KURT EICHENWALD ON WRITING "CONSPIRACY OF FOOLS"

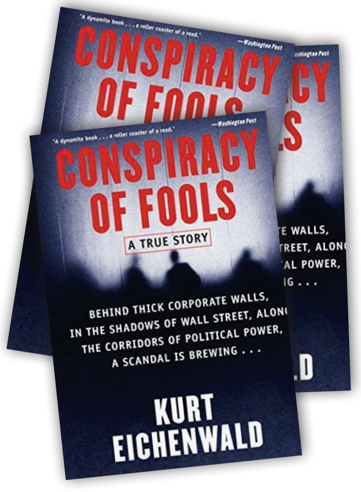
Enron's demise inspired more than a dozen books. The best of them is arguably the best business book ever written: Kurt Eichenwald's* Conspiracy of Fools. *Mr. Eichenwald, who had covered Enron for The New York Times, describes here his book-writing process. His fifth book,* A Mind Unraveled, *will be published in October by Ballantine Books.

In the 12th hour of our interview, the former Enron executive described the morning he climbed out of bed and drove to the office to face the unraveling of the energy giant. Responding to my question, he said a digital alarm clock awakened him.

"What color were the clock's digits?" I asked.

He threw up his hands. "Why do you need to know that?"

To portray the kind of visual image common in fiction, I often have to ask questions that can seem absurdly detailed. What type of sandwich did you eat? In which pocket did you carry your wallet? My goal is to write nonfiction



that reads like a novel, but the details that can simply be imagined by a fiction author all have to come from either an interview or a document.

The main story emerges from hundreds of thousands of documents I obtain. An assistant I call "the document wrangler" places all of the records in chronological order, then sorts them into hundreds of binders.

Every document and every description of an event from those records is then listed in a timeline, which usually runs between 500 and 1,000 pages long. Each entry describes which document in which binder contains the cited information and on which page.

But documents aren't a story – that comes from people who experience the events. For each of my books I have interviewed at least 100 people, often for an exhausting number of hours. My sessions with Ken Lay, the late Enron chairman, lasted more than 70 hours. Then the information is entered into the timeline, with each interview subject listed under a code name.

Ultimately, I stitch all of the information in the timeline into a first draft that can run to 2,000 pages. Once that is finished, I read it and often, for the first time, discover what the book is about. Then I cut hundreds of pages to produce a final product that is rich in detail, such as the color of alarm clock digits.

Department of Energy – and sued by dozens of states' attorneys general. It had all the elements that attracted massive scrutiny by the press."

Fielding all that was Mr. Palmer. "He brought order and thoughtfulness and transparency to what was a massive shitstorm," says Mr. Cooper.

The psychological toll on Mr. Palmer and his staff was tremendous. In a matter of weeks, the company they represented had gone from admired to reviled. A typical experience for them was when Mr. Palmer learned that his daughter's high-school journalism teacher stood at the front of class and referred to all Enron executives as "criminals." For years accustomed to fielding requests from journalists competing to write front-page features, the team now faced a prosecutorial press that felt betrayed.

As requests for information intensified, Mr. Palmer and his team had little of it to give. Their first priority was to avoid giving bad information, which increasingly meant they had no information to give at all. At one point, Securities and Exchange Commission Chairman Harvey Pitt became irate when he read in a news story that Mr. Palmer declined to answer reporters' questions on grounds that Enron was being investigated by the SEC.

"Harvey Pitt was furious, saying an SEC investigation should never be used as an excuse for not telling the truth," Mr. Palmer recalls. "But I wasn't hiding the truth. We simply didn't know the truth."

At times, Mr. Palmer wondered how long he and his staff could go on. Issuing one bad bit of news after another, amid a government investigation that would put all of their previous work under a spotlight, the communications staff was plagued by fatigue, depression and anxiety. It didn't help that their retirement funds were stuffed with now-worthless Enron stock.

Once, Mr. Palmer called his father to ask if he should quit. His father, the stalwart Naval aviator and former TWA captain, noted that no one was shooting at him. "My father said, 'I think you're really good at what you do. If you stick it out, you'll probably learn a lot. You'll probably be even better.'"

For Mr. Palmer, a turning point came one day when his boss, Steve Kean, said, "You know what? At the end of the day, what we have to do is be proud of the way we conducted ourselves. We've got to be able to tell our grandchildren that we did the right things." Inherent in that thought was the promise that this crisis would end. It wouldn't last forever. Nothing does. Mr. Palmer remembered listening to a former squadron-mate of his father's, a man who had spent seven years as a prisoner of war in Vietnam, describe the ways he and his fellow prisoners had stayed positive – by seeing how long they could stay conscious during torture, by communicating with each other via a kind of Morse Code, by memorizing the name and capture date of every other prisoner, and honoring a system wherein the longest held would be the first released.

In that way, Mr. Palmer turned the months-long slog into a kind of contest. He began to pride himself on making sound decisions despite fatigue and anxiety. Long accustomed to feeling pressure from both his superiors and the media, he saw clearly now what he had known all along, that his only duty was to the truth, even if the truth was, "I don't know." Tackling one phone call at a time, one day at a time, he began to feel more than equal to the task. "In a crisis like that, what matters is mindset – somehow maintaining a productive, positive mindset," he says.

Recalling his insistence that the company hire an outside investigator, Mr. Palmer wishes he'd also demanded that it hire a psychological consultant – ideally one with crisis expertise – to help his staff and others at Enron headquarters through the tumultuous weeks before and after Enron's bankruptcy. "Companies in a crisis hire workout specialists, and they hire financial advisers, and all of that's vital, but the mindset of those advisers is action, action, action. That doesn't address the problem of shame and anxiety and fatigue in a culture that used to feel proud, and wants to feel proud again," he says.

Mr. Palmer believes that a serious crisis can't be managed according to any pre-conceived playbook. But he believes it offers an enormous opportunity for leaders to negotiate the unforeseen in a way that inspires and encourages employees, investors and the media. Never is a leader more closely watched or more widely heard than during a crisis, Mr. Palmer notes, adding that what all stakeholders seek from a leader at such moments is competence, diligence and honesty, especially honesty.

Mr. Palmer believes that his experience leading during crisis gave him extraordinary insight into how to avoid or limit such debacles, and the key factor is honesty. Given the very human desire to please one's boss, and given the boss's very human desire for positive reports, how can leaders create a culture where their workforce isn't afraid to tell even the most unpleasant truths? "I got my Ph.D. in that at Enron," says Mr. Palmer. ◆

KEVIN HELLIKER is Editor-in-Chief of the Brunswick Review. He is a Pulitzer Prize-winning journalist, who spent nearly three decades at The Wall Street Journal.

Brunswick Partner, Mark Palmer leads the firm's Dallas office. He has 30 years of global experience in corporate, crisis and litigation, and financial transactions. Previously, he was VP of corporate communications and organizational effectiveness at Sysco Corporation. From 1996 to 2004, he served as Enron's managing director and senior vice president of global communications.