

Complaint Says Fastow, Kopper Worked Closely to Defraud Firm

Ex-CFO Took the Manager Under His Wing, Leading to Plum Assignments, Nobu Dinners

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Michael Kopper

When Michael Kopper negotiated last year to get bought out of Chewco, an Enron Corp.-related partnership, he demanded an additional \$2.6 million to cover taxes on the \$10 million payment he would receive from Enron. Jordan Mintz, an Enron lawyer, refused to sign off on the tax payment, telling Mr. Kopper it wasn't part of the deal.

Mr. Kopper, a top Enron finance manager, was undeterred. He turned to his boss, then Chief Financial Officer Andrew Fastow, to lean on Mr. Mintz. But when Mr. Mintz refused to budge, Mr. Fastow told him he had spoken with Enron Chief Executive Jeffrey Skilling and that he had approved the tax payment, according to an interview with Mr. Mintz conducted last fall by special investigators hired by Enron's board.

It was the type of scenario that played out over and over again during Enron's salad days. Mr. Fastow and Mr. Kopper routinely used each other to persuade co-workers to craft deals to their liking. This week, it also became evident that the close working relationship between Mr. Kopper and Mr. Fastow helped to fuel the alleged fraud at Enron that ultimately triggered the collapse of the once-powerful energy-trading firm.

According to a criminal complaint filed against Mr. Kopper in a Houston federal court, Messrs. Kopper and Fastow worked hand in hand to siphon money from Enron into partnerships they controlled. Mr. Kopper told a federal judge Wednesday he "passed some of the proceeds [from Chewco] on to the Enron CFO and his family" while keeping \$3 million for himself.



Andrew Fastow

Mr. Kopper, who pleaded guilty to money laundering and conspiracy to commit wire fraud, admitted he and Mr. Fastow had used several Enron-related partnerships, not just Chewco, to disguise the company's financial problems and make millions for themselves and unnamed others. Lawyers for Mr. Kopper and Mr. Fastow declined to comment on their relationship.

This week's criminal complaint alleges Messrs. Kopper and Mr. Fastow hatched their scheme as early as 1997, about three years after Mr. Fastow tapped Mr. Kopper from Toronto Dominion Bank to join his corporate finance team in 1994. Shortly after recruiting him, Mr. Fastow took Mr. Kopper under his wing.

Soon, Mr. Kopper was getting plum assignments that frequently sent him to New York and London to negotiate with bankers. When he was in Houston Mr. Kopper

worked on the 25th floor but would routinely spend about two hours a day in Mr. Fastow's office discussing matters. Mr. Kopper was viewed to have as much or more power than Enron's treasurer.

Mr. Kopper was known as one of "Andy's boys," a group of exceptionally smart and skilled finance gurus willing to work long hours and "follow [Mr. Fastow] down blind paths if that what was required," one former co-worker said.

While some were groomed in Enron's system, Mr. Fastow preferred to hire ex-investment bankers that could "think outside the box."

Some former co-workers also viewed Mr. Kopper as arrogant and disrespectful to executives lower on the ladder. He at times humiliated co-workers who came to meetings unprepared and tried to bluff their way through, former associates say. "Michael did not suffer fools well," said one former co-worker.

Mr. Kopper had his critics outside Enron. John Ballentine, a former vice president at Enron who runs his own energy-consulting firm, ID3, sat on a college-recruitment committee for the University of California in Los Angeles with Mr. Kopper for two years. Mr. Ballentine says Mr. Kopper showed up late to meetings, talked over other executives, and routinely criticized any idea that wasn't his.

"Whenever our committee met, Michael Kopper would unravel any consensus the team had built around strategies and plans for succeeding in our recruiting efforts," Mr. Ballentine asserted.

Inside Enron, the deals Mr. Kopper worked on were highly secretive ventures known as "Andy's projects." People in Enron's finance department knew better than to ask about them; they were on a need-to-know basis.

In 1997, Mr. Fastow picked Mr. Kopper to run and become the limited partner of Chewco, one of the partnerships that contributed to the company's collapse. Chewco was set up to be a separate entity with outside investors that would conduct transactions with Enron. In this case, Enron moved \$700 million in debt in energy investments off of its books.

In the end, however, it turned out there was little outside money in the partnership. Mr. Kopper raised money by getting a loan from the British bank, **Barclays PLC**, for two paper vehicles, Little River and Big River. He signed the two entities over to his domestic partner, William Dodson, at one point. Enron had backed the loan to Little River and Big River. During the period that Mr. Kopper ran Chewco, he received millions in fees. This week, Mr. Kopper admitted to kicking back some of those payments to Mr. Fastow.

In 1999, Mr. Kopper also began working with two new third-party partnerships, LJM Caymans and LJM2, which Mr. Fastow controlled and from which he made millions of dollars. Enron conducted numerous transactions with the two partnerships that allowed them to remove mounds of debt off of the books and inflate profits.

In 2000, Mr. Kopper also set up Southampton, a subsidiary of LJM named after the affluent neighborhood where Messrs. Fastow and Kopper owned homes. With that partnership, Mr. Kopper was able to fraudulently obtain about \$4 million for himself through a transaction with Enron, and another \$4.5 million for Mr. Fastow's family foundation. Mr. Kopper contributed \$25,000 to Southampton, according to court papers.

Outside the office, Mr. Kopper and Mr. Fastow rarely socialized. Mr. Fastow ran in the elite Houston circles of the rich and established and Mr. Kopper's lifestyle didn't fit into that picture, say former co-workers.

Mr. Kopper preferred expensive hotels, restaurants and favored Armani suits. One former co-worker says Mr. Kopper knew where all the best W Hotels were located. He often traveled for work to London where Enron rented him an apartment at one time. Often, Mr. Dodson would join him. One former co-worker says Mr. Kopper used to boast that he had dinner reservations three nights a week at Nobu, a swank sushi restaurant owned by Nobuyuki Matsuhisa, who also has spots in New York and Los Angeles.

On his trips to London and Europe, Mr. Kopper was known to be a big shopper at Prada. Since Enron's collapse and federal prosecutors started investigating, one of the jokes circulating at Enron was whether Mr. Kopper had checked out whether Prada made prison uniforms.

Source: Kranhold, Kathryn, and Barrionuevo, Alexei (2002). Called to Account: Complaint says Fastow, Kopper worked closely to defraud firm. *Wall Street Journal*, August 23, 2002. Reprinted with permission.