

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit www.djreprints.com

• See a sample reprint in PDF format. • Order a reprint of this article now

MONEY & INVESTING

Enron Transaction With Entity Run by Executive Raises Questions

By JOHN R. EMSWILLER Staff Reporter of The Wall Street Journal

Updated Nov. 5, 2001 12:42 a.m. ET

In a transaction that raises new questions about Enron Corp.'s financial dealings with its management, the company in March made a \$35 million purchase from an entity run by a company officer.

That payment appears to have been the last step in a complex series of transactions that allowed Enron to keep hundreds of millions of dollars of debt off its balance sheet for the past three years, during which the Houston-based energy-trading giant has grown rapidly. In recent weeks, Enron's labyrinth of financial transactions, particularly with members of company management, has come under intense scrutiny from investors and regulators, who are seeking information about the impact of the transactions on the company and whether Enron adequately disclosed the deals to the public. Enron last week disclosed that the Securities and Exchange Commission had begun a formal investigation.

Enron officials have said repeatedly that all their actions were legal and properly disclosed. They have promised to cooperate with the SEC probe.

Enron officials wouldn't discuss the \$35 million transaction. What has been learned about it was gleaned from interviews with others familiar with the matter, snippets from Enron SEC filings and private partnership documents. Based on these sources, the Enron officer involved in the transaction was Michael Kopper, a former managing director of the company's Enron North America unit. The entity receiving the \$35 million was Chewco Investments LP. It wasn't clear from the available information what form the payment took or what, if any, gain Chewco or Mr. Kopper realized.

Mr. Kopper, who a company spokesman says left Enron in July, didn't return phone calls seeking comment. In the past, he has declined to be interviewed.

Auditor Faces Scrutiny Over Enron Reports

Enron Short Seller Detected Red Flags in Regulatory Filings

See a timeline of recent events related to Enron's financial dealings

At Enron, Mr. Kopper was an associate of Andrew Fastow, the company's chief financial officer until last month. In 1999, they set up and subsequently ran a private partnership known as LJM2 Co-Investment LP, which was involved in billions of dollars of transactions

with Enron, according to private-partnership documents and company SEC filings. Those partnership documents indicate Mr. Fastow and possibly a handful of Enron associates, including Mr. Kopper, made millions of dollars in fees and investment gains from LJM2.

Last month, in response to mounting controversy over the partnership dealings, Enron replaced Mr. Fastow as chief financial officer. Mr. Fastow hasn't responded to numerous interview requests.

Chewco is mentioned in a brief biography of Mr. Kopper that is part of a 1999 offering memorandum for the LJM2 partnership. The document said Mr. Kopper, besides being a "principal" of LJM2, "manages the general partner of Chewco, an investment fund with approximately \$400 million in capital commitments that was established in 1997 to purchase from Enron an interest in a defined pool of Enron assets." The document doesn't specify what assets were purchased.

Chewco's name also appears as the debtor in a 1997 filing with the office of the Texas secretary of state. The secured party, and presumably the lender, on that debt was a limited partnership called Joint Energy Development Investments LP.

Known as JEDI, this limited partnership was created in 1993 by Enron and the huge California Public Employees' Retirement System to make energy-related investments. According to Enron SEC filings, the company and Calpers each put in \$250 million and an Enron affiliate served as JEDI general partner and operator.

Besides bringing in outside equity, entities such as JEDI allowed Enron to borrow large sums for asset purchases without that debt showing up on Enron's balance sheet. In recent years, top Enron officials have said publicly that keeping down debt load was vital to protecting the company's credit rating and sustaining its tremendous growth. At the end of 1995, Enron had \$13.2 billion in assets; as of June 30, it had \$63.4 billion.

Messrs. Kopper and Fastow had "extensive involvement in the organization, investment activity and operations" of JEDI, according to the 1999 LJM2 private-offering memorandum. JEDI invested \$2.1 billion in 63 separate transactions, the document said. After accounting for JEDI's \$500 million in equity, this indicates the partnership borrowed as much as \$1.6 billion.

In 1997, Calpers sold its interest in JEDI back to Enron for about \$375 million. At about the same time, Calpers put \$500 million into a new Enron partnership, known as JEDI II.

At this point, Enron could have held on to all of JEDI, but that probably would have entailed consolidating the partnership and its debts into the company's financial statements.

That, apparently, is where Chewco came in. (Chewco got its name, says one person familiar with the matter, from the character Chewbacca in the "Star Wars" movies, where Jedi warriors also roamed.) Chewco bought from Enron the JEDI interest formerly held by Calpers, according to documents and interviews. It couldn't be determined what the terms of

that transaction were. However, the fact that Chewco shows up as a debtor to JEDI in the Texas state filing suggests that money for the purchase was borrowed from JEDI itself.

The available information on the chain of transactions raises questions about how separate JEDI and Chewco really were from Enron and whether JEDI's assets and liabilities should have been folded into the company's financial statements.

In a March 2000 SEC filing, Enron makes a brief reference to its new JEDI partner, which Enron doesn't identify but presumably is Chewco. The filing said "an officer of Enron has invested in the limited partner of JEDI and from time to time acts as agent on behalf of the limited partner's management." While the officer isn't named, the description is similar to that given for Mr. Kopper in relation to Chewco in the LJM2 offering memorandum.

In March of this year, Enron moved to purchase the balance of JEDI that it didn't already own. In an SEC filing earlier this year, Enron said it acquired for \$35 million "the limited partner's interests" in JEDI. Again, the partner wasn't named, but presumably was Chewco.

Enron consolidated JEDI's assets and liabilities into the company. The SEC filing said JEDI's holdings included 12 million shares of Enron stock. Enron said it also paid off about \$620 million of JEDI "third-party debt." The third party or parties weren't named.

Oct. 16: Enron takes \$1.01 billion charge related to write-downs of investments. Of this, \$35 million is attributed to partnerships until recently run by CFO Andrew Fastow. Enron also discloses it shrank shareholder equity by \$1.2 billion, as a result of several transactions including ones undertaken with Fastow's investment vehicle.

Write to John R. Emshwiller at
john.emshwiller@wsj.com

Oct. 17: SEC sends letter to Enron saying it was beginning an "informal inquiry."

Oct. 19: The Wall Street Journal discloses that general partners of Fastow partnership realized more than \$7 million last year in management fees and about \$4 million in capital increases on an investment of nearly \$3 million in the partnership, set up principally to do business with Enron, according to internal partnership document. Enron's board meets to discuss SEC inquiry.

Oct. 22: Enron announces SEC will begin a probe of company's "related party transactions," including those with Fastow partnerships. Enron says it will fully cooperate.

Oct. 23: Enron's treasurer acknowledges the company may have to issue additional shares to cover potential shortfalls in investment vehicles it created, although he says the company believes it can repay about \$3.3 billion in notes that were sold by those investment vehicles without having to resort to issuing more stock.

Oct. 24: Enron replaces Fastow as CFO with Jeffrey McMahon, the 40-year-old head of the company's industrial-markets division. Enron shares fall 17% on heavy volume ahead of the announcement.

Oct. 25: The company draws down about \$3 billion, the bulk of its available bank credit lines, in a bid to restore confidence in its financial strength and liquidity. The Fitch rating agency puts Enron on review for a possible downgrade, while another, Standard & Poor's, changes Enron's credit outlook to negative from stable. A noninvestment-grade rating would throw the company into default on obligations involving billions of dollars of borrowings.

Oct. 29: Moody's lowers its ratings by one notch on the Enron's senior unsecured debt and kept the company under review for a possible further downgrade. Shares fall below \$14 on the NYSE.

Oct. 31: The SEC elevates to a formal investigation its inquiry into Enron's financial dealings with partnerships headed by Andrew Fastow. Enron shares rise \$2.74 to \$13.90, after plunging for 10 straight days.

Nov. 1: Enron says it has secured commitments for \$1 billion in financing from units of J.P. Morgan and Citigroup, as the company moves to strengthen its balance sheet and maintain its investment-grade credit rating.

Copyright 2013 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our Subscriber Agreement and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com