How Enron Bosses Created A Culture of Pushing Limits

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When Enron Corp. was riding high, Chief Financial Officer Andrew Fastow had a Lucite cube on his desk supposedly laying out the company's values. One of these was communication, and the cube's inscription explained what that meant: When Enron says it's going to "rip your face off," it said, it will "rip your face off."

It was a characteristic gesture inside Enron, where the prevailing corporate culture was to push everything to the limits: business practices, laws and personal behavior. At Enron's London office, lavishly paid executives submitted blind e-mail bids for the 18 parking places. One of them paid $6,250 to use a well-placed spot for a single year.

This culture drove Enron to dizzying growth, as the company remade itself from a stodgy energy business to a futuristic trader and financier. Eventually it led Enron to collapse under the weight of mindbogglingly complex financial dodges.

Last week brought the first criminal consequences, as former financial executive Michael Kopper pleaded guilty to charges that he helped build a web of partnerships that disguised Enron's waning fortunes and funneled millions to himself, Mr. Fastow and others. The plea made it clear the federal government is now preparing a case against Mr. Fastow.

Finance and accounting remain the core of the Enron story, but the company's cowboy culture - and the way top bosses such as Mr. Fastow and former Chief Executive Jeffrey Skilling inspired it -- are also key to understanding what happened in this historic business debacle.
Only now is the full scope becoming apparent, amid government probes and a growing willingness by some former and current employees to speak about it.

**Fast Cars**

Enron executives lived large, beginning with fast cars. Porsches were one favorite. Former Enron Broadband Services Chief Kenneth Rice drove in Ferrari Challenge races, an exclusive series for the rich. "They were guys who could afford not only to buy Ferraris, but to wreck them," says Todd Renaud, a former information technology director at the company.

Sometimes, employees celebrated their deals or trading wins by heading off to a local strip club. Brittany L. Lucas, a dancer at a club called Treasures, recalls a group of about eight Enron men striding in last summer and announcing they had $10,000 to celebrate with. "Enron guys were known for spending big money and letting you know they worked there," says Ms. Lucas, who says she made $1,200 for herself that weekday afternoon, her best day ever. In late 1999, Enron advised employees they shouldn't use their company cards at the clubs, citing the clubs in a memo under their discreet billing names.

Despite its growing size, Enron operated a little like a family business at times. In 1997, it acquired a company co-owned by a son of Chairman Kenneth Lay, which planned to go into the business of trading pulp and paper. Employees say they were urged to use a travel agency operated by a sister of the chairman. "It was beyond encouraged," says James Alexander, financial chief of Enron Global Power & Pipelines in 1994 and 1995. The sister of Mr. Lay said last year the Enron business was won through competitive bidding.

Mr. Alexander, speaking generally of the company, says, "Enron was always playing it close to the edge."

A spokesman for the company, Mark Palmer, says that's not the culture today. "The 12,000 remaining employees at Enron and former colleagues that were laid off feel like they are being unjustly painted by a brush that appears to be deserved for only a few," he says.

**Protected Perks**

Indeed, most at Enron never had a chance to cash in like top managers, whose perks were being protected to the end. Worried last fall that bankruptcy lawyers might try to seize a final $100 million-plus in bonuses for executives and top traders, then-President Greg Whalley told managers to make sure they could defend the checks as retention payments, says one manager involved in the process.

Enron executives would challenge employees, and not just in the office. During a company picnic at Houston's AstroWorld in the late 1990s, Mr. Skilling dared Lou Pai, head of Enron Energy Services, to join him in "barnstorming," a blend of hang gliding and sky diving. Mr. Pai refused, but others felt compelled to take up the challenge.
In this environment, Mr. Fastow managed to stand out. Often telling investment bankers that Enron had "the biggest wallet on Wall Street," he would describe to each one where his firm stood in the pecking order, based on the roughly $100 million in fees Enron paid out yearly. He told a Goldman, Sachs & Co. team he wasn't going to do anything with a presentation they had prepared until they agreed to lend Enron some money, adding that lots of other banks were waiting in line, say people familiar with the incident. Another time, he told a J.P. Morgan banker his firm was "small potatoes," says a person familiar with the matter. A spokesman for Mr. Fastow said he would have no comment.

Mr. Fastow made no secret of his low regard for bureaucracy and rules. In a move to cut the fees it paid to investment banks, Enron sought in the late 1990s to sell securities, a move that would have required some of its employees to pass the "Series 7" brokers' exam. Though several members of Mr. Fastow's finance team got their Series 7, former associates say Mr. Fastow liked to boast, "I am the boss, and I don't have my Series 7." It's unclear whether Mr. Fastow actually needed it.

Ray Bowen, a Citigroup banker at the time and now Enron's chief financial officer, once asked Mr. Fastow about a batch of complex equations that filled a whiteboard in the conference room next to the Mr. Fastow's office. "You can't tell me you understand those equations," Mr. Bowen commented to Mr. Fastow. Mr. Fastow replied: "I pulled them out of a book to intimidate people."

By some accounts, Mr. Fastow, who is 40 years old, began developing such skills early in life. At New Providence High School in New Jersey, where he made his way through honors course effortlessly, one of his former English teachers says Mr. Fastow tried to negotiate for his grades when a paper got less than the top mark. "He was not satisfied to just accept a grade," says the teacher, Dwight Boud, who remembers Mr. Fastow as a "budding wheeler-dealer."

Mr. Fastow became student-council president but drew mixed reviews. The high-school newspaper, in an editorial titled "Student Council: Promises, Promises," claimed Mr. Fastow hadn't followed through on his campaign pledges. He defended himself, saying that although he had failed to deliver a promised concert, he hoped to book a replacement event, a "Gong Show' or "Class Feud."

Later, studying economics and Chinese at Tufts University in Medford, Mass., Mr. Fastow met his future wife, Lea Weingarten, a member of a wealthy Houston family. After college the two entered a training program at what was then Continental Bank in Chicago. Timothy Davitt, who knew them there, says that while people would often help each other on cases, Mr. Fastow was reluctant to share his answers. "He struck me as pretty aggressive," Mr. Davitt says. "For the most part, all of us had fond memories of each other. Andy was outside of our social group."

The Fastows headed to Mrs. Fastow's native Houston in 1990, both taking jobs at a young company called Enron. Just five years old, Enron was starting to evolve from a natural-gas and pipeline company into a trading firm. Mr. Fastow was one of the first managers hired by Mr. Skilling, who himself had only recently arrived, from management consultants McKinsey & Co. Brought into Mr. Skilling's inner circle, Mr. Fastow returned the loyalty, telling colleagues he had named a child after his mentor. When Mr. Skilling became Enron's president and chief operating officer in early 1997, he and Mr. Lay promoted Mr. Fastow to lead a new finance department. A year later, Mr. Fastow became chief financial officer.
Like many power companies, Enron sometimes used outside partnerships to handle capital-intensive projects such as pipelines, thus keeping the debt off its balance sheet. It was a legitimate practice. But Enron grew frustrated with the time it took to set up such partnerships - months of negotiating with partners and banks so the entity would have the required minimum of 3% in outside equity. Instead, it began to set up partnerships that were supposedly separate, though staffed, housed and significantly funded by Enron itself. It could turn to them if it wanted money quickly to do deals or needed a place to stow assets off the balance sheet until a permanent buyer could be found.

**LJM Cayman**

In June 1999, Messrs. Skilling and Fastow outlined to the board plans for a partnership called LJM Cayman LP, its name taken from the initials of Mr. Fastow's wife and children. Mr. Fastow, who would be LJM's general partner, got a ruling from Enron's board that his role there wouldn't violate conflict-of-interest rules on outside business interests.

But conflicts were hard to avoid. When Mr. Fastow laid plans for a second LJM partnership, he spoke openly of the edge that his inside knowledge of Enron assets would give him if the partnership was bidding against other investors for such assets. "Let me simply say I can price [assets] better than anyone else because I will have better information than anyone else," he said in a videotaped presentation to Merrill Lynch & Co. private-equity salesmen in September 1999. The reason: "I know everything about them. And I've been involved in their approval."

He also said that "it is very hard for me not to see the competing bids."

The salesmen were perplexed. Wouldn't Mr. Fastow's privileged information deter other bidder for Enron assets, and ultimately not be in Enron's best interest, one asked. Another wanted to know how aware other bidders would be of his privileged position. Mr. Fastow began his reply but was interrupted. "It's like an auction. It's ..." A Merrill salesman finished the thought: "... where there is a 'house bid' on the inside, and you don't know what that 'house bid' is?"

Mr. Fastow responded, "That's right."

He then reassured the Merrill salesmen where his loyalties would lie in Enron-LJM dealings: He would "always be on the LJM side of the transaction."

But it sometimes put him or his team in very awkward situations. In a deal to offload Enron's pulp and paper business to LJM, the negotiator for the Enron side was supervised by Barry Schnapper -- whose own boss was Mr. Fastow, the general partner of LJM.

LJM employees used Enron office space and were on its phone system. When a call came from LJM, Enron employees would have no reason to know the person on the line was representing LJM unless he or she said so. In mid-2000, as Enron Broadband Services was negotiating to sell some fiber-optic cable to LJM2, an LJM2 employee named Anne C. Yaeger called the Enron unit and grilled it about Enron's valuation of the cable, without identifying herself as an LJM staffer, according to a former employee familiar with the matter.

An attorney for Ms. Yaeger says people she dealt with at Enron knew she was working for LJM. An attorney for Mr. Fastow has previously pointed to Enron statements that all the LJM
transactions were proper and approved by the board and top management.

By the late 1990s, Enron had become a freewheeling trading firm. But it wasn't eager to let Wall Street know just how much of its profit came from trading, because trading companies tend to command lower price-to-earnings multiples than energy producers.

That posed a problem when executives at Enron Americas, the company's wholesale trading operation, expecting a drop in natural-gas prices around the start of 2001, wanted to make a big bearish bet by selling gas futures. The gas trading group was already bumping against its $65 million limit for the amount it could have at risk in trading. If Enron Americas asked Enron's board for a higher trading limit, the move would eventually have to be disclosed. Among other things, Wall Street could be tipped off to the extent of Enron's dependence on trading for its profits.

Enron Americas Chief Executive John Lavorato called a meeting of top gas traders to figure out how to make the bearish bet, says Jim Schwieger, a trader who attended. The plan devised, according to Mr. Schwieger: Enron would portray its gas-futures sales not as trading but simply as an effort to hedge gas that it owned -- or needed to own to operate power plants. Such contracts wouldn't have to be accounted for as so-called mark-to-market earnings, under which traders estimate future profits from trades and record them as current earnings. If the company accounted for the trades under a different method, they wouldn't count toward the gas group's "at-risk" trading limit.

Mr. Lavorato's predictions were right: Gas prices plunged, and the bet paid off for Enron. "At Enron, you never got punished for breaking the rules and being successful," Mr. Schwieger says. "At every level, Enron people were arrogant and smart enough to think they knew better than the level above them."

Mr. Lavorato declined, through a spokesman, to comment.

Last October, the extended financial latticework that had propped up Enron began to come unglued. Enron said it would take a $1.01 billion pretax charge against earnings. More than $700 million of this, it would later emerge, was due to termination of deals related to one of the LJM partnerships. At an employee meeting held by Mr. Lay, Mr. Schwieger piped up with a barrage of questions about the partnerships.

A half-hour later, as Mr. Schwieger stood at a fax machine, he says he looked up to see Mr. Fastow extending his hand. Mr. Fastow "said the questions that I was asking about the partnerships were the questions that needed to be asked, but he said he didn't think it was time to be asking them," Mr. Schwieger recalls. He says the CFO invited him to meet the following day to discuss the partnerships. The meeting never happened. The next day, Enron suspended Mr. Fastow.

Some six months later, Mr. Schwieger says, he ran into the former CFO at the Houston airport. While Mr. Fastow's parents were undergoing a random search, he stopped to chat with Mr. Schwieger. "I never got an opportunity to explain the partnerships to you," he said, according to Mr. Schwieger. Mr. Schwieger replied, "With everything that has come to light, I probably wouldn't like the answer I would have gotten."