Enron's Hairy Deal

In the go-go '90s, Enron used off-balance-sheet entities with names like Talon and LJM to inflate profits and lower debt. These helped Enron hit ambitious growth targets and please Wall Street, but later led to the company's collapse.

Here's an interactive look at Chewco, one of these intricate and opaque arrangements. We explain how it worked, who paid whom and why the transactions were questionable -- with expert commentary to guide you along.

Watch for buttons indicating expert audio commentary is available.

Research by Matt Phillips

START
Enron's Hairy Deal

In 1993, Enron entered a 50-50 energy-investment venture dubbed JEDI with Calpers, the giant California pension fund. In 1997 Enron moved to buy out Calpers's 50% interest, hoping Calpers would then invest in a larger partnership. If Enron bought the stake directly, JEDI's debt would move to Enron's balance sheet. To avoid taking on this debt, Enron needed to find a new independent partner.
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Named for Chewbacca, the "Star Wars" character, **Chewco was created by Enron in November 1997** to buy out Calpers's stake in JEDI. It appears at this time Chewco was run and partially owned by Enron executive Michael Kopper, who was a top aide to Chief Financial Officer Andrew Fastow, the architect of many off-balance sheet deals. Using bridge loans guaranteed by Enron, **Chewco bought out Calpers's 50% stake for $383 million.**
Enron's Hairy Deal

Now, Chewco needed to find long-term financing, which would prove tricky. To raise the $383 million it needed, Chewco obtained long-term funding from three sources -- all of which could be traced directly or indirectly to Enron. In one instance, shown below, Enron guaranteed a $240 million loan from a bank to Chewco.
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In another move to reach the needed $383 million, JEDI advanced Chewco $132 million under a revolving credit agreement.
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Chewco still needed one crucial piece. Under accounting rules at the time, Chewco needed about 3% of the $383 million -- or $11.5 million -- to come from independent investors. Otherwise, Chewco wouldn't qualify as independent, and JEDI's debt would need to go on Enron's books.
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To fill the role of "independent" investor and move toward the 3% threshold, Chewco turned to a group of entities owned or controlled by Fastow aide Kopper or William Dodson, Kopper's domestic partner. **Kopper and Dodson invested about $125,000** in these new entities. Unlike Fastow -- whose involvement would have been an explicit red flag -- Kopper wasn't an officer of Enron and Enron didn't disclose his involvement publicly.

**Special Entities Controlled by Kopper/Dodson who invest $125,000**

**Banks**

- Debt guarantee
- $240 million loan

**JEDI**

Joint Energy Development Investments

- $250 million in Enron stock

**Chewco**

- $132 million

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**STAGE: 6 of 9**

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More moves were to come. In late 1997, **JEDI** made a special $16.6 million distribution to **Chewco**.
Enron's Hairy Deal

Using that money, Chewco funded $6.6 million in cash reserves as collateral a bank demanded before it distributed $11.4 million to some of the entities under control of Kopper and Dodson.

Special Entities Controlled by Kopper/Dodson who invest $125,000

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Enron's Hairy Deal

The bank distributed $11.4 million to Kopper and Dodson entities, in agreements described as "equity loans." Those entities then contributed $11.4 million to Chewco. With the $125,000 contributed by Kopper and Dodson, Chewco hit its goal of $11.5 million in "independent" equity. In November 2001, Enron acknowledged that Chewco wasn't truly independent, and restated its earnings sharply lower for 1997-2000. It collapsed shortly thereafter.