The Art of the Enron Deal

Enron used outside partnerships to monetize assets and move debt off its balance sheet. But the company at times was deeply involved in funding the partnerships. Here is how such transactions in recent years were typically structured:

1. Enron transfers asset to special-purpose entity, or partnership, to move the asset and debt off its balance sheet and to recognize a gain from the transfer.

2. Outside investor injects at least 3% of partnership's capital. Under Financial Accounting Standards Board rules, a 3% outside investment allows Enron not to classify the partnership as a subsidiary.

3. In some cases it appears Enron helped provide some or all of the 3% of capital injected by the outside investor.

4. Lending group

5. Enron guarantees bank loan, in some cases with Enron shares or a pledge to make up any shortfall. As the company's fortunes declined last year, these guarantees were sometimes in the form of cash.

Banks typically loan up to 97% of capital needed by the partnership. The partnership is expected to repay the loan from cash generated by the Enron assets it acquires or through the sale of assets upon liquidation of the partnership.