

Thanks, Enron. We Needed That!

by John Farrow

Having just returned from the RRCA national convention where every time anyone turned around, there was some board member with a long face telling everyone about the dire straits of the RRCA's financial condition. Personally, I liked their music. As they used to say on American Bandstand, "You can dance to it."

But I digress. And that's not the point, anyway. The point is that the RRCA needs to come up with a new financial strategy for dealing with the fact that expenses have exceeded income from time immemorial and Enron has just shown us the way to deal with this insane situation.

In the late 1960s, the word was *plastics*. In the 1990s, it was *IRBs* – Industrial Revenue Bonds. Today, it is Initial Public Offerings of reverse convertible preferred shares of off-shore debt/equity debentures. In other words, Enron.

Yes, Enron has changed the equation and lent its name to an entirely new economic system. First, there was feudalism, where the lord of the manor would simply take some of the milk from your two cows.

Then came Communism, where you might have two cows and you take care of them, but the government takes all the milk.

Under capitalism, you might sell one of your two cows and buy a bull. The herd multiplies, the economy grows and you eventually sell your animals and retire on the income.

With Enronism, you still have two cows but you borrow 80% of the forward value of the cows and buy another with 5% down and the rest financed by the seller on a note callable if your market cap goes below \$20B at 2x prime. Then you sell three cows to your publicly listed company using letters of credit opened by your

brother-in-law at a Channel Islands bank and execute a debt/equity swap with an associated general offer so that you get four cows back with a tax exemption for five.

Of course, the milk rights to, say six cows, are transferred via an intermediary to a Cayman Islands company secretly owned by your majority shareholder who then sells the rights to seven cows back to your listed company. The Annual Report says the company owns nine cows with an option on one more, that profits are up 30% and this entire process is verified by your friendly independent auditor. In a press release, you, as the major owner of the cows, announce that you will begin trading cows via the internet at www.COW.com.

However, upon inspection both cows are found to be bulls and the milk worthless. Further investigation shows that many prominent people have taken turns "milking the cow" and pronounced the milk good. The nation becomes aware that its leaders can't tell bull semen from milk.

What does this have to do with the debt of the RRCA? It shows that this debt can be stashed in a Cayman Islands company with impunity, which a good accountant like Arthur Andersen would call that a risk-based, special purpose entity. It's all perfectly legal, at that. It's also not a bad way to manage your credit card debt if you can afford the legal fees.

And of course, this risk-based, special purpose entity could issue subordinated bonds at 3x prime callable whenever the next American, man or woman, wins the Olympic Marathon or until hell freezes over, whichever first occurs.

All of this recalls our good friend Billie Sol Writeoff, who in the early '60s, pioneered an aggressive and forward-thinking railroad

fertilizer car leasing program that really didn't hurt anybody and actually made a lot of people a lot of money. People like bankers and lawyers and politicians like LBJ. But especially of Billie Sol himself, who leased the same cars to different people at the same time.

Back then, Billie Sol was thinking out of the box, ahead of the curve, and for a while, ahead of the FBI. But it is his brand of creative thinking that can help rescue the RRCA and the running profession from the doldrums of financial mediocrity. Think about it. Through our active and involved lifestyle, we help employ personal trainers, massage therapists, doctors, sports medicine specialists, health club personnel, drug companies, athletic shoe salesmen, *ad injuriam*. In fact, we runners are the very reason that Nike exists today and that Ray Knight has an occupation and a retirement plan. Otherwise, his company might still be called Blue Ribbon Sports and run out of his garage.

Runners are veritable job machines. We are single-handedly responsible not only for the running shoe industry, but also for sports watches, heart rate monitors and calf stretchers, not to mention an entirely new industry of sports drinks, Power Bars and gel, as well as an exponential increase in the consumption of pasta and nutritional supplements.

And because we are responsible for such job creation, we should be thinking about obtaining Industrial Revenue Bonds from the government and the tax breaks that go with them. These bonds are used as an economic development tool because they allow companies to raise money with which to build facilities that employ workers who pay taxes. In return for their investment, the companies get tax breaks from the government. The reasoning is that since the companies create jobs and wealth, they should be rewarded.

Any runner regardless of ability will create

dozens of jobs without even trying. By the time you get back from a leisurely 5-mile training run, you can just hear the stock options and 401(k) plans opening up from the benefits of your exertions. And because we do create so many jobs, we should be thinking about obtaining Industrial Revenue Bonds from the government and the tax breaks that go with them.

That's where the IPO comes in -- the Initial Public Offering. When an IPO comes out on Wall Street, traders and brokers go into a feeding frenzy, snapping up shares that can only go higher, if conventional wisdom holds. The higher the price of the stock, the greater the value of the company.

And what better job-creating entity to take public than the RRCA, backed up by 200,000 member runners. Millions of shares of stock can be issued while at the same time selling industrial revenue bonds based on the jobs created by the club's members. Once a commitment for the bonds is secured, the club can then launch an Initial Public Offering of its shares to the public.

As funds pour in and the revenues are double-booked, the financial woes of the RRCA will be over. Of course, other woes might just be on the horizon as our officers join the few remaining unindicted CEOs as they make a break for Mexico.□

ARR News, July 2002
Albuquerque Road Runners Club