

GREY VALUE MANAGEMENT, LLC

ACCENTURE / ARTHUR ANDERSON LIABILITY TRADE

Accenture (ACN) Trade on Exposure to Anderson Liability (March 2002)

Arthur Andersen, the accounting firm, was in the process of imploding as a result of its superb auditing of Enron. Accenture, the consulting arm once referred to as Andersen Consulting, separated from the accounting business, Arthur Andersen, in 1989. However, the two entities were still associated by a coordinating body based in Geneva which *theoretically* could have served as sufficient legal basis for the accounting liability to extend through to the Accenture business.

But whether a lawsuit designed to reach through Arthur Anderson to Accenture's pockets would ultimately succeed was irrelevant because, given the vastness of the Enron liabilities relative to its assets, it seemed inevitable that the plaintiff's bar would at least attempt it. Thus, the appeal of the trade didn't derive from the ultimate success of such litigation but from the highly probable drop in the share price upon the *announcement* of the litigation.

Additionally, as an event trade this was an attractive opportunity because ACN was already trading at a very rich multiple and close to its all-time highs. Being short the stock presented little short-term potential downside because, in light of the Enron scandal, an upward revaluation of ACN was very unlikely. This observation was ratified when during the holding period several brokerage firms actually upgraded the stock to "strong buy," but to very little effect. All of this activity was against the backdrop of a huge overhang of stock in the hands of management that would soon be "unlocked" and thus free for sale, potentially exerting significant pressure on the stock price. Ultimately, it was a fairly attractive compendium of circumstances.

An unexpected but very beneficial catalyst that enabled me to exit the trade relatively quickly was an announcement by ACN that they were going to double the number of shares available for trading. That ACN chose to issue additional equity at the same price that I had shorted the stock I took as at least an indication that they also felt that the stock was trading at a healthy valuation. So much for the broker upgrades...

Average Short Sale Price	\$29
Average Cover (Purchase) Price	\$26
Gross Return on Trade	10%
Timeframe (2002)	~ 8 days

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