

GREY VALUE MANAGEMENT, LLC

PROVIDIAN RESTRUCTURING TRADE

Providian (PVN) Position on Restructuring of Balance Sheet (10/19/01)

The fifth-largest U.S. Visa and MasterCard issuer, Providian Corp. shares and bonds plunged after it announced mounting credit-card losses and the departure of its chief executive officer. 30% of its US loans (\$9.4 bil.) were to high-risk borrowers, and there was a crisis of confidence. The Company had earlier announced that it was going to set aside at least \$100 million for loan losses in the fourth quarter, and there were concerns that the rising losses threatened PVN's ability to raise money in the asset-backed debt market, which could undermine their ability to make future fee-generating loans to their customers.

In order for PVN to be a candidate for bankruptcy one had to assume that the highest default rates in the industry were not only going to climb higher, but do so quite quickly - an assumption that would entail the relatively rapid onset of a severe recession in the US. Balancing that picture was a company with objectively valuable assets on its balance sheet that was aggressively searching for a new CEO and ostensibly prepared to sell off whatever assets necessary to ensure its survival.

This was a longer-term play on the value of the assets on the balance sheet, and hence was not a candidate for a large portfolio allocation. During the tenure of the position the stock traded down significantly, creating further buying opportunities but introducing substantial volatility as well. It wasn't a trade for anyone prone to panic, and entailed considerable analysis and monitoring of PVN's balance sheet.

Average Purchase Price	\$4.50
Average Selling Price	\$7.50
Gross Return on Trade	67%
Timeframe	6 months

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