Okay, here is a breakdown of the short-selling case studies mentioned in "The Most Dangerous Trade," detailing the target companies, the reasons for shorting, the specific details uncovered, and the research methods used, based \*only\* on the provided text.

\*\*General Themes & Common Methods Used by Short Sellers (Across Cases):\*\*

\* \*\*Deep Dive Financial Analysis:\*\* Scrutinizing SEC filings (10-Ks, 10-Qs, Proxies), analyzing balance sheets, income statements, cash flow statements, footnotes, comparing GAAP vs. non-GAAP or statutory accounting, calculating key ratios (P/E, P/S, P/B, Debt/Equity, ROA, ROC), tracking insider selling, analyzing valuation metrics, dissecting merger/acquisition accounting, assessing earnings quality, and identifying accounting red flags (e.g., changes in auditor language, high DSO, growing inventories vs. sales, aggressive revenue recognition, capitalization of expenses, questionable reserves).

\* \*\*Industry & Competitive Analysis:\*\* Understanding industry dynamics, technological disruption, competitive pressures, market saturation, business model viability, comparing company metrics (margins, growth rates) against peers.

\* \*\*On-the-Ground Research / Channel Checks:\*\* Site visits (factories, stores, real estate developments), talking to customers, suppliers, distributors, former employees, industry experts, retail staff; sometimes involving surveillance or sample collection.

\* \*\*Public Record Research:\*\* Accessing court documents, regulatory filings (beyond SEC, e.g., state insurance departments, SAIC in China, SBA reports, property records, tax assessor data), using FOIA requests.

\* \*\*Management Assessment:\*\* Evaluating management credibility, track record, transparency (or lack thereof), analyzing conference call Q&A, monitoring management turnover (especially CFOs).

\* \*\*Utilizing Third Parties:\*\* Hiring contract research firms, private investigators, technical experts (e.g., engineers, manufacturing specialists, medical experts), and labs.

\* \*\*Media & Public Dissemination:\*\* Publishing research reports, giving presentations at conferences, talking to journalists (sometimes anonymously, sometimes on the record), using websites/blogs, public confrontations.

\* \*\*Legal & Regulatory Engagement:\*\* Contacting regulators (SEC, FBI, DOJ, State AGs, exchange regulators), filing lawsuits (e.g., False Claims Act, suits against enablers), responding to investigations/subpoenas.

\* \*\*Collaboration & Networking:\*\* Sharing ideas with other short sellers, consulting experts within their network.

\* \*\*Pretexting/Undercover Work:\*\* Posing as potential customers or partners to gather information (ethically debatable but used).

\* \*\*Trading Tactics:\*\* Using options (puts, calls) to define risk or create synthetic positions, managing position size, monitoring short interest and cost to borrow, tactical timing around catalysts (earnings, FOMC meetings).

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\*\*Case Studies Breakdown:\*\*

\*\*Chapter 1: Bill Ackman (Pershing Square)\*\*

1. \*\*Target:\*\* Herbalife (HLF)

\* \*\*Thesis:\*\* Illegal pyramid scheme.

\* \*\*Details:\*\*

\* Recruitment-based compensation prioritized over actual product sales to end-consumers. \*(Analysis of business model vs. legal definition)\*

\* Products significantly overpriced compared to competitors. \*(Comparative pricing analysis)\*

\* Insufficient R&D and marketing spend for a product company. \*(Financial statement analysis)\*

\* "Nutrition clubs" used to force inventory onto distributors and recruit others. \*(Investigation by contract research firm Indago Group, field research)\*

\* Targeting of low-income/minority distributors. \*(Demographic analysis, review of marketing materials)\*

\* Aggressive marketing tactics (videos showing lavish lifestyles). \*(Analysis of company marketing materials)\*

\* \*\*Methods:\*\* Financial statement analysis, business model analysis, hiring contract research firm (Indago Group), field research, analysis of marketing materials, public presentations (Sohn Conference, dedicated presentations).

2. \*\*Target:\*\* MBIA

\* \*\*Thesis:\*\* (Implied) Overvalued/Risky due to credit exposure.

\* \*\*Details:\*\* Ultimately lost AAA rating after a long battle involving regulatory investigations. \*(Outcome analysis, cited via Richards's book)\*

\* \*\*Methods:\*\* (Implied) Deep financial analysis, public advocacy, responding to regulatory investigations (Spitzer, SEC, DOJ).

3. \*\*Target:\*\* Farmer Mac (Federal Agricultural Mortgage Corp.)

\* \*\*Thesis:\*\* (Implied) Overvalued or flawed business model. Successful short.

\* \*\*Details:\*\* Not specified.

\* \*\*Methods:\*\* (Implied) Financial analysis.

4. \*\*Target:\*\* Realty Income (REIT)

\* \*\*Thesis:\*\* (Implied) Overvalued or flawed business model. Successful short.

\* \*\*Details:\*\* Not specified.

\* \*\*Methods:\*\* (Implied) Financial analysis.

\*\*Chapter 2: Manuel Asensio (Asensio & Co. / Integral Securities)\*\*

1. \*\*Target:\*\* PolyMedica Corp.

\* \*\*Thesis:\*\* Medicare fraud.

\* \*\*Details:\*\*

\* Inflated pricing for blood glucose test kits billed to Medicare. \*(Comparative pricing analysis)\*

\* Shipping unordered products / products to deceased individuals. \*(Customer interviews, former employee interviews)\*

\* Failing to obtain required doctor's orders/prescriptions. \*(Regulatory compliance check, interviews)\*

\* Not reimbursing Medicare for high volume of returned kits. \*(Warehouse stakeout, worker interviews, former employee interviews)\*

\* Company faced prior FBI raid/investigation (Asensio claimed instigation). \*(Monitoring regulatory/news reports, contact with regulators)\*

\* Political influence suspected in low settlement amount. \*(Analysis of regulatory/political environment)\*

\* \*\*Methods:\*\* Contacting regulators (FBI, DOJ), interviewing doctors, customers, former employees, site visits (warehouse stakeout, photography, worker interviews), financial statement analysis, public advocacy/reports.

2. \*\*Target:\*\* Diana Corp.

\* \*\*Thesis:\*\* Fraudulent technology claims.

\* \*\*Details:\*\* Claimed revolutionary phone switch was deemed unbuildable by industry experts. \*(Expert interviews)\*

\* \*\*Methods:\*\* Interviewing industry experts/equipment makers (Flextronics), publishing research.

3. \*\*Target:\*\* General Nutrition Companies (GNC)

\* \*\*Thesis:\*\* Overvalued, weak fundamentals, facing regulatory headwinds (vitamin efficacy doubts).

\* \*\*Details:\*\*

\* Significant insider selling prior to downturn. \*(Tracking insider filings)\*

\* Weak store metrics despite saturation. \*(Financial/Industry analysis)\*

\* High valuation multiples (P/E). \*(Financial analysis)\*

\* Low tangible net worth. \*(Financial analysis)\*

\* Impending negative results from NCI beta carotene studies. \*(Cold-calling NCI employees, monitoring NCI announcements)\*

\* \*\*Methods:\*\* Analyzing insider sales, financial statement analysis, industry analysis, investigative calls to NCI, timing report release with NCI news.

4. \*\*Target:\*\* Hemispherx Biopharma

\* \*\*Thesis:\*\* Core drug (Ampligen) ineffective/unsafe; company primarily a vehicle for insider stock sales.

\* \*\*Details:\*\*

\* Association with notorious underwriter (Stratton Oakmont). \*(Analyzing underwriter reputation)\*

\* Ampligen lacked FDA approval despite decades of development. \*(Tracking regulatory history)\*

\* Scientific assessment suggested drug's RNA structure was inherently toxic. \*(Consulting medical/scientific experts)\*

\* History of research integrity questions (DuPont lawsuit). \*(Reviewing legal records)\*

\* Past FDA censures for improper claims. \*(Monitoring FDA actions)\*

\* Company made bogus endorsement claims. \*(Verifying claims with third parties)\*

\* \*\*Methods:\*\* Analyzing underwriter/management history, tracking FDA drug approval process, consulting scientific experts, reviewing legal history, monitoring FDA communications, verifying company claims, public confrontation.

5. \*\*Target:\*\* KFx Inc. (later Evergreen Energy)

\* \*\*Thesis:\*\* Core technology (K-Fuel coal cleaning) was uneconomical and ineffective.

\* \*\*Details:\*\*

\* History showed such coal-drying technology was uneconomical. \*(Historical/Technical research)\*

\* Process created safety (combustion) and environmental (dust) hazards. \*(Technical analysis, DOE white paper)\*

\* Management made false claims about test plant success (e.g., "no dust"). \*(Monitoring conference calls vs. reality)\*

\* Shipped coal failed independent lab tests for stability, dustiness. \*(Site surveillance, sample collection, lab testing - SGS)\*

\* Video evidence contradicted "no dust" claims. \*(Site surveillance/Videography)\*

\* Questionable executive stock deals. \*(Analysis of SEC filings/executive compensation)\*

\* \*\*Methods:\*\* Consulting experts (DOE paper, utility exec "Deep Throat"), historical research, site visit/surveillance (video, sample collection), independent lab testing, monitoring management communications, financial analysis (executive deals).

\*\*Chapter 3: Jim Chanos (Kynikos Associates)\*\*

1. \*\*Target:\*\* Baldwin-United (BDW)

\* \*\*Thesis:\*\* Unsustainable model relying on risky annuities and deceptive accounting.

\* \*\*Details:\*\*

\* Reliance on SPDAs vulnerable to tax changes. \*(Regulatory analysis)\*

\* High leverage compared to peers. \*(Financial statement analysis)\*

\* Using annuity cash to buy troubled assets from affiliates. \*(Analysis of intercompany transactions)\*

\* Statutory vs. GAAP accounting obscured true picture. \*(Accounting analysis)\*

\* Dubious tax accounting inflated earnings. \*(Accounting analysis)\*

\* Regulatory scrutiny revealed in public files (via tip). \*(Public records request - Arkansas Insurance Dept.)\*

\* CFO resigned. \*(Monitoring management changes)\*

\* \*\*Methods:\*\* Deep financial/accounting analysis (statutory vs GAAP, leverage, affiliate transactions, tax accounting), regulatory analysis, acting on anonymous tip to check public records, monitoring management changes.

2. \*\*Target:\*\* Coleco Industries

\* \*\*Thesis:\*\* Flawed product (Adam computer); over-reliance on fads (Cabbage Patch Kids).

\* \*\*Details:\*\*

\* Adam computer delayed, poorly reviewed (Consumer Reports). \*(Monitoring product launches, reading reviews)\*

\* Later reliance on Cabbage Patch Kids fad, which eventually peaked. \*(Tracking sales trends)\*

\* \*\*Methods:\*\* Monitoring product launches/reviews, tracking sales trends.

3. \*\*Target:\*\* Texas Real Estate Bubble (various developers like Integrated Resources, Southland, SouthMark; banks like Texas Commerce, MCorp; S&Ls)

\* \*\*Thesis:\*\* Unsustainable real estate bubble fueled by easy credit and speculation, post-oil boom; "Ponzi finance."

\* \*\*Details:\*\*

\* "See-through" buildings with low occupancy, often filled with related real estate businesses. \*(On-the-ground research/site visits)\*

\* Cash flows from buildings didn't support debt levels. \*(Fundamental analysis)\*

\* Reliance on unfounded belief in Japanese buyers. \*(Challenging market narrative)\*

\* Fueled by S&L deregulation allowing risky investments. \*(Regulatory analysis)\*

\* Tax Reform Act of 1986 undermined tax shelter status. \*(Regulatory analysis)\*

\* \*\*Methods:\*\* Collaboration with local expert (Shad Rowe), on-the-ground research (touring properties), fundamental analysis (cash flow vs debt), regulatory analysis.

4. \*\*Target:\*\* Enron Corp.

\* \*\*Thesis:\*\* Accounting fraud (gain-on-sale, related parties); opaque/unsustainable business model; low return on capital.

\* \*\*Details:\*\*

\* Aggressive gain-on-sale accounting with non-transparent assumptions. \*(Financial statement/Accounting analysis)\*

\* Low Return on Capital (~7%) below cost of capital (~9%). \*(Financial calculation)\*

\* Opaque related-party transactions (Raptor etc.) hiding losses. \*(Analysis of SEC filings - 10K/10Q footnotes)\*

\* Heavy insider selling. \*(Tracking insider filings)\*

\* Ill-timed/hyped broadband venture during telecom bust. \*(Industry analysis, monitoring company presentations)\*

\* Management evasiveness/lack of transparency about earnings sources. \*(Analyzing conference calls, reading media reports - Fortune)\*

\* California energy crisis exposed trading model flaws. \*(Analysis of market events)\*

\* Abrupt CEO Skilling resignation. \*(Monitoring management changes)\*

\* \*\*Methods:\*\* Deep financial statement analysis (ROC, gain-on-sale, related parties), tracking insider sales, analyzing management communications/presentations, monitoring industry trends, reading investigative journalism (WSJ, Fortune), presenting findings at conferences. \*(Credited analyst Doug Millett for significant legwork).\*

5. \*\*Target:\*\* Dynegy

\* \*\*Thesis:\*\* Enron copycat using similar flawed model/accounting.

\* \*\*Details:\*\* Attempted Enron acquisition; admitted using identical accounting. \*(Monitoring M&A, company statements)\*

\* \*\*Methods:\*\* Comparative analysis, monitoring M&A activity.

6. \*\*Target:\*\* American International Group (AIG)

\* \*\*Thesis:\*\* Aggressive accounting (finite reinsurance); opaque/risky financial products unit; aggressive culture. (\*Covered too early.\*)

\* \*\*Details:\*\*

\* Use of finite reinsurance to manipulate reserves/earnings (e.g., Gen Re deal). \*(Accounting analysis)\*

\* Unit selling earnings-smoothing reinsurance to tech firms. \*(Analysis of specific business lines/products)\*

\* Financial Products unit (CDS on CDOs) lacked transparency. \*(Analysis of financial disclosures)\*

\* Regulatory arbitrage (OTS oversight). \*(Analysis of regulatory structure)\*

\* \*\*Methods:\*\* Financial statement analysis (reinsurance accounting), analysis of specific business units, evaluation of corporate culture, assessment of disclosure quality.

7. \*\*Target:\*\* Autonomy Corp.

\* \*\*Thesis:\*\* Accounting manipulation via roll-up strategy; overstated performance metrics; poor disclosure. (\*Lost money when acquired by HP.\*)

\* \*\*Details:\*\*

\* Used acquisitions to inflate deferred revenue growth, obscure core weakness. \*(Analysis of acquisition patterns, financial metrics)\*

\* Implausible market share, revenue growth, margins vs. peers. \*(Comparative analysis)\*

\* Low ROA despite high margins. \*(Financial analysis)\*

\* Poor disclosure quality. \*(Assessment of SEC filings, verbal disclosures)\*

\* Overstated goodwill/intangibles in acquisitions. \*(Acquisition accounting analysis)\*

\* Blacklisted critics. \*(Monitoring media/analyst relations)\*

\* \*\*Methods:\*\* Financial statement analysis (key metrics, acquisition accounting), comparative analysis vs peers, disclosure quality assessment, monitoring company interactions with critics. \*Alerted HP board (unsuccessfully).\*

8. \*\*Target:\*\* Hewlett-Packard (HP)

\* \*\*Thesis:\*\* Failed roll-up; deteriorating balance sheet; declining core businesses; "value trap."

\* \*\*Details:\*\*

\* History of value-destroying acquisitions needing write-downs. \*(Analysis of M&A history)\*

\* Low R&D spend masked by acquisitions. \*(Financial statement analysis)\*

\* Declining PC/printer businesses. \*(Industry trend analysis)\*

\* Worsening balance sheet (debt, negative tangible equity). \*(Financial statement analysis)\*

\* High CEO turnover/weak board. \*(Governance analysis)\*

\* Low P/E hid fundamental deterioration. \*(Valuation analysis)\*

\* \*\*Methods:\*\* Analysis of M&A track record, financial statement analysis (R&D, balance sheet metrics), industry analysis, governance assessment, challenging valuation metrics. \*(Triggered by Autonomy acquisition).\*

\*\*Chapter 4: David Einhorn (Greenlight Capital)\*\*

1. \*\*Target:\*\* St. Joe Company (JOE)

\* \*\*Thesis:\*\* Vastly overvalued real estate; flawed development strategy; failure to impair assets per accounting rules.

\* \*\*Details:\*\*

\* Development segment consistently lost money. \*(Segment analysis in financials)\*

\* Land assets carried at inflated values far exceeding market prices/development costs. \*(Comparative market analysis, cost analysis)\*

\* Specific projects (RiverTown, SummerCamp Beach, WindMark) clearly impaired but not written down. \*(Site visits, local market data analysis, financial statement analysis)\*

\* Value of land near new airport exaggerated. \*(Comparable sales analysis, analysis of airport authority competition)\*

\* \*\*Methods:\*\* Financial statement analysis (segment profitability, asset valuation, impairment analysis), extensive site visits/photography, local market research (inventory levels, comparable sales), analysis of public records (airport authority, county appraisers, deeds, bond prospectuses), FOIA requests, public presentation (Value Investing Congress).

2. \*\*Target:\*\* Allied Capital Corp.

\* \*\*Thesis:\*\* Misvalued loan portfolio; accounting manipulation; unsustainable dividend; fraudulent subsidiary (BLX).

\* \*\*Details:\*\*

\* Refusal to write down clearly impaired loans. \*(Portfolio analysis, comparing book value to market)\*

\* Auditor removed language endorsing valuations. \*(Analysis of auditor reports)\*

\* Improper income recognition from subsidiary BLX. \*(Accounting analysis)\*

\* Subsidiary BLX engaged in systematic SBA loan fraud. \*(Reviewing court cases, hiring private investigators - Kroll, collaborating with other shorts)\*

\* Failure to disclose regulatory actions/lawsuits. \*(Monitoring regulatory/legal environment)\*

\* Dividend funded by equity issuance. \*(Cash flow vs. financing analysis)\*

\* Illegal pretexting of critics. \*(Investigation, company admission)\*

\* \*\*Methods:\*\* Financial statement analysis (valuations, income recognition, dividend sustainability), analysis of auditor reports, interviewing management, hiring investigators, reviewing legal/regulatory actions, filing False Claims Act suit, public presentation (Ira Sohn).

3. \*\*Target:\*\* Lehman Brothers Holdings

\* \*\*Thesis:\*\* Extreme leverage; opaque/misleading accounting; management issues.

\* \*\*Details:\*\*

\* High leverage (44x). \*(Financial statement analysis)\*

\* Obscure use of FAS 159 to boost revenue. \*(Accounting analysis)\*

\* Inconsistent valuation of Level 3 assets. \*(Analysis of financial disclosures, calls with CFO Callan)\*

\* Questionable hedging claims. \*(Analysis of portfolio vs. market capacity)\*

\* Management evasiveness on calls. \*(Analyzing conference call transcripts)\*

\* Questionable portfolio marks (equity, commercial mortgages). \*(Comparative analysis vs. market/indices)\*

\* \*\*Methods:\*\* Financial statement analysis (leverage, accounting rules), analysis of conference calls/management communications, direct calls with CFO, public presentations (Value Investing Congress, Grant's, Ira Sohn), calls for regulatory action.

\*\*Chapter 5: Carson Block (Muddy Waters)\*\*

1. \*\*Target:\*\* Orient Paper (ONP)

\* \*\*Thesis:\*\* Outright fraud (inflated financials, assets, production).

\* \*\*Details:\*\*

\* Implausible financial metrics (inventory turnover, production) vs. rivals. \*(Comparative financial analysis)\*

\* Inflated asset values (scrap paper). \*(Site visit/Inspection)\*

\* Inadequate infrastructure (road) for claimed volume. \*(Site visit/Logistics analysis)\*

\* Poor factory conditions. \*(Site visit/Inspection)\*

\* Management ignorance of basic operations. \*(Management interview during site visit)\*

\* Major discrepancies between SEC and Chinese SAIC filings. \*(Comparative filing analysis)\*

\* Misappropriation of raised capital. \*(Forensic accounting)\*

\* \*\*Methods:\*\* Financial statement analysis (SEC vs SAIC), site visit/inspection, management interview, logistics analysis, collaboration with expert (Regan), publishing report with photos/video.

2. \*\*Target:\*\* RINO International Corp.

\* \*\*Thesis:\*\* Fraud (inflated revenue, questionable tech, fake customers, tax issues, VIE structure abuse).

\* \*\*Details:\*\*

\* Balance sheet light on tangible assets for a manufacturer. \*(Financial statement analysis)\*

\* Revenue growth disconnected from raw material usage vs. peers. \*(Ratio analysis vs peers)\*

\* Implausibly high margins vs. peers/technology assessment. \*(Comparative analysis, expert consultation)\*

\* Claimed customers denied relationship. \*(Customer checks via pretexting)\*

\* Money flowed improperly \*to\* management VIE. \*(Analysis of corporate structure/cash flow)\*

\* Tax filings (VAT) implied much lower revenue than SEC filings. \*(Comparative filing analysis)\*

\* High CFO turnover. \*(Monitoring management changes)\*

\* \*\*Methods:\*\* Financial statement analysis (asset mix, key ratios, margins, SEC vs tax filings), expert consultation (engineer), customer checks (pretexting), corporate structure analysis, monitoring management changes, publishing report.

3. \*\*Target:\*\* China Media Express Holdings (CCME)

\* \*\*Thesis:\*\* Grossly inflated operations/revenue.

\* \*\*Details:\*\*

\* Implausible revenue given target demographic. \*(Business model viability analysis)\*

\* Claimed bus network size contradicted own ad kit/salesperson admission. \*(Comparing internal vs external documents, pretexting call)\*

\* Major claimed clients/advertisers denied relationship. \*(Customer/partner verification calls)\*

\* Site checks showed buses aired other content. \*(Field research/Site visits)\*

\* False claim of Apple partnership. \*(Partner verification)\*

\* \*\*Methods:\*\* Business model analysis, comparing company documents, pretexting (posing as advertiser), site visits/observation, partner/customer verification calls, publishing report. \*Built on work by Citron/Bronte.\*

4. \*\*Target:\*\* Sino-Forest Corp.

\* \*\*Thesis:\*\* Massive fraud/Ponzi scheme using opaque intermediaries (AIs) to fabricate business.

\* \*\*Details:\*\*

\* Over-reliance on secretive AIs handling all forestry ops, making verification impossible. \*(Analysis of business structure)\*

\* Lack of verifiable VAT trail. \*(Analysis of accounting/tax process)\*

\* Claimed timber volumes exceeded provincial quotas/infrastructure capacity. \*(Analysis of public data vs company claims, logistics analysis)\*

\* Assets significantly overstated. \*(Forensic accounting based on volume analysis)\*

\* Suspected forged bank documents. \*(Document analysis)\*

\* Profits didn't flow through bank accounts. \*(Cash flow analysis)\*

\* \*\*Methods:\*\* Deep analysis of corporate structure, forensic accounting comparing claims vs public data (quotas, SAIC files), logistics analysis, document analysis, pretexting (posing as analyst), collaboration with large team/law firms, publishing report.

5. \*\*Target:\*\* Olam International

\* \*\*Thesis:\*\* Overleveraged, questionable accounting, solvency risk due to acquisition binge.

\* \*\*Details:\*\* Not specified beyond thesis.

\* \*\*Methods:\*\* Financial statement analysis, public presentation (Sohn London).

6. \*\*Target:\*\* NQ Mobile Inc.

\* \*\*Thesis:\*\* Revenue fabrication, unsafe software, fictitious cash.

\* \*\*Details:\*\* Claimed 72% revenue fictitious, software unsafe, cash unreal.

\* \*\*Methods:\*\* (Implied) Financial analysis, product testing, publishing report.

\*\*Chapter 6: Bill Fleckenstein (Fleckenstein Capital / RTM Fund)\*\*

1. \*\*Target:\*\* Gateway / Dell / Micron / Intel / Other PC Hardware Stocks

\* \*\*Thesis:\*\* Overvalued commodity businesses; facing price wars/margin pressure; specific accounting issues (Gateway financing, Dell guidance, Intel forecasting misses, Micron chip glut).

\* \*\*Details:\*\*

\* Falling PC prices. \*(Industry analysis)\*

\* Gateway's rising "other assets" indicated risky customer financing. \*(Balance sheet analysis)\*

\* Dell's EPS guidance boosted by rounding/tax rate, not operations. \*(Detailed earnings analysis)\*

\* Micron faced chip glut from overcapacity/subsidized competitors. \*(Supply/demand analysis)\*

\* Intel consistently missed forecasts. \*(Tracking historical guidance)\*

\* \*\*Methods:\*\* Industry analysis (pricing, competition, commoditization), financial statement analysis (balance sheets, earnings calculations), tracking company guidance vs actuals, publishing analysis online (website/MSN column). \*Also used technical/timing tactics around catalysts.\*

\*\*Chapter 7: Doug Kass (Seabreeze Partners)\*\*

1. \*\*Target:\*\* Marvel Entertainment

\* \*\*Thesis:\*\* Extreme overvaluation; unsustainable business driven by hype/insider enrichment.

\* \*\*Details:\*\*

\* Sky-high valuation multiples. \*(Valuation analysis)\*

\* Insider (Perelman) extracted cash via dividends. \*(Financial statement analysis)\*

\* High leverage. \*(Balance sheet analysis)\*

\* Signs of market peaking (price resistance, inventory buildup). \*(Channel checks - calling/visiting comic stores)\*

\* Talent drain to rivals. \*(Industry intelligence)\*

\* Gimmicky promotions/governance. \*(Analysis of company reports/board)\*

\* \*\*Methods:\*\* Valuation analysis, financial statement analysis, channel checks (comic stores), industry intelligence, governance analysis, publishing in Barron's (via Abelson).

2. \*\*Target:\*\* AOL Time Warner

\* \*\*Thesis:\*\* Overvalued; slowing growth; hidden liability via AOL Europe put.

\* \*\*Details:\*\*

\* Decelerating ad/subscriber growth vs. analyst estimates. \*(Growth rate analysis)\*

\* Footnote revealed massive put liability for struggling AOL Europe ($6.85B) exceeding cash on hand. \*(Deep footnote analysis)\*

\* \*\*Methods:\*\* Financial statement analysis (growth rates, cash balance), detailed footnote analysis, publishing in Barron's (via Abelson).

3. \*\*Target:\*\* Danaher Corp. (\*Unsuccessful short\*)

\* \*\*Thesis:\*\* Overvalued roll-up; slowing internal growth; earnings quality issues; sector weakness (dental).

\* \*\*Details:\*\*

\* High P/E multiple vs. peers/history. \*(Valuation analysis)\*

\* Acquisition math inflated valuation. \*(Analysis of M&A impact)\*

\* Negative internal growth suggested integration issues. \*(Segment growth analysis)\*

\* Earnings quality concerns (nonrecurring items, tax rate changes). \*(Accounting analysis)\*

\* \*\*Methods:\*\* Valuation analysis, financial statement analysis (segment growth, earnings quality), industry analysis, publishing online (TheStreet.com). \*Failed due to market psychology overriding fundamentals.\*

4. \*\*Target:\*\* Berkshire Hathaway

\* \*\*Thesis:\*\* Overvalued relative to parts; high exposure to troubled financial/housing sectors; succession/size constraints.

\* \*\*Details:\*\*

\* Sum-of-parts valuation below market price. \*(Valuation analysis)\*

\* High exposure via insurance/subsidiaries to financials/housing. \*(Portfolio/Segment analysis)\*

\* Key man risk (Buffett's age). \*(Governance/Risk analysis)\*

\* Slowing growth/difficulty finding large deals. \*(Growth analysis)\*

\* Share overhang (Gates Foundation). \*(Shareholder structure analysis)\*

\* \*\*Methods:\*\* Valuation analysis (sum-of-parts, P/B), portfolio/subsidiary exposure analysis, risk assessment (succession, size), growth analysis, shareholder analysis, public debate (Berkshire meeting).

5. \*\*Target:\*\* Apple Inc. (AAPL)

\* \*\*Thesis:\*\* Peak innovation/margins reached; rising competition; ecosystem weakening.

\* \*\*Details:\*\*

\* iPhone 5 merely evolutionary. \*(Product analysis)\*

\* High P/S ratio vs hardware peers. \*(Valuation analysis)\*

\* Quality issues emerging (Apple Maps). \*(Product analysis)\*

\* Competitors catching up; carrier pushback; apps less sticky. \*(Competitive/Industry analysis)\*

\* Impact of Steve Jobs's death. \*(Management assessment)\*

\* \*\*Methods:\*\* Product analysis, valuation analysis (P/S), competitive analysis, channel checks (carriers), ecosystem analysis, management assessment, publishing online.

\*\*Chapter 8: David Tice (Behind the Numbers / Prudent Bear)\*\*

1. \*\*Target:\*\* Procter & Gamble (P&G)

\* \*\*Thesis:\*\* Inflated EPS growth via accounting.

\* \*\*Details:\*\* Adjusted earnings growth much lower than reported. \*(Adjusting earnings for non-recurring items)\*

\* \*\*Methods:\*\* Financial statement analysis, publishing research (Behind the Numbers).

2. \*\*Target:\*\* WorldCom

\* \*\*Thesis:\*\* Aggressive accounting inflated earnings post-MCI deal.

\* \*\*Details:\*\* Calculated significant portion of forecast EPS derived from merger accounting. \*(Analysis of acquisition accounting)\*

\* \*\*Methods:\*\* Financial statement analysis, publishing research (Behind the Numbers).

3. \*\*Target:\*\* Paging Network

\* \*\*Thesis:\*\* Overvalued based on true cash flow; unsustainable capex; technological obsolescence.

\* \*\*Details:\*\*

\* High required maintenance capex ignored by EBITDA multiple. \*(Adjusted cash flow analysis)\*

\* Declining revenue per user, rising debt. \*(Financial trend analysis)\*

\* High valuation vs M&A comps ($/pager). \*(Valuation analysis)\*

\* Mobile phones making pagers obsolete. \*(Technological disruption analysis)\*

\* \*\*Methods:\*\* Financial statement analysis (adjusted EBITDA, trends), valuation analysis (M&A comps), technological analysis, publishing research (Behind the Numbers), taking fund position.

4. \*\*Target:\*\* General Electric (GE) (\*Long-term unsuccessful short\*)

\* \*\*Thesis:\*\* Overvalued (GE Capital treated as manufacturer); hidden credit risks in GE Capital.

\* \*\*Details:\*\*

\* GE Capital's size/risk profile similar to a bank but valued higher. \*(Segment analysis, comparative valuation)\*

\* Accounting maneuvers hid true level of nonperforming assets. \*(Analysis of accounting for nonperforming loans)\*

\* \*\*Methods:\*\* Financial statement/Segment analysis, accounting analysis, valuation analysis, publishing research (Behind the Numbers, Barron's).

5. \*\*Target:\*\* Sunbeam Corp.

\* \*\*Thesis:\*\* Turnaround based on accounting manipulation (big bath charges, channel stuffing).

\* \*\*Details:\*\*

\* Timing/size of restructuring charges, expense shifts suggested manipulation to flatter future results. \*(Analysis of restructuring accounting, expense timing)\*

\* Signs of channel stuffing (winter grill sales, soaring receivables). \*(Analysis of sales patterns, accounts receivable)\*

\* \*\*Methods:\*\* Financial statement analysis (restructuring charges, expenses, receivables), channel checks (sales seasonality), publishing research (Behind the Numbers).

6. \*\*Target:\*\* Tyco International Ltd. (\*Did not short due to rule\*)

\* \*\*Thesis:\*\* Operating profits inflated by excluding recurring charges; potential cookie jar reserves.

\* \*\*Details:\*\* True operating margins much lower when recurring charges included; merger accruals seemed excessive. \*(Analysis of recurring charges, merger accounting)\*

\* \*\*Methods:\*\* Financial statement analysis (analyzing non-recurring items, merger accruals), publishing research (Behind the Numbers - by Albert Meyer).

\*\*Chapter 9: Paolo Pellegrini (while at Paulson & Co.)\*\*

1. \*\*Target:\*\* US Subprime Housing Market / Related Securities (RMBS, CDOs via CDS and ABX Index)

\* \*\*Thesis:\*\* Unsustainable housing bubble fueled by lax lending/easy credit, poised for collapse; related securities vastly mispriced.

\* \*\*Details:\*\*

\* Historical inflation-adjusted home price data showed prices 30-35% above trend line. \*(Statistical analysis of historical housing data)\*

\* Analysis showed strong correlation between falling home prices and mortgage defaults, even with flat prices. \*(Data analysis correlating LoanPerformance and Case-Shiller data)\*

\* Lax lending standards (interest-only, low/no doc, ARMs) prevalent. \*(Industry practice analysis)\*

\* Flawed ratings methodology for CDOs (ignored correlation risk in a downturn). \*(Analysis of ratings models)\*

\* Initial "rate reset" thesis was flawed, but price decline thesis was robust. \*(Self-correction based on industry feedback - New Century CEO)\*

\* Market pricing for credit protection (CDS) was extremely low despite rising risks. \*(Market pricing analysis)\*

\* \*\*Methods:\*\* Deep quantitative analysis of historical housing data (inflation-adjusted), statistical correlation analysis (linking home prices and defaults via 1010Data), analysis of lending standards, analysis of CDO structuring/ratings methodology, engaging with industry participants (New Century CEO), structuring specific trades (START CDOs with Deutsche Bank, ABACUS CDOs with Goldman Sachs), negotiating portfolio selection (with ACA), purchasing CDS and shorting ABX index.

2. \*\*Target:\*\* Financial Institutions (Banks like Bear Stearns, Lehman; Insurers like MBIA) via CDS

\* \*\*Thesis:\*\* Banks/insurers were heavily exposed to collapsing subprime market and would suffer massive losses.

\* \*\*Details:\*\* Realization that large gains on subprime shorts meant symmetrical large losses for counterparties, likely thinly capitalized banks/insurers. \*(Logical deduction, analysis of counterparty risk)\*

\* \*\*Methods:\*\* Analysis of counterparty exposure, purchasing CDS protection on specific financial institutions.

\*\*Chapter 10: Marc Cohodes (Rocker Partners / Copper River)\*\*

1. \*\*Target:\*\* Lernout & Hauspie Speech Products (L&H)

\* \*\*Thesis:\*\* Product didn't work; revenues/customers fabricated; fraud.

\* \*\*Details:\*\*

\* Software highly inaccurate. \*(Product testing)\*

\* Retailers confirmed poor product quality. \*(Channel checks)\*

\* CEO had history of failure. \*(Management background check)\*

\* Revenue concentration in dubious Asian markets; customers unverifiable/non-existent. \*(Geographic revenue analysis, customer checks via investigator in Asia)\*

\* Use of related-party special purpose entities for fake revenue. \*(Analysis of financing structure)\*

\* Insider confirmation of fraud. \*(Cultivating insider source - Faherty)\*

\* \*\*Methods:\*\* Product testing, channel checks, management background checks, financial statement analysis (geographic revenue), hiring investigators, cultivating insiders, public confrontation, online activism, collaborating with journalists, filing lawsuits vs enablers.

2. \*\*Target:\*\* NovaStar Financial

\* \*\*Thesis:\*\* Fraudulent lender using accounting tricks, predatory practices, unsustainable dividend.

\* \*\*Details:\*\*

\* Manipulated gain-on-sale accounting. \*(Accounting analysis)\*

\* Unsustainable dividend paid from equity issuance. \*(Cash flow/Financing analysis)\*

\* Predatory lending, document tampering. \*(Tip from relative/ex-employee, PMI confirmation)\*

\* Fictitious branch offices. \*(Site visits)\*

\* Failure to disclose regulatory actions/lawsuits. \*(Monitoring legal/regulatory environment)\*

\* Aggressive online stock promotion. \*(Tracking online activity)\*

\* \*\*Methods:\*\* Tip from relative, financial statement analysis, investigation of lending practices, site visits, monitoring regulatory/legal actions, sharing research with SEC, engaging with online promoters.

3. \*\*Target:\*\* Taser International

\* \*\*Thesis:\*\* Unsafe product causing health risks.

\* \*\*Details:\*\* Studies linked Taser use to cardiac arrest. \*(Reviewing scientific/medical studies)\*

\* \*\*Methods:\*\* Reviewing scientific studies.

4. \*\*Target:\*\* Monster Beverage Corp.

\* \*\*Thesis:\*\* Product associated with health risks/ER visits.

\* \*\*Details:\*\* Teenagers mixing product with alcohol led to ER visits. \*(Field research)\*

\* \*\*Methods:\*\* Field research (ER stakeouts).

5. \*\*Target:\*\* Overstock.com

\* \*\*Thesis:\*\* Consistent losses masked by accounting; misleading management forecasts/statements.

\* \*\*Details:\*\*

\* History of losses despite pre-IPO profitability claims. \*(Financial statement analysis)\*

\* Repeatedly missed own forecasts. \*(Tracking guidance vs results)\*

\* Improper revenue recognition change inflated growth. \*(Accounting analysis)\*

\* High management turnover. \*(Monitoring management changes)\*

\* Questionable balance sheet items. \*(Balance sheet analysis)\*

\* CEO Byrne's erratic behavior/attacks. \*(Monitoring conference calls/media)\*

\* \*\*Methods:\*\* Financial statement analysis, comparing forecasts vs actuals, tracking management turnover, reading analyst reports (Gradient), analyzing conference calls, public criticism (Rocker article). \*Defended against lawsuit.\*

6. \*\*Target:\*\* AAIPharma

\* \*\*Thesis:\*\* Channel stuffing via price hikes; negative cash flow; high receivables.

\* \*\*Details:\*\*

\* Used large price hikes to induce distributors to over-order, boosting current sales. \*(Analysis of pricing strategy, distributor incentives)\*

\* Negative cash flow, high accounts receivable. \*(Financial statement analysis)\*

\* Sales data from IMS Health contradicted company claims. \*(Third-party data comparison)\*

\* \*\*Methods:\*\* Tip from analyst (Landini), financial statement analysis (cash flow, receivables), analysis of pricing/sales tactics, using third-party sales data (IMS Health), persistent engagement with sell-side analyst (Krensavage) to turn them.

7. \*\*Target:\*\* American Capital Strategies / Joseph A. Bank / OpenText / Tempur-Pedic (\*Held during 2008 liquidation\*)

\* \*\*Thesis:\*\* (Implied) Overvaluation, specific business model flaws.

\* \*\*Details:\*\* Stocks experienced sharp, anomalous spikes during forced liquidation period.

\* \*\*Methods:\*\* (Implied) Standard fundamental/financial analysis. \*Became casualties of suspected prime broker issues/market manipulation during forced liquidation.\*