

GREY VALUE MANAGEMENT, LLC

COMPAQ TRADE ON ISS ANNOUNCEMENT

Compaq (CPQ) / Hewlett-Packard (HWP) Trade on ISS Announcement

Proxy adviser Institutional Shareholder Services' (ISS) evaluation of the Hewlett-Packard/Compaq merger, which was announced March 5, was expected to influence the votes of institutions holding approximately 20% of the shares of HWP. It appeared more than probable that the merger would succeed regardless, but prior to the ISS announcement there was an opportunity to put the spread on (long CPQ, short HWP) at the \$1.80 level, only to unwind the position the immediately following day for \$0.75 or less, effectively collecting \$1 in profit in less than 24 hours.

It's worth noting that this profit was achievable *without* shouldering the risk pertaining to the ultimate outcome of the deal, the analysis of which was a much more complicated than simply speculating that the ISS recommendation would have a more positive than negative impact on the spread. Additionally, because the spread was already quite wide to begin with, the prospect for significant losses as a result of an "against" recommendation by ISS was more than acceptable.

Average Spread	\$1.80
Spread at Unwinding	\$0.80
Gross Return on Trade	9.5%
Timeframe (2002)	~ 1 day

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