

GREY VALUE MANAGEMENT, LLC

HONEYWELL / GE DEALBREAK TRADE

Honeywell (HON) Position Post General Electric (GE) Deal Break (10/2/01)

As is typical with a broken deal, the target sold off after it was announced that the transaction had been terminated. However in this case, due in large part to the sizable participation by arbitrage speculators, Honeywell went off a cliff, losing approximately 1/3 of its value. This created a merger-related trading opportunity because the price of HON was much more a function of the post-deal break selling pressure than it was the underlying value of the company. The arbs were only in it for the event, not the intrinsic value of HON. But Honeywell was hardly a troubled enterprise. In effect, this trade was an exercise in exploiting a transition between constituencies, buying after the arbitrageurs fled but before the value players arrived. If one bought shares at the time the deal was officially terminated, the profit opportunity was enormous, and the huge daily trading volume meant entering and exiting the trade was effortless.

Average Purchase Price	\$26
Average Selling Price	\$34
Gross Return on Trade	31%
Timeframe (2001)	60 days (appr.)

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