

GREY VALUE MANAGEMENT, LLC

MERISTAR / FELCOR DEALBREAK TRADE

Meristar (MHX) Position Following FelCor (FCH) Dealbreak

FelCor Lodging Trust (FCH), the nation's second largest hotel real estate investment trust (REIT), announced on May 10th 2001 that it would acquire MeriStar Hospitality Corporation (MHX), the nation's third largest hotel REIT. This merger was terminated September 21st when FCH invoked the MAC (material adverse change) clause in the merger agreement based upon the September 11th terrorist attack.

With the termination of the merger there was enormous selling pressure on the target, MHX. The general perception was that both companies were vulnerable to an extended downturn based on what was expected to be an extreme decline in leisure travel and tourism. However, in addition to disregarding the value of the underlying assets of MHX in particular, one also had to assume irrationally negative assumptions regarding US hotel occupancy rates. Although it wasn't immediately intuitive in that febrile atmosphere, the important point was that there was logical reason to believe that these companies might actually *benefit* from Americans limiting their travel to the domestic US rather than venturing overseas.

Average Selling Price	\$17
Average Purchase Price	\$12
Gross Return on Trade	42%
Timeframe (2001)	5 months

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