

GREY VALUE MANAGEMENT, LLC

COMPAQ / HEWLETT-PACKARD LAWSUIT TRADE

Compaq (CPQ) / Hewlett-Packard (HWP) Trade on News of Walter Hewlett Lawsuit

Upon the announcement of Walter Hewlett's legal challenge to the results of the CPQ/HWP proxy, the spread on the merger widened to \$1.05. However, it bordered on the ridiculous that HWP and CEO Carly Fiorina would engage in overt proxy fraud and/or violate SEC regulations - as was alleged in the suit - in order to clinch a deal that was likely to close regardless. Later perusal of the court filing unveiled that the suit was based on (among other things) an "undisclosed understanding" between HP management and Deutsche Bank (DB), whose asset management division was a major shareholder but whom also had an investment banking relationship with HP, allegedly prompting DB to change its vote to "for" the takeover just prior to the closing of proxy solicitations.

The principal attraction of this trade was that the deal outcome was rendered irrelevant by the extremely brief holding period. The spread was put on at \$1.05 (it traded wider - one could argue I timed it poorly) and unwound less than 2 hours later at \$0.80, capturing at least \$0.25 at very little risk during a very narrow window of time.

Average Spread	\$1.05
Spread at Unwinding	\$0.80
Gross Return on Trade	2.4%
Timeframe	< 1 day

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