

SPINOFF NEWS

Abraxis BioScience (ABII), **CSR** (CSR.AX) and **Carphone Warehouse** (CPW.L) all reiterated plans to complete their spinoffs (respectively **Abraxis Health**, **Sucrogen** and **TalkTalk**) by the end of this quarter, but provided no more specific timetable.

CDC Software (CHINA) this month revived plans for a 2010 IPO carveout of its game unit, CDC Games.

In the face of repeated company denials, credible reports persist that **Motorola** (MOT) may not spin off its cellular unit after all, after a strong initial showing for its latest handset. Hope springs eternal in Schaumburg.

Vancouver-based, US-traded cement plant engineering services company **KHD Humboldt Wedag International** (KHD) announced January 6 it will spin off its royalty interest in the Wabush iron mine as an independently traded royalty trust. KHD appears a reasonably attractive, cheap business: lots of cash, less than 5% debt-to-equity, very high return on employed capital (between 15% and infinity, depending upon one's judgment of its operating cash needs), and operating yield of about 12% on total capitalization.

If the company's estimate of the present value of the mineral royalty asset (published earlier this month) is to be believed, then KHD trades at almost exactly its adjusted tangible book value, limiting the risk of loss.

We advocate either one of two tactics with regard to KHD. First, for the short term, one might buy KHD now and hold both parent and spinoff for a few months, to enjoy the elimination of the market discount often applied to companies holding assets with wildly different financial profiles. Second, for the long term, one might look for a window of low price on the royalty trust in the first few weeks after the spinoff, then buy and hold if the yield is high enough.

KHD remains an attractive company, but appears very exposed to a sudden decline in the industrial development of the emerging markets it serves. *Spinoff & Reorg* is less sanguine than some other analysts about a *deus ex BRIC* economic recovery, and plant engineering services are at the tail of the cyclical whip, so we're inclined not to invest in the ex-spin parent alone.

Macquarie Infrastructure Group (MIG.AX) completed the spinoff of its "mature" (and heavily indebted) toll road holdings as **Macquarie Atlas Roads** (MQA.AX). The unit debuted January 26 with a market capitalization of A\$278m, nearly 80% below the Macquarie board's estimate. The parent will imminently be renamed **Intoll**. Since debt reduction (at the parent) appears to be a central motivation for the spinoff, there is risk of a fraudulent conveyance suit if MQA soon drowns under the debt load.

As a side note, we expect more than a few such suits in the years following the financial crisis. The biggest so far has been the shareholder class action suit at **Tronox** (TRXAQ), a titanium dioxide maker spun off in 2006 from Kerr-McGee (now **Anadarko Petroleum** [APC]). Tronox declared Chapter 11 last May, and shareholders sued, arguing the company was sunk by liabilities known to Kerr-McGee before the spinoff. In such cases, the best opportunity may be senior bonds issued by the spinoffs, if any.

OTHER SPECIAL SITUATIONS

On January 4, **Novartis** (NVS) said it was exercising options to buy 52% of **Alcon** (ACL) from **Nestle** (NSRGY) at \$180 per share. But it then tendered for the rest of ACL at a stock swap ratio valued at only \$151 per share. Shareholder suits followed. Though ACL is very expensive at over 20 times earnings, it makes for an interesting speculation. Lowball tender offers can work in microcaps, but this situation is too visible, its shareholders too well funded. Novartis tipped its hand by exercising the option, then painted itself into a corner by committing publicly to merge -- the odds are very low that they would back out now. We suspect the tender will eventually occur at more like \$180. Thus the probable maximum exposure to the speculator is a 3% loss (if shareholder suits fail), versus a 16% gain if NVS matches its own \$180 exercise. Attractive.

REVISITING SEAHAWK DRILLING

We panned **Seahawk Drilling** (HAWK) when it spun off in mid-2009, citing oil price volatility as the main risk, despite an attractive discount to book value. Since then, shares are off 13%, to just a bit over half of tangible book value. The company's first quarterly report showed a net loss, but neutral cash flow. Is it a bargain yet? In the short run, no: the company's primary assets, drilling rigs, cannot easily be resold at present, so tangible book value is probably much greater than liquidation value.

And in the long run? The good news is that, with no cash burn, HAWK can theoretically ride out the storm. But with epic uncertainty surrounding both commodity prices and currency exchange rates, the company's asset base may not be a safe place to park money for a long time. This, in turn, raises a point about general investment strategy, covered immediately below.

ARMAGEDDON HEDGING FOR FUN AND PROFIT

There was talk this month among value investment managers about shorting long Treasuries, after well-regarded value investor Charles de Vaulx (manager of the International Value Advisors funds, protégé of SoGen Funds manager Jean-Marie Eveillard, and a self-described lifelong long-only investor) recently revealed he has 1% of his IVA Funds in **ProShares Ultrashort 20+ Year Treasury** (TBT).

The speculation makes sense -- the Fed has stated it will wind down intervention in that market -- but it is disconcerting to see value investors stray so far, buying instruments with no measurable book value or direct yield, and which hedge poorly against "armageddon," depending upon financial counterparties that may fail under just the extreme conditions in which they should pay best.

This illustrates the box into which investment managers -- especially bigger ones -- are painted. Demand, prices, credit and currency exchange rates all remain unusually unstable and unpredictable, compared to the pre-2007 world. The S&P's price ratios are again at the high end of their historical range, with yet little evidence of broad industrial recovery.

Moreover, value investors increasingly fear a macro wipeout: hyperinflation, protracted deflation, stagflation, currency collapse, etc. No one agrees which one, and it is difficult to judge conditions by public data when the global financial system is increasingly intertwined with government. Under such conditions, the fundamentals may respond as much to political as to economic necessity.

This almost unprecedented uncertainty over macro conditions greatly amplifies the usual investor uncertainty about specific choices. Almost no tactic is simultaneously robust to inflation, deflation, currency fluctuation, broker collapse, credit crisis, etc. Even determining what to do with cash has been complicated -- it now yields nothing, or less, yet is exposed to whatever currency it is denominated in, and to whatever financial institution to which it is entrusted.

For the investor convinced of an impending wipeout, but unsure which terrifying portent will prove true, one path through the minefield -- surer than cash under some scenarios -- is a stable, unencumbered, yielding asset whose yield is denominated in utility (in the economist's sense), rather than currency. This may sound too general to be actionable, but actually describes the requirements fairly clearly:

- Low debt, so that yield is immune to shocks in the cost of capital.
- Low capital requirements, so that yield is immune to shocks in the price of plant & equipment.
- Stable demand, so that yield is immune to shocks in general economic activity.
- Sustainable competitive advantage, so costs can be passed on to buyers, rendering yield immune to wild swings in input prices.

It's difficult to simultaneously satisfy all of these constraints except with a portfolio. Still, we keep coming back to tobacco firms -- **Lorillard** (LO), **Altria** (MO), **Philip Morris International** (PM), etc. -- as a good fit. While they are no longer cheap, and while debt is not as low as we would like, they do satisfy all requirements pretty well, and remain priced below the market's long-run average P/E ratio.

REPURCHASES AND INSIDER BUYING AT HIGH-ROI FIRMS

Weight Watchers International (WTW) is a classic asset-light, astronomical-ROI business, whose management has demonstrated the good sense to reinvest repeatedly in itself, reducing outstanding shares by 26% in the past 4 years. It trades at just 10 times earnings, and the business has remained relatively stable through the current economic storm. Its main fault -- and the likely cause of the low P/E -- is excessive exposure to the mad caprices of the debt markets: too much debt, coming due too soon. Or so it appears on the income statement. Operating cash flow, by contrast, appears sufficient to pay off all debt as it comes due. Thus WTW, while not bulletproof, at least appears a reasonably priced, stable business with both very high ROI and rational capital allocation.

In the same vein, tobacco firm **Lorillard** (LO) has consistently repurchased shares since spinning off from **Loews** (L) in 2008, reducing outstanding shares by 5% through September 2009. Shares trade at under 13 times earnings. Buybacks under these conditions deliver a tax-deferred compound rate of return over 8% -- with high reliability, in the case of a tobacco firm -- and are reinvested in a high-quality income generating engine (that is, stable and high return on employed capital). One could do worse.

In late October, a director of **Reynolds American** purchased almost three quarters of a million dollars of RAI at an average of \$47.80. Shares now trade at \$53.35, or about 15 times earnings -- not cheap. The company has negative tangible equity, but we argue it can safely be valued only on an earnings basis, because demand is stable (again, tobacco) and debt is manageable (interest coverage is over seven to one). The primary appeal of the company is its astronomical return on employed capital.

SPINOFF PROFILE

Madison Square Garden Group

Event details	
Type	distribution
Already listed pre-spin	no
Parent	Cablevision
Headquarters	USA
Primary listing	USA
Record date	1/25/10
Distribution date	2/9/10
Distribution ratio	1 : 4
Spin cap / Parent cap	0.25
CEO/chairman joins spinoff	no
Wide analyst coverage	yes

Cablevision Systems (CVC), fifth largest cable operator in the US, will shortly spin off its sports franchises as **Madison Square Garden Group (MSG)**, owner of the only pro sports venue in Manhattan, as well as the teams that play there, principally the Knicks and Rangers. There has been speculation that a heavily indebted CVC is spinning off MSG partly to evade an upcoming 9-figure financial commitment to renovate the venerable arena.

With negative tangible equity and earnings, neither looks cheap. Of the two, Cablevision has much

higher return on capital, at almost 50%. But with a current ratio and interest coverage ratio of less than 1 (net of the spinoff), the balance sheet inspires little confidence. MSG, meanwhile, has seen falling earnings on rising revenue in recent years; its most valuable physical asset, the arena, is located over a major railroad station, and presumably difficult to modify or deploy to another purpose.

Unusually, we heard hedge funds buzzing about MSG spinoff prospects months before any announcement, leading us to wonder if analysts, only human, suffer here from availability bias -- that is, MSG garnered attention in part because its marquee assets were just blocks away from most U.S. investment analysts.

Bottom line: avoid both.

Notes to the tables: (1) historical working capital and tangible book value were not disclosed in public filings. (2) MSG is seasonal, with much of revenue in the fourth calendar quarter. Thus we cannot annualize from the first three quarters of 2009, leaving FY2008 as the last full period. (3) Pro forma balance sheet from 9/30/09, because none was provided for 12/31/08. (4) Mainly deferred tax.

MSG Historical (not adjusted to reflect costs of independent operation)					
\$ millions					
	2008	2007	2006	2005	2004
Revenue	1043	1002	905	848	811
EBIT	-18	77	-20	37	97
Net income	-5	43	-13	32	50
Equity (1)	1073	1072	999	991	1059
Cablevision (parent actual minus divisional historical)					
\$ millions					
Revenue	6187	5482	4923	4234	3726
EBIT	506	815	596	438	10
Net income	-223	175	-113	-121	-729
Equity	-6435	-6171	-6338	-3484	-3706

Pro Forma Financials, Taking Effect of Separation

\$ millions, except ratios and per share amounts

	MSG	CVC
Year ending (note 2)	12/31/08	12/31/08
Revenue	1043	6187
EBIT	-18	705
Interest (expense)	2	-799
Tax, other (expense)	12	130
Net income	-5	-223
Cash and equivalents (3)	89	489
Receivables	294	596
Inventory		
Other current assets	89	301
Total current assets	472	1387
Property, plant & equipment	331	3141
Intangibles	1053	2338
Other assets	142	519
Total assets	1998	7386
Accounts payable, accrued exp.	4	1282
Other current liabilities	296	715
Total current liabilities	300	1997
Long-term debt		11549
Related-party liabilities		
Other liabilities (4)	661	238
Total liabilities	961	13785
Equity	1037	-6399
Tangible Equity	-16	-8737
Shares outstanding, m	75	302
EBIT ret. on empl. capital	-4%	46%
Debt to tangible equity	0.0	neg eq
Current ratio	1.6	0.7
Interest coverage ratio	∞	0.9
Recent price	21.35	26.1
Market capitalization	1,611	7,877
P/E	-352	-26.5
P/Sales	1.5	1.0
P/Tangible equity	neg eq	neg eq
EBIT yield on total capital	-1%	5%
Major index	none	S&P 500
Recent insider buying	no	no
Closely held	no	no

SPINOFF & REORG'S INVESTMENT PERFORMANCE

At right is the geometric mean 6-month return of all US spinoffs since June 2005. The far right column shows the corresponding mean return of all *Spinoff & Reorg* monthly recommendations (last page of each issue) over the same period.

Spinoff & Reorg's July 16 pick, **Bristol Myers Squibb** (BMY), was up an absolute 31%, beating the market by 8%. We were particularly pleased with this outcome, as it was a defensive choice.

Mean 6-month return, All Spinoffs all since Jun 2005	All Spinoffs	Spinoff & Reorg Selections
Absolute	-4.5%	5.8%
S&P-relative	1.3%	7.4%
Standard deviation	40%	35%

SPINOFF CALENDAR

Spinoff	Parent	Type	Primary Listing	Date	Market Cap
Altisource Portfolio Solutions (ASPS)	Ocwen Financial (OCN)	Spinoff	USA	08/04/09	\$500m - \$2b
Avago Technologies (AVGO)	KKR (private)	IPO	USA	08/06/09	> \$2b
Seahawk Drilling (HAWK)	Pride International (PDE)	Spinoff	USA	08/14/09	\$500m - \$2b
D-Pharm (DPRM.TA)	Clal Biotechnology Industries (CBI.TA)	IPO	Israel	08/25/09	< \$100m
Golar LNG Energy	Golar LNG (GOL.OL)	Spinoff	Norway	Aug-2009	
Reliance Media World (BOM:RMEDIA)	Reliance Mediaworks (Adlabs Films) (BOM:532)	Spinoff	India	Aug-2009	\$100m - \$500m
National Hydroelectric Power Corp (NHPC)	Indian government	IPO	India	Aug-2009	> \$2b
CareFusion (CFN)	Cardinal Health (CAH)	Spinoff	USA	09/01/09	
* Cuba Business Development Group	Fuego Enterprises (FUGI.PK)	Spinoff	USA	09/12/09	< \$100m
CTM Media Holdings (CTMMB)	IDT (IDT)	Spinoff	USA	09/14/09	< \$100m
Marico Bangladesh (18481.Dhaka)	Marico (531642.BO)	IPO	India	09/16/09	\$100m - \$500m
* Zoom Telephonics (ZMTP)	Zoom Technologies (ZOOM)	Spinoff	USA	09/21/09	< \$100m
Artio Global Investors (ART)	GAM Holding (GAM.SWF, GMHLY.PK)	IPO	USA	09/24/09	> \$2b
Shanda Games (GAME)	Shanda Interactive Entertainment (SNDA)	IPO	China	09/28/09	
Oil India (OIL)	Indian government	IPO	India	09/30/09	> \$2b
protein pharmaceuticals programs and techn	Maxygen Inc (MAXY)	Splitoff	USA	Sep-2009	< \$100m
GAM Holding (GAM.SWF, GMHLY.PK)	Julius Baer Holding (pvt)	Spinoff	Switzerland	10/01/09	> \$2b
Julius Baer Group (BAER.VX)	Julius Baer Holding (pvt)	Spinoff	Switzerland	10/01/09	> \$2b
Banco Santander Brazil (SAO:SANB3)	Banco Santander SA (MCE:SAN)	IPO	Brazil	10/07/09	> \$2b
Wynn Macau (1128.HK)	Wynn Resorts (WYNN)	IPO	Macau, USA	10/09/09	\$500m - \$2b
China Real Estate Information (CRIC)	E-House China (EJ)	IPO	China	10/15/09	\$100m - \$500m
* Big Pants Media	Blast Applications (BLAP)	Spinoff	USA	10/20/09	< \$100m
Delta Lloyd (DL.AS)	Aviva (AV.L)	IPO	Netherlands	Oct-2009	> \$2b
Trinity (0891.HK)	Li & Fung (0494.HK)	IPO	Hong Kong	11/03/09	\$100m - \$500m
Nitinat Minerals (NZZ.TO)	Inspiration Mining (ISM.TO)	IPO	Canada	11/09/09	< \$100m
Dollar General (DG)	KKR (private)	IPO	USA	11/13/09	> \$2b
COFCO Packaging (0906.HK)	COFCO Group	IPO	Hong Kong	11/16/09	\$100m - \$500m
Liberty Starz Group (LSTZA)	DirectTV (DTV)	Splitoff	USA	11/19/09	> \$2b
Cloud Peak Energy (CLD)	Rio Tinto (RTP, RIO.L)	IPO	USA	11/20/09	\$500m - \$2b
* Global Defense Technology & Systems (GTE)	Global Strategies Group	IPO	USA	11/20/09	\$100m - \$500m
* Vanoil Energy	Vangold Resources (VAN.V)	Spinoff	Canada	11/24/09	< \$100m
CapitaMalls Asia	CapitaLand (C31.SG)	IPO	Singapore	11/25/09	> \$2b
KA Finanz AG	Kommunalkredit Austria AG	Spinoff	Austria	11/28/09	> \$2b
Cenovus (CVE)	EnCana (ECA)	Spinoff	Canada	11/30/09	> \$2b
Sands China	Las Vegas Sands (LVS)	IPO	Hong Kong	11/30/09	> \$2b
* Parex Resources (PXT.CVE)	Petro Andina	Spinoff		Nov-2009	< \$100m
CFAO (CFAO.PA)	PPR (PP.PA)	IPO	France	12/03/09	> \$2b
legacy business	Li3 Energy, Inc (OTC:LIEG)	Splitoff	USA	12/08/09	< \$100m

SPINOFF & REORG PROFILES

JANUARY 2010

Issued January 31, 2010

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* Phyhealth Corporation	Physicians Healthcare Management Group (PH	Spinoff	USA	12/08/09	< \$100m
AOL (AOL)	Time Warner (TWX)	Spinoff	USA	12/09/09	> \$2b
legacy business	Li3 Energy, Inc (OTC:LIEG)	Splitoff	USA	12/12/09	< \$100m
Mead Johnson Nutrition (MJN)	Bristol Myers Squibb (BMY)	Splitoff	USA	12/14/09	> \$2b
Team Health (TMH)	Blackstone Group (BX)	IPO		12/16/09	\$500m - \$2b
* Energia Minerals (EMX.AX)	Carbon Energy (CNX.AX)	IPO	Australia	12/17/09	< \$100m
* Elementos	Orocobre (ORE.AX)	Spinoff	Australia	12/21/09	< \$100m
JSW Energy (JSWE.BO)	JSW Steel (JSTL.BO, JVSFL.PK)	IPO	India	01/04/10	> \$2b
Madison Square Garden (MSG)	Cablevision (CVC)	Spinoff	USA	01/25/10	\$500m - \$2b
Macquarie Atlas Roads (MQA.AX)	Macquarie Infrastructure (MIG.AX)	Spinoff	Australia	01/26/10	\$500m - \$2b
Q Copper Australia	Cape Lambert Iron Ore (CFE.AX)	IPO	Australia	02/03/10	\$100m - \$500m
Petaquilla Infrastructure	Petaquilla Minerals (PTQ.TO)	Spinoff	Canada	Feb-2010	
CW Worldwide	Cable & Wireless (CW.L)	Spinoff	UK	03/31/10	> \$2b
TalkTalk	Carphone Warehouse (CPW.L)	Spinoff	UK	Mar-2010	\$500m - \$2b
Sucrogen	CSR (CSR.AX)	Spinoff	Australia	Mar-2010	\$500m - \$2b
Abraxis Health	Abraxis BioScience (ABII)	Spinoff	USA	Q1 2010	
Lyondell Chemical	LyondellBasell	Spinoff	Netherlands	Q1 2010	> \$2b
Aditya Birla Capital	Aditya Birla Nuvo (500303.BO)	Spinoff	India	Q1 2010	\$100m - \$500m
Emami Realty	Emami (EMAM.BO)	Spinoff	India	Q1 2010	< \$100m
Swire Properties	Swire Pacific (0019.HK, SWRAY.PK)	Spinoff	Hong Kong	Q1 2010	> \$2b
Terra Nova Royalty Corp	KHD Humboldt Wedag Intl (KHD)	Spinoff	Canada	Q1 2010	\$100m - \$500m
Michigan Commerce Bancorp	Capitol Bancorp (NYSE:CBC)	IPO	USA	Q1 2010	
Baltic Trading (BDI)	Genco Shipping & Trading (GNK)	IPO	USA	Q1 2010	\$500m - \$2b
ALICO	American International Group (AIG)	IPO	USA	Q1 2010	
AIA (US)	American International Group (AIG)	IPO	USA	Q1 2010	> \$2b
Sensata Technologies Holding	Bain Capital (private)	IPO	The Netherlands	Q1 2010	
Glenmark Generics	Glenmark Pharmaceuticals (GLEN.BO)	IPO	India	Q1 2010	< \$100m
Reliance Infratel	Reliance Communications (BOM:532712)	IPO	India	Q1 2010	
Bilfinger Berger Australia	Bilfinger Berger (ETR:GBF)	IPO	Germany	Q1 2010	\$500m - \$2b
Graham Packaging (GP)	Blackstone Group (BX)	IPO		Q1 2010	
* RDSI Banking Systems	Rurban Financial (RBNF)	Spinoff	USA	Q1 2010	< \$100m
* Archean Star Resources	Kent Exploration (KEX.V)	Spinoff	Canada	Q1 2010	
* Flinders Exploration	Flinders Mines (FMS.AX)	IPO	Australia	Q1 2010	< \$100m
First American Financial	First American Corp (FAF)	Spinoff	USA	Apr-2010	> \$2b
Pegatron Investment Holdings	Asustek Computer (2357.TPE)	Spinoff	Taiwan	06/01/10	> \$2b
CfC Insurance Holdings	CFC Stanbic Holdings (CFCO.NBO)	Spinoff	Kenya	Jun-2010	\$500m - \$2b
compound partnering	PPD (PPDI)	Spinoff	USA	Q2 2010	
Enexus Energy	Entergy (ETR)	Spinoff	USA	Q2 2010	> \$2b
Jade Pharmaceuticals	AMDL (ADL)	Spinoff	China	Q2 2010	
AIA (Asia)	American International Group (AIG)	IPO	USA	Q2 2010	
Enel Green Power	Enel SpA (ENEL.IT, ENSTY)	IPO	Italy	Q2 2010	> \$2b
Lafarge Shui On Cement	Shui On Construction and Materials / Lafarge (C	IPO	HK, France	Q2 2010	> \$2b
Homburg Canada REIT	Homburg (HIIA.TO)	IPO	Canada	Q2 2010	\$500m - \$2b
IT Solutions & Services division	Siemens AG (SI)	Spinoff	Germany	07/01/10	
"bad bank"	Kommunalkredit	Spinoff	Austria	11/28/10	
Babcock & Wilcox	McDermott International (MDR)	Spinoff	USA	Q4 2010	> \$2b
J. Ray McDermott SA	McDermott International (MDR)	Spinoff	USA	Q4 2010	> \$2b
real estate unit	Evonik (EVON.UL)	Splitoff	Germany	2010	
Vishay Precision Group	Vishay (VSH)	Spinoff	USA	2010	
Handset division	Motorola (MOT)	Spinoff	USA	2010	> \$2b
McLaren Automotive	McLaren Group	Spinoff	UK	2010	
Purpose Financial Holdings	Compucredit Holdings (CCRT)	Spinoff	UK	2010	\$100m - \$500m
Permanent TSB	Irish Life & Permanent (IPM.DB)	Spinoff	Ireland	2010	> \$2b
Jatia Group	Asian Hotels (500023.BO)	Spinoff	India	2010	

SPINOFF & REORG PROFILES

JANUARY 2010

Issued January 31, 2010

www.spinoffprofiles.com

Gupta Group	Asian Hotels (500023.BO)	Spinoff	India	2010	
Saraf Group	Asian Hotels (500023.BO)	Spinoff	India	2010	
Ortus Infratel and Holdings	Vodafone Essar	Spinoff	India	2010	
SE Asian oil and gas assets	Husky Energy (HSE.TO)	Spinoff	Canada	2010	
PetroBakken Energy	Petrobank Energy and Resources (TSE:PBG)	Spinoff	Canada	2010	
PAA Natural Gas Storage	Plains All American Pipeline (PAA)	IPO	USA	2010	
Primerica	Citigroup (C)	IPO	USA	2010	
JBS USA	JBS (Brazil)	IPO		2010	> \$2b
* AnythingGreenOnline/Custom Cravo Farms	Anything Brands Online (PINKSHEETS: ANYT)	Spinoff	USA	2010	< \$100m
* CDC Games Corp	CDC Corporation (CHINA)	IPO	USA	2010	\$100m - \$500m
NewCo	Sumatec Resources Bhd (SUMATEC.KL)	Spinoff	Malaysia	06/30/11	
Bharatmatrimony and Indiaproperty	Consim Info	Spinoff	India	2011	
digital TV business	NXP BV	Splitoff	Netherlands	TBA	
bad bank	Old Southern Bank	Spinoff	USA	TBA	
Physio-Control	Medtronic (MDT)	Spinoff	USA	TBA	\$500m - \$2b
Legacy Asset Management (LAMCO)	Lehman Brothers Holdings (LEHMQ)	Spinoff	USA	TBA	> \$2b
NBC Universal	General Electric (GE)	Spinoff	USA	TBA	
credit assets	Barclays plc	Spinoff	UK	TBA	> \$2b
BBC Worldwide	BBC	Spinoff	UK	TBA	
B2C division	PChome Online (8044.TPO)	Spinoff	Taiwan	TBA	< \$100m
Wilmar China	Wilmar International (WLIL.SI)	Spinoff	Singapore	TBA	
stainless steel business	ArcelorMittal (AMS.MT)	Spinoff	Luxembourg	TBA	
Air Canada (AC-A.TO)	ACE Aviation Holdings (ACE-B.TO)	Spinoff	Canada	TBA	> \$2b
DuluxGroup	Orica (ORI.AX)	Spinoff	Australia	TBA	\$500m - \$2b
non-iron ore assets	Golden West Resources (ASX:GWR)	Spinoff	Australia	TBA	< \$100m
Macquarie Airports (ASX:MAP)	Macquarie Group (ASX:MQG)	Spinoff	Australia	TBA	
Freedom Group	Cerberus Capital Management	IPO	USA	TBA	
DLF Assets	DLF (532868.BO)	IPO	Singapore	TBA	> \$2b
Hebei CoalChem	Kingboard Chemical (0148.HK)	IPO	China	TBA	\$500m - \$2b
polysilicon plant business	LDK Solar (LDK)	IPO	China	TBA	\$500m - \$2b
Multiplus SA	TAM Linhas Aereas (TAM, TAMM4.SA)	IPO	Brazil	TBA	> \$2b

LEGEND

AX Australia	J Johannesburg	NS National (India)	PK Pink sheets	TO Toronto
BO Bombay	KL Kuala Lumpur	NZ New Zealand	RTS Russia	TW Taiwan
BR Brussels	L London	O OTC	SG Singapore	V Vancouver
DL Delhi	LS Lisbon	OB OTC Bulletin Board	ST Stockholm	
HK Hong Kong	none NYSE/Nasdaq/Amex	PA Paris	TA Tel Aviv	

ABOUT THE CALENDAR

Spinoffs are listed only if (i) management announces they are certain to proceed; and (ii) a market will be made promptly. "Date" means record date for distributions, listing date for IPOs, or either for Indian spinoffs. "Possible" spinoffs are not included. "Exchange" transactions offer holders the option to trade shares in the parent for shares in the spinoff. Speculative promotional stocks are marked with "**": we identify such firms by low revenue, press releases focusing on equity events rather than operating events, spinoff announcements without prompt regulatory filings, claims of valuable assets in remote locations (Arctic Canada and interior Africa are time-honored favorites), high management pay relative to capitalization, and/or headquarters disproportionately located in Vancouver, Miami or southern California. Please send suggestions to subscribe@gemfinder.com -- popular requests will be incorporated.

REPURCHASE

SITUATION

BACKGROUND

In December 2009, Pre-Paid Legal Services increased the size of its repurchase authorization by 1m shares (about 10% of outstanding), and CEO Harland Stonecipher strongly implied in a small Oklahoma paper that the company's intention was eventually to go private through consistent repurchases.

ANALYSIS

PPD is nothing if not consistent. Based in Ada, Oklahoma, and with a market cap under \$500m, it gets little press, though public for 26 years. PPD is consistently and highly profitable, with EPS growth in 9 of the past 10 years, and has been controlled by founder/CEO Harland Stonecipher since its inception in 1972.

Just as consistent are PPD's stock repurchases. The company has reduced outstanding shares by over half since 1999, and by about 30% since 2005.

Unfortunately, PPD's consistency has also included a long series of regulatory scrapes, detailed in the "risks" section at right. This checkered history may explain why the company appears so cheap.

Yellow flag: PPD's management has more than once publicly demonized short sellers of its stock, both directly and by proxy (the Oklahoma attorney general, who reportedly counts PPD officers among his political contributors). This is odd: a non-financial sector firm with good fundamentals and a long-term repurchase plan should be glad, not upset, to see shares beaten down irrationally.

Vigorous complaint over short selling is a tactic strongly (not exclusively) associated with the management of scam stocks. Yet PPD cash flow looks legitimate (see right).

OWNERSHIP DISCLOSURE

Author owns PPD.

Pre-Paid Legal Services

COMPANY

Pre-Paid Legal Services (PPD) markets legal counsel to low-income consumers by monthly contract across the U.S. and parts of Canada. Counsel is mostly by phone, covering routine matters such as insurance company disputes, home purchases and identity thefts. Headquarters are located about an hour's drive from Tulsa, Oklahoma, and PPD says it relies upon the low costs at its offices there and elsewhere to obtain a sustained cost advantage over local legal representation in high-cost locales.

This is an asset-light service business, with EBIT return on employed capital over 450%. Debt load has fallen by a third in the past year, and cash now exceeds debt.

VALUATION

PPD closed Friday at 39.87, less than 8 times earnings. Price to free cash flow ratio is also under 8. EBIT yield on total capital (debt plus market value of equity) is over 20%.

We view PPD as a stable, well-financed, cheap investment, plus two free speculations: continued EPS growth and the prospect of an eventual tender offer. Management appears to bridle at federal oversight, so the most recent inquiry (see below) may help incentivize the company to go dark at a premium; but this outcome is not required for PPD to be a good value.

RECOMMENDATION

Buy and hold.

RISKS

PPD has a history of trouble with both the FTC and SEC. In 1997, PPD stopped selling living trusts after a cease-and-desist from the FTC over false advertising. In 2001, the SEC forced PPD to restate earnings by half, for unreasonably capitalizing expenses. In the mid-2000's, civil suits in 2 or 3 states found against PPD for false advertising. In October 2009, the FTC again complained to PPD over deceptive advertising, this time regarding its ADRS program (which PPD says accounts for just 2% of membership fees since 2006). Also in October, the SEC subpoenaed documents pertaining to the ADRS program. Over this decade, EPS increased 10x.

So, is PPD an investment scam? The most basic forensic legitimacy test is helpful.

Public company scams come in essentially two flavors: no profits (story stocks) and phony profits. Within the latter, profits are typically created either by aggressively capitalizing expenses, as PPD did in 2001, or by booking sell-in (inventory delivered to resellers who can return it all later) as sales. Either legerdemain is visible as cash flow increasingly undershoots reported earnings, providing a signal to make further inquiry.

At PPD in recent years, there has been no such lag -- free cash flow has closely tracked net earnings. Cash flow, unlike earnings, is hard to fake: the auditor will expose it simply by checking bank balances. Even Enron stuck to traditional accounting fictions, so its cash flow suspiciously lagged its earnings. By the cash flow measure, at least, PPD looks legitimate. If we also accept the company's claim that the current SEC and FTC inquiries pertain only to a tiny portion of revenue, then regulatory exposure is perhaps lower than may at first appear.