

**RECENT AND IMMINENT**

Below are selected information and ratios for current activity, including the splitoffs of **KBR** (NYSE: KBR) by Halliburton, and of **Domtar** (NYSE: UFS) by Weyerhaeuser (which had gained control in a recent stock-swap merger of its fine paper division with Domtar); carveouts **Xinhua Finance Media** (Nasdaq: XFML) and **China Agri Holdings** (0606.HK); and dividend spinoffs **Kraft** (NYSE: KFT) and **Broadridge Financial Solutions** (NYSE: BR). Financials are for the most recent fiscal year, and shares outstanding for the most recent period, unless otherwise noted.

	UFS	XFML	0606.HK	KFT	KBR	BR
Distribution ratio	11.1442 : 1	IPO	IPO	0.7 : 1	1.57 : 1 est	1 : 4
Market capitalization of spinoff	\$4.73b	\$1.42b	HK\$12b est	\$49.8b	\$3.68b	
Market cap ratio, spinoff to parent, post-spinoff	0.29	2.49		0.34	0.13	
Parent symbol	WY	9399.T		MO	HAL	ADP
Parent major index	S&P 500	none	none	S&P 500	S&P 500	S&P 500
Spinoff major index	none	none	none	S&P 500	none	
Shares outstanding post-spinoff	509m	136m	3.5b	1.64b	168m	140m
Record date	3/6/07	3/9/07	3/21/07	3/16/07	3/29/07	3/30/07
Revenue	\$6.77b est	\$59m	HK\$16.3b	\$34.3b	\$9.63b	\$1.85b
EBIT	(\$883m) est	\$7m	HK\$493m	\$4.53b	\$246m	\$222m
Earnings (loss)	(\$1.05b) est	(\$4.15m)	HK\$283m	\$3.06b	\$168m	\$118m
EPS, last fiscal year, current shares out (loss)	(\$2.05) est	(\$.03)	HK\$0.08	\$1.87	\$1.00	\$0.84
P/E ratio	negative	negative	42 est	16.3	22	
Long-term debt	\$2.54b	\$79m	HK\$1.00b	\$7.08b	\$2m	\$800m
Recent insider buying at market price	no	no		no	no	
Parent chairman/CEO moves to spinoff	no	yes	no	no	no	
Widespread analyst coverage	yes	yes	no	yes	yes	
Insider ownership, post-spinoff	< 5%	> 20%		< 5%	< 5%	

Notes:

- Participants in the Weyerhaeuser exchange offer received 11,1442 shares of UFS for each share of WY tendered. "Record date" in this case shows the last day to participate in the exchange offer.
- Domtar balance sheet items shown as of 9/24/06; income statement items annualized from first 39 calendar weeks of 2006.
- Domtar's old symbol, NYSE:DTC, was delisted March 6 as the merger took effect.
- Xinhua earnings shown here were those available to common after preferred dividends were paid.
- China Agri's long-term debt shown above includes non-current payables to parent and affiliates. Depending on whether these are recourse obligations, it may or may not make sense to include them.
- Halliburton/KBR is an exchange, not a dividend. HAL may be converted to KBR at a 7.5% discount to the market price of KBR on or about 3/29/07, subject to a maximum ratio of 1.5905 : 1. As this goes to press, the ratio was about 1.57 : 1.
- KBR EPS above includes extraordinary items, without which EPS was \$0.58 and PE 39.
- BR long-term debt shown above is to be incurred after the spinoff.
- BR has no price-related information, as it has not traded and there is no other basis for guidance. A when-issued market will open on March 22, according to the company.

Of the companies in the table above, Kraft seems the obvious winner, with the highest net margin, highest earnings yield, and probably the highest resistance to various types of financial and economic shocks. However, this month we determined that a better deal was to be had by buying the parent of one of the companies in the table: Halliburton.

## SPINOFF & REORG NEWS

This is an interesting week to release investment analysis. Prices have fallen so fast that certain ratios in the table above were repeatedly revised to remain relevant.

The most tragic event of the month, from our own narrow perspective, is the sudden retreat of September's investment idea, **Tarragon Corporation**. Less than three weeks ago, it was up 35% from the recommendation date, and we were preparing to be showered with rose petals as this issue went to press. But the shower quickly turned cold as Tarragon bore the full brunt of the subprime mortgage selloff. TARR is now back where it started, about \$10, or 3.2 times trailing earnings; one wonders if the market may have overreacted. Tarragon has already filed to spin off its property development arm, and the chairman/CEO was buying at \$11 as late as December. We still think the biggest risk here is not in the stock price, but rather that the CEO, who owns over 40%, could conceivably take Tarragon or one of its components private before value is realized.

The main solace in a market decline is the appearance of new bargains. For the first time in months, fair prices were relatively easy to find. Here are a few worth a look at the moment:

**Anglo American plc** (ADR: AAUK), which plans to spin off paper subsidiary **Mondi** later this year, is currently around 11 times earnings, cheaper than some other major mining concerns. It plans a \$3b buyback (about 4% of capitalization) and two spinoffs this year. Trailing dividend yield is 8.3%. Its shares fell recently on a 2% earnings miss, even though earnings were up 70% from a year ago. Potential problem: ADR holders may receive cash, not stock, in the spinoffs, as they won't be listed in the U.S. **Mondi** will be listed in London, so buying Anglo in London (AAL.L) should get the **Mondi** dividend.

**Akzo Nobel** (ADR: AKZOY) this week agreed to sell its Organon division to Schering-Plough for €11 billion in cash, yet still has a market capitalization of only €15.5 billion. Organon contributed only 27% of Akzo's EBIT last year, implying the stub parent, net of cash, is now priced at something like 6 times continuing earnings. If the deal consummates, and as long as Akzo behaves rationally with its huge new cash pile, there is the prospect of a very nice return as markets recognize the new structure.

**Barloworld** (JSE: BAW, ADR: BRRAY.PK), which has a trailing PE ratio under 15, declared a special cash dividend on March 8 of nearly 3% of prevailing share price. This appears to be on top of the trailing 4% yield from regular dividends. Last day to purchase and participate in the cash dividend is March 23. The special dividend will be followed by a spinoff of Barlo's **Pretoria Portland Cement** (JSE: PPC) division later in 2007. PPC is already listed in Johannesburg, and in January approved a plan to repurchase up to 7.5% of its own shares. Since PPC has no U.S. listing, holders of BRRAY.PK will likely receive cash in lieu. (Disclosure: author owns BRRAY.PK).

These are all appealing, but **Halliburton** (NYSE: HAL) looks better. This month's pick may be a political hot potato, but by the numbers it is quite interesting. See page 7.

## XINHUA FLOATS, DEFIES GRAVITY

As a onetime Silicon Valley resident, this reporter cannot entirely quell a residual fascination with hot promotional stocks -- not as investments, but as theater. Profitless IPOs say something cheering about boundless human optimism, even as they take investors' shirts. This fascination was piqued by last week's \$300m IPO carveout of **Xinhua Finance Media Ltd.** (Nasdaq: XFML). The financial press reported the issue was priced at over 250 times trailing earnings, but even this was optimistic -- in fact, all profit was consumed by a preferred dividend, so the net available to common stockholders was apparently negative. XFML's most recent 3 fiscal years show revenues of \$59m, \$5.7m, and \$0.4m, garnering a market capitalization of around \$1.5 billion.

XFML's parent, **Xinhua Finance Ltd.**, is equally distinguished in its cleverness with financial markets: it has maintained an on-again, off-again OTC listing (XHFNY) since 2004, despite having no EDGAR-accessible financial statements; its American founder and CEO operates from Shanghai, but the domicile is in the Cayman Islands, and the primary listing is in Tokyo. The parent's \$110m in 2005 earnings (as reported in Japan) included 42 consolidated subsidiaries, and the difference between its reported profit and negative cash flow resulted mainly from service revenues received in the form of unspecified securities, instead of cash.

The positioning of Xinhua to benefit from growth in Asian financial reporting is apparently excellent; this is no doubt the story that sold the issue. Still more excellent, from a promotional perspective, is that the firm has the ability (exercised or not) to create awareness of its own shares through its own news services. Xinhua may well end up successful, but the investment looks risky, to say the least.

**BANKRUPTCIES AND RIGHTS OFFERINGS**

**Northwest Airlines** (NWACQ) expects to emerge from bankruptcy within 90 days. Creditors will receive some \$7b in new common stock, and the company will recapitalize through a rights offering. However, the company was still running a loss before interest payments in December, calling into question its ability to generate value for common stockholders.

**Wolverine Tube** (WLVT.PK) will imminently conduct a tradable rights offering to its current common stockholders, at a ratio of about 3 rights per share held. The exercise price for each right is \$1.10, which compares favorably to the current market price of \$2.05. However, the stock is illiquid, the common takes a back seat to Alpine Group's recent purchase of convertible preferred, and, of course, Wolverine's fundamentals look dire.

**OUR STOCK SELECTIONS VS. ALL SPINOFFS**

In the table at right, "All Spinoffs" includes all U.S. spinoffs that began trading between June 15, 2005 and September 14, 2006 (the latest date for which a 6-month return could be compiled). These were Treehouse Foods, Discovery Holding Co., Proliance, Expedia, Omega Flex, GSE Systems, Ameriprise, WebMD Health, Fidelity National Title, Clear Channel Outdoor Holdings, Tronox, LiveNation, Delia's, Spansion, Triple Crown Media, CBS, Chipotle, CNX Gas, Rosetta Resources, Hughes Communications, Mariner Energy, Ship Finance International Portland General Electric, Embarq, Arkema, Mueller Water Products, Verigy, Windstream, Wyndham Worldwide, Realogy, Security Capital Assurance, Qimonda, Hanesbrands and Aftersoft Group.

Jun 2005 – Sep 2006 Returns Comparison	All Spinoffs	Spinoff & Reorg selections
6-month absolute return	6.1%	12.3%
6-mo. return relative to S&P	0.1%	6.5%
Standard deviation	30%	24%

"Spinoff & Reorg Selections" includes each *Spinoff & Reorg* recommendation over the same period: Omega Flex, American Bank Holdings, Hexcel, Discovery Holding Co., M&F Worldwide, Escalon, American Eagle Outfitters, CBS, Forest Oil, the Fidelity National Financial/Fidelity National Title long/short, Rex Stores, Cendant, Arkema, USG, Wyndham Worldwide and Tarragon Corporation. Results are generated by calculating the 6-month return for each security, and taking the geometric mean of those returns.

It's worth noting from the table that, for the period studied, the mean S&P-relative performance of spinoffs as a whole has declined, while *Spinoff & Reorg* picks have continued to do well. This probably results partly from our effort to buy cheaply, and from our flexibility to look elsewhere when no spinoff is sufficiently cheap.

**SPINOFF CALENDAR**

Company	Parent	Type	Domicile	Date	Market Cap
Pinnacle Staffing (PCL.L)	Nestor Healthcare (NSR.L)	Distrib	UK	9/5/06	< \$100m
Tim Hortons (NYSE: THI)	Wendy's (NYSE: WEN)	Distrib	USA	9/15/06	> \$2b
Invista Real Estate (INRE.L)	HBOS plc (HBOS.L)	IPO	UK	9/18/06	\$100m - \$500m
Western Union (NYSE: WU)	First Data Corp (NYSE: FDC)	Distrib	USA	9/22/06	> \$2b
Securitas Direct AB	Securitas AB (Stockholm: SECUB)	Distrib	Sweden	9/25/06	\$500m - \$2b
Securitas Systems AB	Securitas AB (Stockholm: SECUB)	Distrib	Sweden	9/25/06	\$500m - \$2b
CODA (CODA.L)	CODASciSys (CSY.L)	Distrib	UK	9/26/06	\$100m - \$500m
China Blue Chemical (3983.HK)	China National Offshore Oil Corp.	China	IPO	9/28/06	\$500m - \$2b
* Sinvest	Sinvest/Deep Drilling Invest (SIN.OL)	Distrib	Norway	Sep-06	< \$100m
KEC International (532714.BO)	KEC Infrastructures (504807.BO)	Distrib	India	10/3/06	< \$100m
Chipotle (NYSE: CMG)	McDonald's (NYSE: MCD)	Exch	USA	10/5/06	> \$2b
Experian (EXP.N.L)	GUS plc (GUS.L)	Distrib	UK	10/6/06	> \$2b
Home Retail Group (HOME.L)	GUS plc (GUS.L)	Distrib	UK	10/6/06	> \$2b
Biffa (BIFF.L)	Severn Trent (SVT.L)	Distrib	UK	10/9/06	> \$2b
Verigy (Nasdaq: VRGY)	Agilent (NYSE: A)	Distrib	USA	10/16/06	\$500m - \$2b
Fidelity National Info. Svcs. (NYSE: FIS)	Fidelity National Financial (NYSE: FNF)	Distrib/merger	USA	10/17/06	> \$2b
* West African Diamonds	African Diamonds (AFD)	Distrib	UK	10/26/06	< \$100m
Idearc (NYSE: IAR)	Verizon (NYSE: VZ)	Distrib	USA	11/1/06	> \$2b
Assisted Living Concepts (NYSE: ALC)	Extendicare (EXE.A)	Distrib	USA	11/1/06	\$500m - \$2b
Great Offshore Ltd (GOL)	GE Shipping (GESHIPPIN.NS)	Distrib	India	11/15/06	\$500m - \$2b
Constellation Energy Ptrs (NYSE: CEP)	Constellation Energy Grp (NYSE: CEG)	IPO	USA	11/15/06	\$100m - \$500m
KBR (NYSE: KBR)	Halliburton (NYSE: HAL)	IPO	USA	11/16/06	> \$2b
Fiberweb (LSE: FWEB)	BBA Group plc (LSE: BBA)	Distrib	UK	11/16/06	\$500m - \$2b
Sally Beauty Holdings (NYSE: SBH)	Alberto-Culver (NYSE: ACV)	Distrib	USA	11/17/06	> \$2b
Air Canada (AC-A.TO)	ACE Aviation Holdings (ACE-B.TO)	IPO	Canada	11/20/06	> \$2b
Shivam Autotech (SHIVAMAUT.NS)	Munjal Auto Ind. (MUNJALAUT.NS)	Distrib	India	11/21/06	< \$100m
Tower Australia (TAL.ASX)	Tower Ltd (TWR.ASX, TWR.NZ)	Distrib	Austr./NZ	11/21/06	\$100m - \$500m
Torrent Power (532779.BO)	Torrent Group	Distrib	India	11/28/06	< \$100m
Mueller Water Products (NYSE: MWA)	Walter Industries (NYSE: WLT)	Distrib	USA	12/6/06	\$500m - \$2b
China Communications Services Corp.	China Telecommunications Corp.	IPO	HK	12/8/06	\$500m - \$2b
Tullett Prebon (TLPR.L)	Collins Stewart Tullett (CSTL.L)	Distrib	UK	12/14/06	\$500m - \$2b
* Formula Vision Technologies (FVT.TA)	Formula Systems (FORTY.O)	Distrib	Israel	12/14/06	< \$100m
Tiger Automotive Ltd. (JSE: TAL)	Tiger Wheels (JSE: TIW)	Distrib	S. Africa	12/15/06	< \$100m
* Card Activation Technologies, Inc.	MedCom USA, Inc. (OTC: EMED)	Distrib	USA	12/15/06	< \$100m
Sunlight REIT (0435.HK)	Henderson Land Development (0012.HK)	IPO	HK	12/21/06	\$500m - \$2b
Universal Power Group (Amex:UPG)	Zunicom (ZNCM.OB)	IPO	USA	12/22/06	< \$100m
Total Produce plc (TOT.I, TOT.L)	Fyffes (ISE: FQ3)	Distrib	Ireland	12/29/06	\$500m - \$2b
Spectra Energy (NYSE: SE)	Duke Energy (NYSE: DUK)	Distrib	USA	1/2/07	> \$2b
Indiabulls Real Estate Ltd.	Indiabulls Financial Svcs (532544.BO)	Distrib	India	1/9/07	\$500m - \$2b
Wire and Wireless (WWIL)	Zee Telefilms (505537.BO)	Distrib	India	1/10/07	
Zee News Limited (ZNL)	Zee Telefilms (505537.BO)	Distrib	India	1/10/07	
Harris Stratex Networks (Nasdaq: HSTX)	Harris Microwave (HRS.N)	Merger	USA	1/26/07	> \$2b

# SPINOFF & REORG PROFILES

MARCH 2007

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TravelCenters of America (Amex: TA)	Hospitality Trust (NYSE: HPT)	Distrib	USA	1/26/07	\$500m - \$2b
^ Southland Health Services	Bad Toys Inc. (BTYH.OB)	Distrib	USA	2/2/07	< \$100m
Network 18 Fincap (532798.BO)	Television Eighteen (532299.BO)	Distrib	India	2/2/07	< \$100m
Verichip (Nasdaq: CHIP)	Applied Digital Solns. (Nasdaq: ADSX)	IPO	USA	2/8/07	< \$100m
Time Warner Cable (TWCAV.PK, TWC.N)	Time Warner (TWX.N)	Distrib	USA	2/13/07	> \$2b
* OptiCon Systems	Hathaway Corporation (HWYI.PK)	Distrib	USA	2/19/07	< \$100m
* Platinium Corporation	New Generation Holdings (NGPX.OB)	Distrib	USA	2/20/07	< \$100m
Emperor Capital Group	Emperor Intl Hldgs Ltd (0163.HK)	Distrib	HK	3/1/07	< \$100m
* NuPower Resources (NUP.AX)	Arafura Resources Ltd (ARU.AX)	Distrib	Australia	3/5/07	< \$100m
Domtar (NYSE: UFS)	Weyerhaeuser (NYSE: WY)	Merger/splitoff	USA	3/7/07	\$500m - \$2b
Xinhua Finance Media (Nasdaq: XFML)	Xinhua Finance (9399.T, XHFNY.OB)	IPO	China	3/9/07	\$500m - \$2b
China Agri Holdings (0606.HK)	COFCO Intl. Ltd. (0506.HK)	IPO	HK	3/12/07	\$500m - \$2b
Kraft Foods Inc (NYSE: KFT)	Altria (MO.N)	Distrib	USA	3/16/07	> \$2b
Organon BioSciences	Akzo Nobel (Nasdaq: AKZOY)	IPO	Holland	3/27/07	> \$2b
KBR (NYSE: KBR)	Halliburton (NYSE: HAL)	Exchange	USA	3/29/07	> \$2b
Broadridge Financial Solns (NYSE: BR)	Automatic Data Processing (NYSE: ADP)	Distrib	USA	3/30/07	> \$2b
* Tekmira Pharmaceuticals	Inex Pharmaceuticals (Toronto: IEX)	Distrib	Canada	3/31/07	< \$100m
* Southern Uranium Ltd (SNU.ASX)	Southern Gold Ltd (SAU.AX)	IPO	Australia	Mar-07	< \$100m
Nahar Spinning Mills (500296.BO)	Nahar Exports (523291.BO)	Distrib	India	4/1/07	< \$100m
Covidien (Tyco Healthcare)	Tyco International Ltd. (NYSE: TYC)	Distrib	Bermuda	Apr-07	> \$2b
Tyco Electronics (NYSE: TEL)	Tyco International Ltd. (NYSE: TYC)	Distrib	Bermuda	Apr-07	> \$2b
Teledata Marine Solutions	Teledata Informatics	Distrib	India	Apr-07	< \$100m
Teledata Technology Solutions	Teledata Informatics	Distrib	India	Apr-07	< \$100m
Ports and rail unit	Toll Holdings (TOL.AX)	Distrib	Australia	Apr-07	> \$2b
HTMT Technologies Ltd	Hinduja TMT Ltd (500189.BO)	Distrib	India	May-07	< \$100m
Petra Energy	Petra Perdana	IPO/Distrib	Malaysia	May-07	< \$100m
Int'l Personal Finance plc	Provident Financial plc (PFG.L)	TBA	UK	Jun-07	\$500m - \$2b
Air Canada (AC-A.TO)	ACE Aviation Holdings (ACE-B.TO)	Distrib	Canada	Q2 07	> \$2b
Avanti Communications Group (AIM:TBD)	Avanti Screenmedia (ASG.L)	IPO	UK	Q2 07	< \$100m
Portland Gas Ltd	Egdon Resources plc (EDR.L)	Distrib	UK	Q2 07	< \$100m
Mondi	Anglo American plc (Nasdaq: AAUK)	Distrib	S. Africa	Q2 07	> \$2b
PharMerica Corp.	AmerisourceBergen / Kindred Healthcare	Distrib/Merger	USA	Q2 07	> \$2b
Wireless towers	National Grid plc (ADR: NGG)	TBA	UK	Q2 07	> \$2b
Mercury Health	Tribal Group (LSE: TRB)	TBA	UK	Q2 07	\$100m - \$500m
Sage Residential, Inc.	Tarragon Corporation (TARR.N)	Distrib	USA	Q2 07	\$100m - \$500m
Soletron EMS India Ltd.	Soletron Centum Electr. Ltd (517544.BO)	Distrib	India	Q2 07	< \$100m
Air Canada Technical Services	ACE Aviation Holdings (ACE.TO)	IPO	USA	Q2 07	\$500m - \$2b
Brandhouse	S Kumars Nationwide Ltd (SKSYF.PK)	Distrib	India	Q2 07	< \$100m
New World Department Store	New World Development (0017.HK)	IPO	USA	Q2 07	\$500m - \$2b
* Indiabulls Securities Ltd	Indiabulls Financial Svcs (532544.BO)	Distrib	India	Aug-07	< \$100m
VMWare	EMC (EMC.N)	IPO	USA	Sep-07	> \$2b
WABCO	American Standard (ASD.N)	Distrib	USA	Q3 07	\$500m - \$2b
PT Multimedia (PTA.LS)	Portugal Telecom SGPS	Distrib	Portugal	Q3 07	> \$2b
Discover credit card division	Morgan Stanley (MS.N)	Distrib	USA	Q3 07	> \$2b
Teradata	NCR (NYSE: NCR)	Distrib	USA	Q3 07	> \$2b
Neptune (combined zinc smelters)	Zinifex (ZFX.AX) / Umicore (ACUMt.BR)	Merger/IPO	EU/Austla	Q3 07	> \$2b
Loomis Cash Handling AB	Securitas AB (Stockholm: SECUB)	TBA	Sweden	Q3 07	> \$2b
Transfield Infrastructure	Transfield Services (TSE.AX)	IPO	Australia	Q3 07	\$100m - \$500m

* Mavuzi Resources Ltd.	OmegaCorp (OMC.AX)	IPO	Australia	Q3 07	< \$100m
Consumer Source Inc.	Primedia (NYSE: PRM)	Distrib	USA	2007	\$100m - \$500m
Printed circuit board mfg.	Titan Global Holdings (TTGL.OB)	Distrib	USA	2007	< \$100m
Pretoria Portland Cement (JSE: PPC)	Barloworld (JSE: BAW)	Distrib	S. Africa	2007	> \$2b
American Water Works	RWE AG (RWE.DE)	IPO	Germany	2007	> \$2b
MAN Financial (brokerage)	MAN Group (EMG.L)	IPO	USA	2007	> \$2b
* International Apparel Group, Inc.	Total Luxury Group, Inc. (TLEI.OB)	Distrib	USA	2007	< \$100m
Physio-Control	Medtronic (NYSE: MDT)	Distrib	USA	2007	\$500m - \$2b
* Relativity Inc.	US Starcom (OTC:USTA)	Distrib	USA	2007	< \$100m
Guaranty Bank	Temple-Inland (NYSE: TIN)	Distrib	USA	2007	\$500m - \$2b
Forestar Real Estate Group	Temple-Inland (NYSE: TIN)	Distrib	USA	2007	\$100m - \$500m
FairPoint Communications (NYSE: FRP)	Verizon (NYSE: VZ)	Distrib/Merger	USA	Q1 08	> \$2b
Arseus	Omega Pharma NV (OMEP.BR)	TBA	Belgium	2008	\$500m - \$2b
ASC Enterprises (aka Dish TV)	Zee Telefilms (505537.BO)	Distrib	India	TBA	
Casa de Pedra	Companhia Siderurgica (ADR: SID)	IPO	Brazil	TBA	> \$2b
Precigen Therapeutics	Clinical Data, Inc. (CLDA.O)	Distrib	USA	TBA	< \$100m
VDO	Siemens AG (ADR: SI)	IPO	Germany	TBA	> \$2b
* Storm Depot International	Eline Entertainment (EEGI.PK)	Distrib	USA	TBA	< \$100m
* Beijing mfg. plant	Semiconductor Mfg Intl Corp (0981.HK)	IPO	China	TBA	< \$100m
* CombiMatrix (Amex: CBMX)	Acacia Research (Nasdaq: ACTG)	Distrib	USA	TBA	< \$100m
Gecina (GFPC.PA)	Metrovacesa (MEVCF.PK)	Exchange	Spa/Fra	TBA	> \$2b
* Aequus BioPharma	Cell Therapeutics	Distrib	USA	TBA	< \$100m
Retail internet division	Videsh Sanchar Nigam Ltd (NYSE: VSL)	Distrib	India	TBA	< \$100m
Regal REIT	Regal Hotels Int'l Holdings (0078.HK)	IPO	HK	TBA	\$500m - \$2b

## ABOUT THE CALENDAR

Spinoffs are included in this list only when (i) they have been publicly filed or publicly announced by management as certain to proceed; and (ii) it appears a market will promptly be made in the spun-off entity. "Date" column shows record date for distributions or initial trade for IPOs. Listings are shown for a few months after the event, as some opportunities emerge only then. Publicly announced "possible" spinoffs are not included here, and not recommended for investment. "Exchange" above means holders are offered the right, but not the obligation, to trade their shares in the parent for shares in the spinoff.

Promotional or concept stocks are marked with an asterisk ("\*"), and included for readers who may have a way to use the information. The asterisk allows value investors to rule them out quickly. Firms so indicated here tend to exhibit the following: almost no current revenue; self-promotion via free, self-issued internet press releases not picked up by any news agency; spinoff announcement without prompt regulatory filing; claims to own valuable assets located in remote, inaccessible locations (Arctic Canada and interior Africa are time-honored favorites); high management salaries relative to revenue or capitalization; and headquarters disproportionately frequently located in Vancouver, Florida or southern California. We generally treat mining exploration and pure R&D as concept companies if they have little operating revenue, since the odds of successful development are difficult to estimate. Again, there may be specialists out there, which is why we include the information.

## FEEDBACK

Please send suggestions to [subscribe@gemfinder.net](mailto:subscribe@gemfinder.net). Sensible requests, received in quantity, are both welcome and hard to ignore.

## SPLITOFF

### STRUCTURE

#### BACKGROUND

Halliburton carved out 19% of KBR (NYSE: KBR) in a public offering last November, and is now offering all remaining shares to HAL shareholders in exchange for HAL stock.

#### TERMS

The exchange offer is under way. HAL shareholders have until March 29 to exchange all or part of their shares for KBR shares, at a discount of 7.5% to the market price of KBR, subject to a maximum of 1.5905 shares of KBR for each share of Halliburton. Any KBR shares not thus exchanged will be distributed to remaining HAL shareholders as a tax-free dividend.

#### ANALYSIS

In general, splitoffs tend to favor the parent, as it would not offer the exchange at all unless nearly certain to receive at least as much as it trades away.

Thus Halliburton management is sufficiently anxious to be rid of KBR that they will pay you a premium of about 8% over market to take it off their hands. Before accepting, one might ask why they would be so anxious. The reason appears simple: KBR is unprofitable, controversial, and faces the loss of major contracts in the short term. By contrast, Halliburton is, ex-KBR, and whatever one may think of their business practices, a profitable, growing, fairly priced business (see right).

Due to allegations of U.S. government ties, the very name Halliburton is controversial, and provides gentle pressure on managers not to own it, if only to minimize the time spent defending the action to some partners. This may contribute to the current opportunity.

#### AUTHOR OWNERSHIP

Author does not own Halliburton.

## Halliburton

### Company Information

#### BUSINESS

Halliburton (NYSE: HAL) sells engineering and construction services, primarily to governments and the oil industry. It is currently splitting off its KBR division, the largest military contractor in Iraq and Afghanistan.

In fiscal 2006, HAL earned \$2.3b net, and \$3.5b EBIT, on sales of \$22.5b. If that elicits a yawn, watch what happens when KBR is unconsolidated: ex-KBR, Halliburton generated \$2.2b net, \$3.2b EBIT, on sales of \$13b. Suddenly a bit more interesting.

The situation looks better still from a return on capital perspective. HAL as a whole in 2006 saw EBIT exceeding 35% of employed capital; without KBR, it was over 50%.

Moreover, while KBR revenue declined in 2006, Halliburton revenue, ex-KBR, grew 28%. The company today announced plans to hire 13,000 new staff in 2007, a 13% increase, in anticipation of further growth. These features, namely self-funding growth and high return on capital, normally assemble into a picture entitled "growth stock." And yet, Halliburton is not priced accordingly.

#### VALUATION

The exchange offer, if fully subscribed, amounts to a HAL buyback of about \$3.4 billion, which is roughly 110m shares, or 11% of shares outstanding. HAL closed today at 31.83, only 13 times 2006 earnings, or an EBIT yield of just over 10%. 2007 forecasts -- if you believe that sort of thing -- put HAL at 10 times earnings.

In short, HAL appears to fit a profile *Spinoff & Reorg* prefers above all others: high return on capital, steady growth, priced as if there were no growth. This is attractive because it allows us to invest on the merits of only the current business, without forecasting; yet at the same time to speculate for free on future growth.

#### PROPOSED TACTIC

Buy and hold.

A theoretical alternative is to arbitrage the 7.5% spread between HAL and KBR (built into the exchange offer) by buying HAL and shorting KBR. However, there are practical problems with this: first, KBR is hard to borrow, as might be expected when dollar bills are being sold for 92 cents; second, if the exchange is oversubscribed, it is allocated pro rata to participants, leaving one's hedge unbalanced; third, the share exchange rate is capped at 1.5905 : 1, again potentially unbalancing; fourth, and perhaps most important, it's vastly easier to sleep at night when simply owning a cheap company with modest growth for the long haul.

#### RISKS

The above price ratios assume the KBR exchange is fully subscribed. If isn't, Halliburton will have more shares outstanding than assumed above. However, the situation still appears attractive even in that event.

If HAL really does benefit from U.S. government ties, and if such ties were rendered untenable by HAL's move to Dubai (announced this week), the business would likely be affected. On the other hand, an attraction of Halliburton's business is its global revenue diversification, which may provide some insulation from various potential economic and financial shocks, and from U.S. exposure to global financial imbalances.