SPINOFF NEWS DIGEST

Sara Lee (SLE) will spin off its eponymous food brand in early 2012. The new company, to be named Sara Lee, will also own Jimmy Dean, Hillshire Farms and other leading US food brands; the renamed parent will be left with SLE's beverage and bakery brands.

ITT (ITT) will complete its 15-year breakup by spinning off water and military technology units this year. No date has been set. All three resulting pieces will have revenue in the single-digit billions. Shares jumped 17% on the day of the announcement.

News Corp (NWSA) says it will sell or spin off **MySpace**. We anticipate a spinoff, for the same reason that **Time Warner** (TWX) finally spun off **AOL** (AOL) in 2009: revenue and earnings were declining too rapidly to interest a private buyer.

Marathon Oil (MRO) will spin off its refineries as **Marathon Petroleum**, to be the 5th largest US refiner, on June 30. The remaining parent will be a pure play in oil & gas exploration.

ArcelorMittal (MT.AMS) spun off stainless steel maker **Aperam** (APAM.AMS) at a ratio of one for 20. APAM began trading January 26.

TNT NV (TNT.AS) says shareholders will vote on its **TNT Express** package delivery spinoff in May, with the separation to occur in June.

Chorus, the planned fiber network spinoff of **Telecom Corp of New Zealand** (NZT), will be put to a shareholder vote in June. The split is contingent on winning a government contract to build out NZ's ultrafast broadband network, but NZT is considered the top contender.

JBS (JBSS3.BR, JBSAY) canceled the IPO carve-out of its US assets. No explanation was given in the filings, but JBS appears to have raised a similar amount instead by issuing $2.4 billion in debentures to pay off its similarly sized obligation to Brazil's development bank.

Phoenix Satellite (2008.HK), a Hong Kong satellite TV broadcaster, will carve out **Phoenix New Media** in a US listing. An executive of PNM reportedly estimated Q3 2011, but the company's official response was that the CEO found questions of timing "incommodious."

Clarification of an item from last month: US-listed, Netherlands-based telecoms holding company **VimpelCom** (VIP) will acquire Wind Telecom, then spin off certain of its assets. The spinoff will own 37.5% of **Mobinil** (EMOB.CAI), Egypt's second largest cellular carrier, as well as 75% of a North Korean carrier providing cell service in Pyongyang.

Chimei Innolux (3481.TW), the LCD display division of iPhone manufacturer **Hon Hai** (2317.TW), will conduct an IPO carveout of its touch-screen unit in the second half of 2011. The unit is estimated to have sold about US$1b of touch displays in 2010.

Hutchison Whampoa (0013.HK) will spin off **Hutchison Port Holdings Trust**, in what will be the largest Singapore IPO in history. Why list a Hong Kong subsidiary in Singapore? So the parent can keep control without a controlling stake. The trust requires a 75% supermajority to remove Hutchison as trustee. Hong Kong bans public listing of such trusts, except for REITs; Singapore permits listed non-REIT trusts.

Cargill (private) will split off its 64% stake in **Mosaic** (MOS), the world's second largest maker of fertilizer. So far, we're not excited. MOS is already listed, with published, audited financial statements, offering little of the opaqueness we like in newly listed spinoffs. The goal of the breakup is to create liquidity for the founding family charitable foundations that control Cargill; these parties intend to exit slowly, both by secondary offering and directly into the market, over a period of years, so there will not necessarily be strong selling pressure. Moreover, it looks expensive; MOS, a commodity producer exposed to volatile input and output prices, already trades at a rich earnings multiple (well beyond our limit) and big premium to book value. Even as a speculation on food prices (which we are not advocating), it looks fully valued.

SPINOFF: DIANA CONTAINERSHIPS

US-listed, Greek-run, Marshall Islands-domiciled **Diana Containerships** (DCIX) spun off from **Diana Shipping** (DSX) two weeks ago. DSX shareholders received approximately one share of DCIX for every 31 of DSX. DCIX was formed in January 2010, and funded by private placement last April, expressly to buy up midsize container ships at depressed prices in the wake of the global recession.

The shipping industry is generally unattractive to non-specialists: long ship construction lead times result in an endless dosey-doe of mismatched supply and demand, with wild and unpredictable effect on the price of what is essentially a pure commodity service. The result is extreme cyclicality. In this particular case, though, there may be a simple, short-term mispricing of assets.

DCIX starkly illustrates the potential for conflicts of interest in sell-side analyst opinions. The only sell-side rating on DCIX is a "strong buy" from FBR Capital Markets, with a price target over 60% above market. Coincidentally -- or not -- FBR Capital Markets ran the book

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on the DCIX private placement last April, and, as of October 19, was DCIX's second-largest shareholder, with over 17% of the company. *Caveat emptor*.

That said, DCIX is relatively easy to understand: its balance sheet essentially consists of cash, obligations, and two newly constructed midsize container ships, held on the books at something close to liquidation value for comparable new ships (source: Clarksons). Tangible book value was about $84m as of the last financial statement date (June 30). Market capitalization was only $76m at the close on Feb 1, and intervening losses are less than the difference, so there would appear to be a small but straightforward discount to book value. The company appears able to break even on anything but another 2008-style collapse, so DCIX is perhaps less risky than its industry. Since there is always the risk of an immediate steep dive in prices (and consequently of liquidation value for the ships), we conclude we must avoid it, though by the ratios alone it is probably the cheapest spinoff on the market just now. Based on historical prices, rising prices look more likely than falling prices (regression to the mean), so DCIX might make a reasonable short-term speculation for the daredevils out there.

SPINOFFS VS BANKRUPTCY EMERGENCE

Like spinoffs, bankruptcy restructurings of listed firms typically result in new, unpromoted equity issues with low visibility, few analysts, and selling pressure from accidental owners that don't want the stock. Yet the investment success rate for post-bankruptcy equities, as a group, is much lower: one cannot invest in them at random and expect to do well, as is statistically the case with spinoffs. Why?

We assert the essential difference is that the two occur under opposite business conditions: a spinoff happens when management decides a business can survive on its own, while bankruptcy occurs when management or creditors decide it can't. Moreover, bankruptcy restructuring overhauls the balance sheet, but not necessarily the business, industry and management, so the underlying causes of bankruptcy may persist. The following two contrasting examples illustrate.

EMERGING FROM BANKRUPTCY: FAIRPOINT COMMUNICATIONS

Fairpoint Communications (FRP), the rural Northeastern fixed-line phone company, relisted January 25 after emerging from a 2009 bankruptcy, and trades at about 25. The good news here is the prevalence of bad data: as this is written, some of the subscription stock data feeds still show 88 million shares outstanding (the number for the old common that was canceled last week) -- the correct number is now just under 30 million, including incentive stock option dilution. So FRPs' market capitalization is not $2.2b as some are reporting, but only around $750m, or two thirds of annual sales. So far, so good: price-to-sales is a decent predictor of investment performance.

Unfortunately, those sales are flat to falling. Worse, they are unprofitable sales, and not because of capital structure: the company has run negative EBIT for at least five quarters. Why not measure performance by EBITDA? Because of the endless demand for capital expenditures in broadband. At best, we might adjust FRP's expenses down by the difference between current depreciation and the current average capex; but even with a generous adjustment, operating losses persist. This business simply doesn't appear to make money, and as a result, we suspect its troubles are not yet over; at best, it looks more like a turnaround speculation than an investment, even after wiping out the debt. We'll avoid it.

EMERGING FROM BANKRUPTCY: CALIFORNIA COASTAL COMMUNITIES

California Coastal Communities (CALCQ) expects approval to reorganize February 16, and hopes to relist within two weeks thereafter. We mention this situation now, though the key numbers are not finalized (e.g. outstanding shares), because the company plans to list before our next issue. Balance-sheet-oriented value investors may want to take a look at its filings in the last week of February.

California Coastal Communities (hereafter CCC) illustrates both the allure and risks of a good story. Formerly called Koll Real Estate, CCC for years held the last large, privately owned, virgin oceanfront parcel in Orange County -- hundreds of acres on a Huntington Beach bluff overlooking the Pacific, surrounded by state parks and residential neighborhoods valued at millions per acre. Over the past 15 years, CCC shares sometimes traded below any reasonable estimate of book value -- yet results have been wildly unpredictable.

After years battling state regulators for permission to build near sensitive wetland, the company went bankrupt in 1997, reemerged in 1998, won building permits in the mid-2000s, and finally began building luxury homes -- just as the jumbo mortgage market collapsed, disqualifying many potential buyers. Weighed down by captive homebuilding subsidiaries, CCC went into its current bankruptcy in 2009.

CCC's financial instability contrasts with uncanny management tenure. The CFO in the first bankruptcy not only survived, but later became president. In 2006, he fought off shareholders who advocated selling the unfinished development near the top of the market.

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That decision proved most unfortunate: with only a quarter of the development finished, he took CCC into bankruptcy again in 2009 -- again emerging unscathed as president. Given the circumstances and the low insider ownership, such longevity is remarkable.

For all that, the assets remain singularly valuable. CCC's land and permits, soon to be unencumbered, are one-of-a-kind. In contrast to Fairpoint above, these assets are more fungible, and do not require perennial reinvestment. CCC currently trades as CALCQ; those shares will be canceled, and creditors will receive all the new common stock. The real estate portfolio may be adjusted up or down to fair market value, as is customary in bankruptcy. Because of management's record, we're disinclined to hold CCC for the long term, but if the new common stock lists in late February anywhere near tangible book value, we'll buy it, and recommend doing so.

HIDING IN PLAIN SIGHT: CONSISTENT REPURCHASES AT CHEAP, HIGH-ROEC FIRMS

High return on employed capital implies a good business, as long as earnings are not in steep decline; a low P/E multiple on such a firm marks a good investment; and consistent repurchases by such a company mean that management knows a good thing when it sees it. Taken together, these three create very attractive conditions for high returns. We typically cover more obscure firms, but at present, two of the best fits for this profile are well-known names, hiding in plain sight.

Teenybopper clothing chain **Aeropostale** (ARO) boasts the high return on capital characteristic of successful retailing. When it works, retailing mints money, because it requires so little capital: stores are rented, and inventory is delivered on vendor credit, so working capital is just a thin sliver atop a huge pile of current assets (inventory) and current liabilities (trade payables). This fact cuts both ways, explaining both the meteoric rise of retail successes, as well as their tendency to end in abrupt insolvency before Valentine's Day. That thin sliver of solvency turns negative in a hurry if a Christmas selling season goes poorly.

So far, Aeropostale has delivered only the success phase: fast, profitable growth even through the recession. EPS doubled in the two years ending January 2010. Less commonly, ARO is cheap, less than 10 times earnings. And still less commonly, financial management is conservative: no debt, lots of cash (exceeding all current liabilities), and consistent repurchases that have reduced outstanding shares by almost 30% in recent years.

But if it's so great, why does ARO trade below 10 times earnings? A November earnings miss (still growing, but more slowly) and January guidance (slight sales decline for the year just ended) suggest rapid growth is over for now. ARO looks temporarily lost in the no-man's land between growth investors, who have abandoned it, and value investors, who haven't found it yet. At the current price, even stagnant profits would deliver a good investor return, given the repurchases. Anything better than that is free growth, with no premium paid. We like it.

Plodding mega-cap operating system vendor **Microsoft** (MSFT) has all but ceased to innovate; its high-growth days are over; it has yet to move profitably beyond franchises established more than 15 years ago; its CEO looks painfully out of touch with certain tech trends; some of its web service efforts appear amateurish; and its flagship products have not improved appreciably in a decade.

Maybe so, but we aren't shopping for excitement. Microsoft's famously high return on capital is still intact. It is one of only a handful of growing, well-financed, globally diversified firms still trading below 12 times earnings. Best of all, unlike some other highly profitable firms, it displays hard signals of rational capital allocation: as growth slowed, it ended its employee stock option handouts (2003) and began buying back lots of shares (2005). Shares outstanding have declined at about 2% to 3% per year for the better part of a decade. The current repurchase program is authorized to buy back another 10% of shares. Barring a collapse of the company's basic franchise -- still some way away, tablet computers notwithstanding -- this is a game that can be played for a long time.

MSFT shares have hardly budged in a decade, trading between 20 and 30 (split adjusted), with few exceptions, since 2001. Yet earnings per share have doubled in the past five years. Even if Windows sales go flat -- and there is no direct evidence to suggest this is imminent -- the price looks fair.

The above companies are so big and well-known that we are moved to reiterate the possibly non-obvious unifying idea of this section. We are not merely saying these are good companies, or that they are cheap. It is the combination of all three elements -- high return on capital, low price, and *consistent share reductions* done at attractive prices -- that make them particularly appealing, even as mature companies.

OWNERSHIP DISCLOSURE

Author does not own any security mentioned in this issue, except for a long position in **Farmers National Banc Corp** (FMNB.OB).

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SPINOFF PROFILE

Aperam

Event details	
Type	distribution
Already listed pre-spin	no
Parent	ArcelorMittal
Headquarters	Luxembourg
Primary Listing	Netherlands
Distribution date	1/26/10
Distribution ratio	1 : 20
Spin cap / Parent cap	0.06
CEO joins spinoff	no
Wide analyst coverage	no

ArcelorMittal (MT.AMS, MT), the world's largest steelmaker by a wide margin, spun off its stainless steel division this week as **Aperam** (APAM.AMS, APEMY.PK).

MT reached its huge scale via mergers, increasing sales by a factor of 10 from 2003 to 2007. The growth is so far unprofitable to shareholders: even at the peak of the last economic cycle, before the commodities roller coaster and financial crisis, earnings per share were lower than in the early 2000s (in contrast, over the same period, competitor **POSCO** [PKX] doubled EPS through organic growth). In the recession, MT suffered one of history's more epic sales declines for a company its size, with revenue down almost half, nearly $60 billion, year over year, in 2009. In 2010 results recovered, but the company was hit midyear with fines for price fixing in Europe.

Given its recent history of uprofitable empire-building, why might ArcelorMittal now let something go? The reason, as presented by MT chairman Lakshmi Mittal, is typical and sensible: stainless makers enjoy higher price multiples than carbon steelmakers, and this multiple can only be applied by the market if Aperam is separately listed.

Another possibility, given the parent's history, is that Aperam will become a vehicle for a new consolidation effort. With a cleaner balance sheet than the parent, it is a more desirable property -- to either a buyer or seller -- in a merger with other pure plays in stainless steel. The balance sheet is less encumbered than it looks: about half of all debt is payable to the parent. As we have said before, such exposure is illusory, as the parent's fiduciary position in the spinoff probably precludes hardball debt collection efforts against its progeny.

ArcelorMittal, one of the biggest and most heavily traded firms on NYSE Euronext, is in the CAC40 index, but Aperam, about 17 times smaller, is not. Does this imply institutional selling pressure? NYSE Euronext has said as much: it delayed the removal of Aperam from the index until 3 business days after its listing, "to reduce the risk for the market."

Bottom line: Neither is appealing as a business or long-term investment. Avoid MT: poor industry with strong rivals, e.g. POSCO costs less (P/E is lower) and delivers higher return on employed capital. Do consider APAM below tangible book value (about 35) as a merger speculation -- a price we may yet see as index funds begin selling after February 1.

Notes: Income sheet data for both companies at right is annualized from the first half of calendar 2010.

Aperam historical, $m	***2009***	***2008***	***2007***
Sales	4,235	8,358	9,219
EBIT	-207	382	903
Net earnings	-150	98	559
ArcelorMittal historical, ex-Aperam, $m			
Sales	60,875	116,578	95,997
EBIT	-1,471	11,943	13,927
Net earnings	268	9,368	9,809

Condensed financial statements
$ millions, annualized from 6 months ending 6/30/10

	APAM	**MT**
Revenue	5596	75010
EBIT	352	4466
Interest (expense)	8	-1334
Tax and other (expense)	-106	1380
Net income	**254**	**4512**
Cash and equivalents	122	2286
Receivables	468	6898
Inventory	1464	17994
Other current assets	199	4164
Total current assets	**2253**	**31342**
Property, plant & equipment	2774	51941
Intangibles	924	14796
Other assets	497	16216
Total assets	**6448**	**114295**
Accounts payable	975	11799
Unsecured payable to parent	500	-500
Other current liabilities	770	12987
Total current liabilities	**2245**	**24286**
Long-term debt	133	17101
Other liabilities	586	19430
Total liabilities	2849	**60817**
Minority interests		
Equity	3599	53478
Tangible Equity	2675	38682
Shares outstanding, m	78	1510
EBIT ret. on employed capital	13%	8%
Debt to tangible equity	0.0	0.4
Current ratio	1.0	1.3
Interest coverage ratio	na	3.3
Recent price	40.96	36.06
Market capitalization	3262	54,451
P/E	12.8	12.1
P/Sales	0.6	0.7
P/Tangible equity	1.2	1.4
EBIT / EV	10%	6%
Major index	none	CAC40
Recent insider buying	na	na
Closely held	no	no

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SPINOFF & REORG'S INVESTMENT PERFORMANCE

At right is the geometric mean 6-month return of all US spinoffs since June 2005. At far right is the corresponding return of all *Spinoff & Reorg* monthly picks (last page of each issue) over the same periods. Our July 2010 recommendation, **DuluxGroup** (DLX.AX, DULUF.PK), returned 24% and beat the market by 8%.

In more normal times, this might sound impressive; but this time around we certainly cannot attribute it to skill, since the expected 6-month return from choosing a new U.S. spinoff at random last July was even higher at 33%. Frothy times -- see our cautionary comment on market sentiment, on the last page of this issue.

Mean 6-month return, all since Jun 2005	*All Spinoffs*	*Spinoff & Reorg Selections*
Absolute	-1.0%	**7.8%**
S&P-relative	3.4%	**8.2%**
Standard deviation	49%	**33%**

SPINOFF CALENDAR

	Spinoff	Parent	Type	Listing	Date	Market Cap
	Emami Infrastructure (533218.BO)	Emami (EMAM.BO)	Spinoff	India	07/29/10	< $100m
	Chesapeake Midstream Ptrs (CHKM	Chesapeake Energy (CHK)	Carve-out	USA	07/29/10	$500m - $2b
*	International Lithium	TNR Gold (TNR.V)	Carve-out	Canada	Jul-2010	< $100m
	Unitech Solar	Unitech (507878.BO)	Spinoff	India	08/01/10	> $2b
*	Ratel Gold (RTL.TO)	CGA Mining (CGA.TO, CGX.AX)	Carve-out	Australia	08/06/10	< $100m
*	Awesome Living	Innolog (INHC)	Spinoff	USA	08/12/10	< $100m
	Future Mall Management	Pantaloon Retail (523574.BO)	Spinoff	India	08/24/10	
	Corvus Gold (KOR.TO)	International Tower Hill Mines (ITH.TO)	Spinoff	Canada	08/26/10	< $100m
	Surana Ventures	Surana Telecom & Power (517530.BO)	Spinoff	India	Aug-2010	$100m - $500m
	Trans Hex Group (TSX.J, TRHXY)	Remgro (REM.J)	Spinoff	South Africa	09/06/10	
	Parametric Sound (PAMT.OB)	LRAD (LRAD)	Spinoff	USA	09/10/10	< $100m
	PetroBakken Energy (PBN.TO)	Petrobank Energy (PBG.TO)	Spinoff	Canada	10/06/10	> $2b
	SilverBirch Energy (SVB.TO)	UTS Energy (UTS.TO)	Spinoff	Canada	10/07/10	< $100m
	Contango ORE (CTGO)	Contango Oil & Gas (MCF)	Spinoff	USA	10/15/10	< $100m
	IRC (1029.HK)	Petropavlovsk (POG.L, PPLKY.PK)	Carve-out	Hong Kong	10/21/10	$500m - $2b
	Statoil Fuel & Retail	Statoil (STO)	Carve-out	Norway	10/22/10	> $2b
	Prelios (PCRE.MI)	Pirelli & C. SpA (PC.MI)	Spinoff	Italy	10/25/10	> $2b
	AIA (1299.HK)	American International Group (AIG)	Carve-out	Hong Kong	10/29/10	> $2b
	Texmaco Rail and Engineering	Texmaco (505400.BO)	Spinoff	India	11/02/10	> $2b
	Enel Green Power (EGPW.MI)	Enel SpA (ENEL.MI, ENSTY)	Carve-out	Italy	11/04/10	> $2b
	Sabra Health Care REIT (SBRA)	Sun Healthcare Group (SUNH)	Spinoff	USA	11/05/10	$100m - $500m
*	Phyhealth (PYHH)	Physicians Healthcare Mgmt (PHYH.PK)	Spinoff	USA	11/08/10	< $100m
	Howard Hughes (HHC)	General Growth Properties (GGP)	Spinoff	USA	11/10/10	> $2b
	OHL México (OHLMEX.MX)	Obrascon Huarte Lain (OHL.MC)	Carve-out	Spain	11/10/10	$500m - $2b
*	Inner Path Health	LadyBug Resource Group (LBRG)	Spinoff	USA	11/12/10	< $100m
	Citic Dameng (1091.HK)	Citic Resources (1205.HK)	Spinoff	Hong Kong	11/18/10	$500m - $2b
	Mvelaserve	Mvelaphanda Group (MVG.J)	Spinoff	South Africa	11/29/10	$100m - $500m
	Jubilant Industries	Jubilant Life Sciences (530019.BO)	Spinoff	India	12/01/10	> $2b
*	Teranga Gold (TGZ.TSE, TGZ.ASX)	Mineral Deposits (MDL.AX, MNLDF.PK)	Carve-out	Australia	12/01/10	$500m - $2b
	PortX Operacoes Portuarias (PRTX3	LLX Logistica (LLXLY.PK)	Spinoff	Brazil	12/03/10	$100m - $500m
	Westfield Retail Trust (WRT)	Westfield Group (WDC.AX)	Spinoff	Australia	12/09/10	> $2b
	CDON Group (CDON.ST)	Modern Times Group (MTG-B.ST)	Spinoff	Sweden	12/15/10	$100m - $500m
	Five X Finance & Investment	Octant Industries (590090.BO)	Spinoff	India	12/17/10	< $100m
	Motorola Mobility (MMI)	Motorola Solutions (MOT, MSI)	Spinoff	USA	12/21/10	> $2b
	Petrominerales (PBG.TSX)	Petrobank (PMG.TSX)	Spinoff	Canada	12/29/10	> $2b
	Fiat Industrial	Fiat SpA (F.BIT, FIATY)	Spinoff	Italy	01/03/11	> $2b

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	Minera Frisco (MFRISCOA1.MX)	Grupo Carso (GCARSOA1.MX)	Spinoff	Mexico	01/06/11	$500m - $2b
	Inmuebles Carso SAB (INCARSOB1	Grupo Carso (GCARSOA1.MX)	Spinoff	Mexico	01/06/11	> $2b
	Diana Containerships (DCIX)	Diana Shipping (DSX)	Spinoff	Greece	01/18/11	
	Aperam (APAM.AMS)	ArcelorMittal (MT.AMS)	Spinoff	Netherlands	01/26/11	> $2b
*	Archean Star Resources	Kent Exploration (KEX.V)	Spinoff	Canada	01/26/11	< $100m
	Nord Gold	Severstal (CHMF.MCX, SVJTF.PK)	Carve-out	Russia, UK	02/11/11	> $2b
	MetalsCo	Straits Resources (SRL)	Spinoff	Australia	Feb-2011	$100m - $500m
	Valemus	Bilfinger Berger (GBF.ETR, BFLBY)	Carve-out	Germany	Feb-2011	$500m - $2b
	KB Card	KB Financial Group (KB)	Spinoff	South Korea	Mar-2011	> $2b
	Santander UK	Banco Santander SA (STD)	Spinoff	UK, Spain	Q1 2011	> $2b
	CfC Insurance Holdings	CFC Stanbic Holdings (CFCO.NBO)	Spinoff	Kenya	Q1 2011	$500m - $2b
	Bil Energy	Bilpower (BILPOWER)	Spinoff	India	Q1 2011	$500m - $2b
	Megamine project	Gold One (GDO.AX)	Spinoff	Australia	Q1 2011	< $100m
	TNT Mines	Minemakers (MAK.AX)	Carve-out	Australia	Q1 2011	< $100m
*	oil and gas ops	Savanna East Africa (NVAE.PK)	Spinoff	USA	Q1 2011	< $100m
	Musgrave Minerals	Mithril Resources (MTH: ASX)	Carve-out	Australia	04/30/11	< $100m
	Chorus (fiber network)	Telecom Corp of New Zealand (NZT)	Splitoff	NZ	Jun-2011	> $2b
	Marathon Petroleum	Marathon Oil (MRO)	Spinoff	USA	Jun-2011	> $2b
	TNT Express	TNT NV (TNT.AS)	Spinoff	Netherlands	Jun-2011	> $2b
	Rainbow Media	Cablevision (CVC)	Spinoff	USA	Q2 2011	> $2b
	Mosaic (MOS)	Cargill (private)	Spinoff	USA	Q2 2011	> $2b
	Orascom Egypt and NK (EMOB.CAI	VimpelCom (VIP)	Spinoff	Egypt	Q2 2011	$500m - $2b
	Vale Fertilizantes	Vale (VALE)	Spinoff	Brazil	Q2 2011	> $2b
	Treasury Wine Estates	Foster's Group (FGL.AX, FBRWY)	Spinoff	Australia	Q2 2011	> $2b
*	patent licensing unit	Aware (AWRE)	Spinoff	USA	Q2 2011	< $100m
	Casino operations	Tabcorp Holdings (TAH.AX, TABCF.PK)	Carve-out	Australia	Jul-2011	
	Lone Pine Resources	Forest Oil (FST)	Carve-out		Jul-2011	$500m - $2b
	AOC brand	TPV Technology (0903.HK)	Spinoff	Hong Kong	Q3 2011	
	Enerflex	Toromont Industries (TIH)	Spinoff	Canada	Q3 2011	$100m - $500m
	Phoenix New Media	Phoenix Satellite (2008.HK)	Carve-out	USA	Q3 2011	
	touch panel business	Chimei Innolux (3481.TW)	Carve-out	Taiwan	Q3 2011	> $2b
	Splitco Starz	Liberty Media (LSTZA)	Splitoff	USA	2011	> $2b
	Splitco Capital	Liberty Media (LINTA)	Splitoff	USA	2011	> $2b
	Huntington Ingalls	Northrop Grumman (NOC)	Spinoff	USA	2011	> $2b
	Fortune Brands Home and Security	Fortune Brands (FO)	Spinoff	USA	2011	> $2b
	Acushnet	Fortune Brands (FO)	Spinoff	USA	2011	$500m - $2b
	water unit	ITT (ITT)	Spinoff	USA	2011	> $2b
	military tech unit	ITT (ITT)	Spinoff	USA	2011	> $2b
	Physio-Control	Medtronic (MDT)	Spinoff	USA	2011	$500m - $2b
	SunCoke Energy	Sunoco (SUN)	Spinoff	USA	2011	> $2b
	Kazzinc gold unit	Glencore	Spinoff	Switzerland	2011	> $2b
	Northam Platinum	Mvelaphanda Resources (MVL.J)	Spinoff	S. Africa	2011	$100m - $500m
	NewCo	Bjorge ASA (BJORGE.OL)	Spinoff	Norway	2011	
	L&T Infrastructure	Larsen & Toubro (500510.BO)	Spinoff	India	2011	$500m - $2b
	road projects	Srei Infrastructure Finance (523756.BO)	Spinoff	India	2011	$500m - $2b
	Essar Shipping	Essar Ports (500630.BO)	Spinoff	India	2011	$500m - $2b
	L&T Infotech	Larsen & Toubro (500510.BO)	Spinoff	India	2011	$500m - $2b
	GPG Australia	Guinness Peat Group (GPG.L)	Spinoff	Australia	2011	$500m - $2b
	US insurance	ING Groep (ING)	Carve-out	USA	2011	> $2b
	Konkola Copper Mines	Vedanta Resources (VED.L)	Carve-out	UK	2011	> $2b
	Hutchison Port Holdings Trust	Hutchison Whampoa (0013.HK)	Carve-out	Singapore	2011	> $2b
	European insurance	ING Groep (ING)	Carve-out	Netherlands	2011	> $2b
	Hitachi Global Storage	Hitachi (HIT, 6501.TO)	Carve-out	Japan	2011	$500m - $2b
	L & T Finance	Larsen & Toubro (500510.BO)	Carve-out	India	2011	$500m - $2b

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	yuan REIT	Bank of China Group (state-owned)	Carve-out	Hong Kong	2011	$500m - $2b
	Lafarge Shui On Cement	Shui On / Lafarge (0983.HK/ LAFP.PA)	Carve-out	HK, France	2011	> $2b
	packaging unit	Saint-Gobain (SGO.EPA)	Carve-out	France	2011	> $2b
*	PhotoWatt Technologies	ATS Automation Tooling (ATA.TO)	Spinoff	Canada	2011	< $100m
*	Eclipse Uranium	Dourado Resources (DUO.AX)	Spinoff	Australia	2011	< $100m
	Bharatmatrimony and Indiaproperty	Consim Info	Spinoff	India	2012	
	Genie Energy	IDT (IDT)	Spinoff	USA	TBA	< $100m
	Zhuhai Oil Energy	Biomagnetic Diagnostics (BMGP)	Spinoff	USA	TBA	< $100m
	MySpace	News Corp (NWSA)	Spinoff	USA	TBA	$500m - $2b
	Quiñenco	Antofagasta (ANFGY.PK)	Spinoff	UK	TBA	$100m - $500m
	Vedanta Aluminium	Vedanta Resources (VED.L)	Spinoff	UK	TBA	> $2b
	healthcare business	Misys (MSY.L)	Spinoff	UK	TBA	$100m - $500m
	private equity	HSBC Holdings (HBC)	Spinoff	UK	TBA	$500m - $2b
	Battersea Power Station	Real Estate Opportunities (REO)	Spinoff	UK	TBA	$100m - $500m
	private equity	Standard Bank (SBK.J)	Spinoff	South Africa	TBA	
	Oil and drilling divisions	Bashneft (BANE)	Spinoff	Russia	TBA	$100m - $500m
	OMV Petrom Marketing	OMV Petrom (SNP)	Spinoff	Romania	TBA	$100m - $500m
	Banca Fideuram	Intesa Sanpaolo (ISP.MI, ISNPY)	Spinoff	Italy	TBA	> $2b
	BioNeurology	Elan Corp (ELN)	Spinoff	Ireland	TBA	
	B.C. and Manitoba assets	Callinan Mines (CAA)	Spinoff	Canada	TBA	< $100m
	mining unit	Companhia Siderurgica Nacional (CSNA	Spinoff	Brazil	TBA	> $2b
	AgFeed Animal Nutrition	AgFeed Industries (FEED)	Carve-out	USA, China	TBA	< $100m
	Freedom Group	Cerberus Capital Management	Carve-out	USA	TBA	
	Liberty Mutual Agency (LMAC)	Liberty Mutual Group (private)	Carve-out	USA	TBA	> $2b
	DLF Assets	DLF (532868.BO)	Carve-out	Singapore	TBA	> $2b
	Citilink Indonesia	Garuda Indonesia	Carve-out	Indonesia	TBA	
	Pricerite	Cash Financial Services (0510.HK)	Carve-out	Hong Kong	TBA	< $100m
	iron mining	Usiminas (USIM3.BR, USNZY.PK)	Carve-out	Brazil	TBA	
	Eritrean, Tasmanian assets	Gippsland (GIP.AX)	Carve-out	Australia	TBA	< $100m

LEGEND

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

ABOUT THE CALENDAR

A spinoff is listed only if (i) management announces it is 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. "Splitoff" 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 promotions rather than operating events, spinoff announcements without prompt regulatory filings, claims of valuable, non-yielding 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 into upcoming issues.

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Farmers National Banc Corp

RECAPITALIZATION

SITUATION

BACKGROUND

FMNB conducted a rights offering and public offering that closed January 31. 5 million new shares were issued at $3, for proceeds of about $15m.

ANALYSIS

Community bank rights offerings were once a signal for closer inspection, as they may indicate growth prospects. Since 2007, though, they nearly always spell impending doom. By 2009, such filings bled palpable fear through their dry SEC legalese. We recall an amusing one, from a now-defunct bank, asserting that its rights offer was fully backed by standby purchasers -- but that they were as yet unsure who those backers would be.

This recent history explains why FMNB swooned last autumn on announcing their rights offering. Shares fell well below tangible book value, and remain there yet, even net of dilution from the offering.

FMNB is not on any official or unofficial FDIC problem bank list; is still rated 4 stars by Bauer, the consumer bank rating service; still meets its regulator's bar for "well capitalized;" operates in a relatively untouched real estate market; and was well managed in the crisis (see right).

The record date for the offering was set earlier than the announcement date -- a tactic firms sometimes use to exclude meddling outsiders such as *Spinoff & Reorg Profiles*. Only about 40% of shareholders exercised rights, but 11 officers and directors did; most, including the president, either oversubscribed (bought extra shares by claiming rights left unexercised by other holders) or bought at the public offering. Within hours after the offer expired, the bank disclosed bumper profits for 2010 -- up 54% from 2009.

OWNERSHIP DISCLOSURE

Author owns FMNB.

COMPANY AND INDUSTRY

Farmers National Banc Corp (FMNB.OB) is the holding company for Farmers National Bank of Canfield, which operates 16 branches in Ohio near the Pennsylvania border. Assets were just under $1b on December 31.

Though less than 70 miles from Cleveland, Akron and Pittsburgh, FMNB is more small town than Rust Belt, operating in areas that escaped the big property value declines. The median residential sale price in the city of Canfield was higher in 2010 than 2007.

FMNB's efficiency ratio is on the good side of average, in the low 60s, down from about 70% in recent years, thanks to 2009 cost cuts. More impressively, the bank shows signals of intelligent capital allocation. The rights offering itself is one example, but there are others: at the very bottom of the panic, in March 2009, it diversified into fee-based financial services, buying (for cash) a non-depository trust company that acts as fee-based fiduciary for regional charities and pension funds. We presume such fiduciary services can be sold through the bank branches without increasing costs much, and thus are highly accretive. In any event, the unit is growing rapidly, and appears to be a big part of the explanation for earnings, which increased by half from 2009 to 2010, despite declining net loans.

Unlike many small banks, FMNB didn't panic during the panic, but continued to increase equity, revenue and earnings throughout. There were write-offs for commercial real estate in 2009, but these declined in 2010, implying the worst is over.

VALUATION

FMNB closed February 1 at $3.75 per share. Taking effect of the 5m shares issued in the offering, its pro forma fully diluted tangible book value per share was $5.26. (This is as reported by FMNB on January 27, calculated by adjusting its Q3 2010 balance sheet to include the new cash and new shares.) The discount to book value is thus about 29%.

So far, so good. What about earnings multiples? Within the past 48 hours, FMNB reported it earned $9m in 2010, which works out to a P/E of 7.8, fully diluted.

This is a distress price as banks go, yet it appears to buy a profitable, growing, somewhat diversified financial firm that so far has exhibited no serious trouble. Recent insider trades, far from warning us off, evoke images of bank managers doing high-fives and victory dances in the vault. In short, it looks appealing.

FMNB's daily volume is less than 20,000 shares, so one might want to use a light touch on that buy button. In the event of a crowd at the velvet rope, we should add that FMNB appears to be a clear bargain up to at least $4.50 per share.

RECOMMENDATION

Buy and hold.

RISKS

The main business risk would be hidden weakness in the commercial real estate portfolio -- especially if the banking regulator were helping it introduce losses "gently." But were this true, management would not likely have oversubscribed for extra shares.

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INMUEBLES CARSO: INTERESTING, BUT TOO EXPENSIVE

Grupo Carso (GCARSOA1.MX) has completed its mining and real estate development spinoffs, **Minera Frisco** (MFRISCOA1.MX) and **Inmuebles Carso** (INCARSOB1.MX, IBNCY.PK). Both listed January 6 on the Bolsa Mexicana de Valores.

The new firms now trade only in Mexico, but will be available in the US within days as ADRs on the Pink Sheets. Their financial statements were filed only in Spanish, and only in Mexico. American data feeds incorrectly show the companies' historical divisional financial statements (as internal units of Grupo Carso), not the more accurate pro forma statements.

Smelling potential, we dug up the spinoff prospectus for Inmuebles Carso -- by coincidence, the author spent a few months last year learning to read financial statements in Spanish -- but were disappointed to find a growth stock priced at a growth-stock premium: 27 times 2009 earnings and 1.7 times book value, despite slowing sales in the first half of 2010.

We suspect that in countries with relatively weak protection for real property rights, there may be huge advantages of scale for property developers, since buyers and renters would naturally prefer a trusted large seller with the influence to intervene in future rights disputes. So there is a good story here, and fast growth, but the price simply does not fit our investment profile.

The other Carso spinoff, Minera Frisco, mines precious metals; given the speculation in this asset class at present, we'll pass for now, to revisit if and when gold crashes.

LAST WORD: DEMAND MEDIA, AND THE RETURN OF THE UNPROFITABLE STARTUP IPO

This month saw a watershed in equity markets: the initial public offering of Demand Media Inc. (DMD) signaled that, for the first time in eleven years, capital markets are sufficiently exuberant to let money-losing speculative startups sell shares.

We do appreciate the simplicity, efficiency and almost infinite scalability of Demand Media's business. The company monitors Web searches, and crafts Web pages to "answer" those inquiries; these answer pages appear prominently in future similar searches, and the company then collects revenue from ads placed on those pages. The revenue per page is usually low, but so is the cost: the company outsources content development to an army of amateur freelancers at rock-bottom prices.

As clever as this is, there are several interrelated risks that not only dampen any interest in DMD, but even tempt us -- almost -- to buy puts.

1. *Unpredictable asset lifetimes*. An optimist might argue that DMD's current reported losses are chimerical, as they result from investments in new content that will yield revenue for a long time to come: in theory, once investment slows, amortization will grow more slowly than revenue, and profits will appear at the bottom line. In practice, however, this requires one to presume long asset lifetimes, in an industry that is only a few years old. This may not be a well-founded extrapolation.
2. *Highly concentrated revenue sources*. DMD generates nearly a third of revenue from Google. Some executives at Google have reportedly said they consider DMD to "pollute" Google search with low-quality results. If this view became dominant -- and with the leadership transition there last week, there is reason to believe it may -- the effect on DMD would be dramatic.
3. *Low entry barriers.* Though Demand Media is the biggest such firm, there is no great barrier to other firms' entry. AOL, Yahoo and others are natural and self-avowed rivals, and there are others. We anticipate this will create an endless race for increased page quality, resulting in endless reinvestment, whatever the amortization schedules may say. If this does occur, the only likely winner is the advertising syndicator: Google.

Of course, businesses like this can defy economic gravity for a long time, so speculations on their demise bring more risk than we can tolerate. But for such a company to have listed at all requires a market optimism, even carelessness, that we haven't seen in years. Be wary.

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