
THE SPIN-OFF REPORT

August 2011

RADAR SCREEN

These companies are on our radar screen for a variety of reasons: a similar company may have recently announced a spin-off, the company may be under investor pressure to consider strategic alternatives, or the current segments may not prove a synergistic fit and as a result the stock trades at a discount to its closest peers. While we are neither advocating a spin-off nor making the case that a spin-off is likely in the near term, these are names that we are following.

<u>Company</u>	<u>Symbol</u>	<u>Top Holder</u>	<u>% Ownership</u>
BP plc	BP	State Street Global Advisors	1.3%
Clorox Corporation	CLX	Icahn Associates	9.4%
CVS Caremark	CVS	Davis Selected Advisers	5.0%
General Growth Properties Inc.	GGP	Brookfield Asset Management	36.2%
The Hain Celestial Group	HAIN	Icahn Associates	15.3%
Helix Energy Solutions	HLX	BlackRock Institutional Trust	6.3%
Hertz Global Holdings	HTZ	Clayton, Dubilier & Rice, LLC	14.7%
Hess Corporation	HES	John B. Hess	10.7%
JC Penney Company	JCP	Pershing Square Capital	14.8%
L-3 Communications Inc.	LLL	Harris Associates LP	5.3%
Loral Space & Communications	LORL	MHR Fund Management	38.4%
Pfizer Inc.	PFE	State Street Global Advisors	3.7%
Symantec Corporation	SYMC	Dodge & Cox	7.6%
Tyco International Ltd.	TYC	Capital World Investors	6.5%

New This Month – BP Plc (NYSE: BP); Clorox Corporation (NYSE: CLX)

Updates – CVS Caremark Corporation (NYSE: CVS); General Growth Properties (NYSE: GGP); L-3 Communications (NYSE: LLL); Pfizer Inc. (NYSE: PFE)

BP plc (NYSE: BP)

On July 26, 2011, CEO Bob Dudley said he would consider all options to lift shareholder value, including the potential separation of the company's refining assets. Fellow super-major ConocoPhillips (COP) announced on July 14, 2011, that it would spin off its refining and marketing segment, including twelve refineries in the US, as well as refiners in the United Kingdom, Ireland, Germany, and Malaysia, to shareholders. The stock rose about 2% on the trading day following the announcement.



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BP operates 16 refineries worldwide, with BP's share of total daily capacity being about 2.7 million barrels. About 55% of capacity comes from BP's refineries (five owned and one shared) in the US. The remaining capacity is spread across the globe, including plants in South Africa, Europe, Australia, and New Zealand. In 1H 2011 refining and marketing EBIT increased nearly 90% year over year to \$6.2 billion. Excluding inventory holding gains or losses, replacement profit rose 22% to \$3.4 billion. Higher refiner margins more than offset a modest decline in volume, largely the result of increased turnaround activity at certain plants. Based on an EV/processing capacity in line with other large US refiners, the enterprise value for BP's refining assets could be around \$25 billion.

BP shares as of July 2011 are down about 25% since the spring 2010 oil spill in the Gulf of Mexico. By comparison, the S&P Oil & Gas Exploration & Production Index is up about 45% over the same period. BP management may seek ways to lift shareholder value following a period of significant tumult. By splitting up, BP could offer investors a choice between a large global E&P that may benefit from rising oil and natural gas prices, and one of the world's largest refiners, which could benefit in periods of rising refined product demand.

TOP 10 SHAREHOLDERS

1	State Street Global Advisors	1.3%	6	Mackenzie Financial Corporation	0.3%
2	Wellington Management Company	1.2%	7	T. Rowe Price Associates, Inc.	0.3%
3	Fidelity Management & Research	1.2%	8	Bill & Melinda Gates Foundation	0.3%
4	Franklin Advisers, Inc.	0.4%	9	Goldman Sachs Asset Management	0.2%
5	Mason Capital Management	0.3%	10	Barrow, Hanley, Mewhinney & Strauss	0.2%

Clorox Corporation (NYSE: CLX)

On July 15, 2011, activist investor Carl Icahn made a \$10.7 billion unsolicited takeover offer for the home-cleaning-products giant. While the company's Board of Directors has subsequently rejected the offer, Icahn is already CLX's largest shareholder, with more than a 9% stake. Icahn indicated he could raise the financing necessary to close a deal and was willing to pay the company a \$100 million fee if the financing efforts failed. The billionaire investor could explore the sale of certain highly regarded CLX brands, including Brita water filters and Hidden Valley Ranch dressings. Icahn may also be agitating to get larger players involved in a bidding war for a company he likely deems undervalued. Management could respond by taking its own steps to unlock value without a full sale of the company. One step would be spinning off certain non-core segments while maintaining the strong Clorox brand integrity. CLX is up about 7% since the middle of July 2011, when Icahn's initial offer was made public. As of late July 2011, CLX shares trade at about 18x fiscal 2012 EPS, compared to 15x-16x forward EPS for peers Procter & Gamble Co. (NYSE: PG) and Colgate-Palmolive Co. (NYSE: CL).

TOP 10 SHAREHOLDERS

1	Icahn Associates Corporation	9.4%	6	Cedar Rock Capital	2.3%
2	State Street Global Advisors	5.2%	7	Yacktman Asset Management	2.2%
3	T. Rowe Price Associates, Inc.	5.1%	8	American Century Investment Mgmt.	2.1%
4	Vanguard Group	3.9%	9	Mellon Capital Management	2.0%
5	BlackRock Institutional Trust Company	2.5%	10	Bank of America Merrill Lynch	2.0%

CVS Caremark Corporation (NYSE: CVS)

CVS may be under increasing pressure to spin off its pharmacy benefits management (PBM) business, which it entered through the 2006 acquisition of Caremark. The Federal Trade Commission (FTC) and several state attorney generals are reportedly investigating anti-competitive practices. According to *The New York Times*, five consumer groups wrote a complaint to the FTC claiming CVS has used confidential client information to push more Caremark clients to use CVS pharmacies. Despite increased consumer pressure and potentially rising heat from regulatory agencies, CVS has continued its push into the PBM business, paying about \$1.25 billion for the Medicare Part D business of Rye, NY-based Universal American (NYSE: UAM). In March 2007, CVS completed the acquisition of PBM Caremark in a \$21 billion deal.

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Given all this, it could be argued that a spin-off of Caremark could unlock value while also putting to rest certain questions about anti-competitive practices. Retail pharmacy operations accounted for about 55% of CVS's 2010 segment revenue and about 59% of segment operating profit. Retail pharmacy revenue grew about 4% in 2010 to \$57.3 billion, partially offsetting the 6% annual decline in PBM revenue to \$47.8 billion. CVS operates over 7,000 pharmacies across the US. More than 500 stores house retail-based health clinics.

On an EV/EBITDA basis, Express Scripts (NASDAQ: ESRX) trades at about 13x trailing 12-month EBITDA, while Walgreen (NYSE: WAG) trades at about 7.2x TTM EBITDA. By comparison, CVS trades at less than 7.7x TTM EBITDA. In late July ESRX announced a deal to acquire Medco Health Solutions Inc. (NYSE: MHS) for \$29.1 billion, or about 9.6x TTM EBITDA.

TOP 10 SHAREHOLDERS

1	Davis Selected Advisers	5.0%	6	Franklin Mutual Advisers	2.9%
2	State Street Global Advisors	3.7%	7	Capital Research Global Investors	2.9%
3	Vanguard Group	3.6%	8	Capital World Investors	2.7%
4	Wellington Management Company	3.5%	9	Fidelity Management & Research Company	2.3%
5	BlackRock Institutional Trust Company	3.2%	10	Relational Investors LLC	1.5%

General Growth Properties Inc. (NYSE: GGP)

On August 1, 2011, General Growth Properties announced its Board of Directors approved a plan to spin off a 30-mall portfolio in a taxable special dividend to GGP shareholders. The malls will be transferred to Rouse Properties Inc., which is expected to qualify as a real estate investment trust (REIT) and trade on the NYSE following the separation. The special dividend is expected to be declared in 4Q 2011 pending SEC review of Rouse's Form 10 filing, which should be filed in August 2011.

From last month's report – Mall owner GGP is considering spinning off 19 of its weakest-performing assets to shareholders, according to *The Wall Street Journal*. The company emerged from bankruptcy in November 2010. As part of the reorganization plan, it spun off The Howard Hughes Corp. (NYSE: HHC), a developer of Master Planned Communities and mixed-use real estate, into a separately traded real estate investment trust (REIT). From the separation through late June 2011, when the previously-cited media article was published, HHC was up more than 70% and GGP was up more than 10%, compared to about a 5% gain for the S&P 500. GGP management reportedly planned originally to sell off the lower-revenue-generating malls, but because of a dearth of prospective buyers, it is now considering the spin-off. Such a deal could be valued at around \$1.8 billion, according to the article, but the exact composition of the proposed spin-off has yet to be determined.

TOP 10 SHAREHOLDERS

1	Brookfield Asset Management	36.2%	6	Morgan Stanley	3.3%
2	Pershing Square Capital Management	7.4%	7	Texas Teachers Retirement System	2.6%
3	Blackstone Group	5.1%	8	Citigroup	1.7%
4	Cohen & Steers Capital Management	3.5%	9	ING Clarion	1.7%
5	Vanguard Group	3.4%	10	SG Americas Securities	1.3%

L-3 Communications Holdings Inc. (NYSE: LLL)

On July 28, 2011, L-3 Communications Holdings Inc. (NYSE: LLL) announced its Board of Directors approved a plan to spin off its Government Services unit, to be named Engility, to shareholders in a tax-free distribution scheduled for 1H 2012. L-3 had previously been urged to consider ways to lift shareholder action.

From last month's report – Activist firm Relational Investors recently took a 6% stake in the company and in a June 2011 SEC filing, Relational argued that L-3 had underperformed defense-related stocks and the broader market due to its uneven mix of businesses. L-3 management had already disclosed earlier this year that it would consider divesting certain assets. LLL operates in several defense segments, including high-margin electronics and intelligence, as well as more commoditized aircraft maintenance and government services.

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Earlier this year ITT Corporation (NYSE: ITT) announced plans to separate into three companies serving separate end-markets: (1) defense, (2) water, and (3) a mix of the energy, industrial, and transportation industries. ITT rallied more than 16% on the day of the announcement. Since the beginning of 2010, LLL has declined nearly 3%, compared to gains of 5% for Lockheed Martin Corp. (NYSE: LMT), 18% for Northrop Grumman Corp. (NYSE: NOC) (which spun off its weaker-margin shipbuilding segment in 2011), and 14% for the S&P 500.

TOP 10 SHAREHOLDERS

1	Harris Associates LP	5.3%	6	Pzena Investment Management	3.6%
2	Clearbridge Advisors	5.1%	7	LSV Asset Management	3.4%
3	Bank of New York Mellon	4.7%	8	BlackRock Institutional Trust Company	3.1%
4	Vanguard Group	3.9%	9	Artisan Partners	3.1%
5	State Street Corporation	3.9%	10	Barrow, Hanley	2.9%

Pfizer Inc. (NYSE: PFE)

Pfizer Inc., the global pharmaceutical company, is currently undertaking a review of its business portfolio in an effort to maximize shareholder value. In early July 2011, management announced plans to explore strategic alternatives for its Animal Health and Nutrition businesses. Animal Health, which generated \$3.6 billion in revenue in 2010, is involved in the development and manufacture of products, including vaccines and diagnostics, to prevent and treat disease in livestock. The Nutrition segment generated 2010 revenue of \$1.9 billion. Products include infant formulas and nutrition supplements for children under the age of seven. Alternatives for the company include the sale of these segments or spin-offs to shareholders. Such transactions are likely to be viewed favorably by investors given the recent experience of Mead Johnson (NYSE: MJN), a Pfizer competitor in infant nutrition, which was recently carved out from Bristol-Myers (NYSE: BMY). Mead Johnson trades at over 25x forward earnings, whereas Pfizer trades at under 10x forward earnings, meaning that a spin-off of the Nutrition business would unlock shareholder value if it were to trade at a multiple comparable to Mead Johnson. Further, the segment is expected to grow at a faster pace than the rest of the Pfizer portfolio given its exposure to emerging markets. This segment became a part of Pfizer as a result of the acquisition of Wyeth in 2009.

There also exists speculation that as a result of the aforementioned internal review of its portfolio businesses, Pfizer may decide to divest additional businesses in an effort to focus on the core pharmaceutical division. Some suggest that the departure of the CEO in December 2010 hints at the prospect that Pfizer will seek to become a leaner company through several divestitures. Management recently indicated that it would provide rough outlines by the end of 2011 on which non-core business the company will decide to divest.

TOP 10 SHAREHOLDERS

1	State Street Global Advisors	3.7%	6	T. Rowe Price Associates	1.5%
2	Vanguard Group	3.6%	7	Fidelity Management & Research	1.4%
3	BlackRock Institutional Trust Company	3.3%	8	Dodge & Cox	1.3%
4	Wellington Management Company	3.2%	9	Capital World Investors	1.3%
5	AllianceBernstein LP	1.6%	10	State Farm Insurance Companies	1.0%

The Hain Celestial Group Inc. (NASDAQ: HAIN)

Carl Icahn has built a stake in organic and natural foods producer HAIN that in mid 2011 is approaching 20%. If the stake tops 20%, HAIN could exercise its poison pill provision. Although Mr. Icahn has placed two people on HAIN's Board of Directors, including his son, the legendary investor has not publicly expressed any plans to push for drastic changes to enhance shareholder value. The New York-based company has a number of leading natural and organic food brands, including Celestial Seasonings, Earth's Best, and Terra, and has continued to build out its stable with the acquisitions last year of additional category-leading labels, including Greek Gods yogurt, Sensible Portions, and Churchill Food Products. Owing to acquisitions and the growing popularity of natural and organic foods, EPS more than doubled to \$0.69 in FY 2010 from the year-earlier \$0.33. Grocery sales were up nearly 3% to

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\$556 million, but personal product sales declined 22% to less than \$93 million. Personal product brands, which include Queen Helene, are primarily sold in drugstores.

While many of the personal product labels also hype their natural ingredients, one could view the fit with the much larger grocery category to be a bit awkward, given the differing distribution channels and end markets. The prospects for a sale of the company, if that channel were ever pursued, could be clouded by the personal care products segment. As a result, if Mr. Icahn does eventually want to position the company for a sale, the spin-off of the personal care products segment could be a precursor.

TOP 10 SHAREHOLDERS

1 Icahn Associates	15.3%	6 Champlain Investment Partners	4.1%
2 Dimensional Fund Advisors	7.1%	7 Fred Alger Management	3.3%
3 BlackRock Institutional Trust	6.7%	8 Sentinel Asset Management	2.6%
4 Dimorphandra S.L.	5.1%	9 PENN Capital Management	2.4%
5 Vanguard Group	4.6%	10 Systematic Financial Management	2.4%

Helix Energy Solutions Inc. (NYSE: HLX)

HLX management has publicly announced its intention to sell its exploration and production assets in the Gulf of Mexico, leaving behind its offshore energy services segment, including well intervention and pipeline construction services, vessels, and equipment. We suspect the moratorium on drilling in the Gulf of Mexico following BP plc's Macondo spill has hampered HLX's efforts to sell its Gulf properties at a price considered reasonable by management. Nevertheless, other offshore properties have been unloaded over the last twelve months by other Gulf E&Ps, including the sale of Plains Exploration and Production Company's (NYSE: PXP) shallow water Gulf assets for \$818 million in a cash-and-stock deal to McMoran Exploration Co. (NYSE: MMR) at the end of 2010.

If a buyer of HLX's assets does not emerge in the near term, management could likely consider a spin-off of the properties to shareholders. HLX's oil and gas production in 2010 totaled 47 billion cubic feet equivalent (Bcfe), compared to 44 Bcfe in 2009. The PV-10, or present value of future cash flows of estimated proved reserves discounted 10%, was approximately \$991 million at the end of 2010, essentially unchanged from the previous year. Following the repeal of the Gulf drilling moratorium, HLX shares have recovered and no longer trade at a discount to book value, which may imply that management could be under little or no pressure to undertake a shareholder-friendly transaction. That said, it is likely that an announced sale or spin-off would be welcomed by investors.

TOP 10 SHAREHOLDERS

1 BlackRock Institutional Trust Company	6.3%	6 Vanguard Group	4.2%
2 EARNEST Partners	5.8%	7 Fidelity Management & Research	4.0%
3 Dimensional Fund Advisors	5.5%	8 AllianceBernstein	3.8%
4 Owen Kratz	5.4%	9 Columbia Management	3.5%
5 LSV Asset Management	5.2%	10 State Street Global Advisors	3.2%

Hertz Global Holdings Inc. (NYSE: HTZ)

CEO Mark Frissora said at a conference in May 2011 that the car rental service may consider spinning off its heavy equipment rental arm in the future. Hertz Equipment Rental Corp., known as HERC, provides earthmovers, pumps, and compressors, as well as assorted construction and industrial tools. The unit, negatively affected by the slowdown in nonresidential construction, underwent a restructuring in 2008, including the shuttering of several branches. HTZ has been seeking to expand its car rental operations through the proposed acquisition of smaller rival Dollar Thrifty Automotive Group Inc. (NYSE: DTAG). In 2010 the equipment rental segment generated nearly \$1.1 billion in revenue or about 14% of total company sales. HERC's revenue declined nearly 4% in 2010 from 2009, and EBITDA fell 13% to \$401 million. By way of comparison, in 2006, prior to the slowdown, EBITDA growth topped 45% on revenue of \$1.7 billion.

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Comparables include RSC Holdings Inc. (NYSE: RRR) and United Rentals Inc. (NYSE: URI), both of which have recently traded at about 7x 2010 EBITDA. Based on that EV/EBITDA multiple, one could value HERC at an EV of about \$2.8 billion. Management may wait for a stronger recovery in the construction market before moving ahead with any spin-off plans, under the assumption that the stock market would not fully reflect the value of the business in the currently weak rental environment. In addition, management may be hesitant to put a significant portion of HTZ's more than \$9 billion in net debt on HERC's books given the lack of stronger cash flow. HTZ went public in November 2006, a year after a private equity group acquired the rental firm from Ford Motor Co. (NYSE: F) in a \$15 billion transaction.

TOP 10 SHAREHOLDERS

1 Clayton, Dubilier & Rice, LLC	14.7%	6 Wells Capital Management Inc.	3.9%
2 The Carlyle Group	13.1%	7 York Capital Management	3.8%
3 Bank of America Merrill Lynch	10.7%	8 Columbia Wanger Asset Management	3.5%
4 T. Rowe Price Associates, Inc.	6.4%	9 UBS Global Asset Management	3.2%
5 Lord, Abnett & Co.	4.6%	10 Vanguard Group, Inc.	2.3%

Hess Corporation (NYSE: HES)

One could expect other small integrated oil and gas companies to follow the lead of Marathon Oil Corporation (NYSE: MRO) and consider spinning off their refining and marketing segments. In January 2011, MRO announced the planned spin-off of its refining business via a tax-free distribution to shareholders, which was completed on June 30, 2011. Investors appeared to cheer the move, driving the stock up about 6%, to a two-year high, on the day of the announcement.

Particularly in an elevated oil price environment, refinery operations can be a drag on integrated oil's earnings. While exploration and production operations benefit from higher oil prices, refiner spreads can narrow significantly, as higher prices cannot entirely be passed along at the pump. In addition, refineries and processing facilities require significant annual cap-ex to maintain regulatory requirements and safety standards, while retail operations must spend to remain competitive with nearby stations. Such spending could otherwise be used to acquire new leases or drill more wells to expand the oil and gas proved reserve base. The problem could be more significant for smaller companies that have fewer funding resources that must be divvied up annually.

Hess is a perfect case in point. In 2010, HES generated \$6.5 billion in adjusted EBITDAX from exploration and production activities but only a modest profit in its refining and marketing segment. HES operates about 1,360 retail stations across the US East Coast and owns a refinery in New Jersey as well as 50% of a US Virgin Islands refinery in a joint venture with Venezuela's state-owned PDVSA. But recent funding initiatives have significantly targeted expanding reserves, potentially at the expense of upgrading refinery or retail operations.

The \$5.6 billion 2011 cap-ex budget includes only \$85 million for refinery and marketing operations. HES also spent heavily to acquire oil and gas reserves in strategic locations. HES recently paid more than \$1 billion to purchase nearly 170,000 net acres in the prolific, oil-rich Bakken Shale from TRZ Energy. We expect a spin-off would enable management of the spun-off refining and marketing operations to focus spending on facilities instead of consistently losing out to E&P operations for funding. The advantage of a pure-play E&P would be the lack of drag from refining operations in an environment of rising commodity prices.

TOP 10 SHAREHOLDERS

1 John B. Hess	10.7%	6 Eaton Vance Management	3.0%
2 State Street Global Advisors	3.7%	7 AllianceBernstein	2.6%
3 BlackRock Institutional Trust Company	3.3%	8 Manning & Napier Advisors	2.2%
4 Vanguard Group	3.3%	9 Wellington Management	2.1%
5 MFS Investment Management	3.0%	10 Metropolitan West Capital Management	1.9%

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JC Penney Company (NYSE: JCP)

William Ackman of Pershing Square Capital Management and Steven Roth of Vornado Realty Trust were granted Board seats in late January 2011. Mr. Ackman and Mr. Roth, two of JCP's largest investors, have pushed for changes following several years of declining sales and a sagging valuation compared to other large department store chains. JCP also announced plans to close some of its underperforming stores and shutter its catalog business. The more than 100-year-old Texas-based company sells clothing, jewelry, and furniture through its US-based department stores. JCP is closing several department stores, home stores, and outlet stores, and is realigning its call center operations. Additional efforts to improve profitability and maximize shareholder value could be considered, particularly now with Ackman and Roth sitting on the board. In June 2011 Ron Johnson, Apple Inc.'s (NASDAQ: AAPL) senior vice president of retail, was named the new CEO at JCP.

Mr. Ackman is widely known for unsuccessfully pushing retailer Target (NYSE: TGT) to spin off its real estate assets into a REIT. He lost the proxy fight to win Board seats at TGT in 2008. Thus far his dealings with JCP appear friendly, as he and Mr. Roth were granted the Board seats without an expensive proxy fight. It remains unclear whether Mr. Ackman will revisit the REIT strategy with JCP. The company owns more than 400 of 1,100-plus stores and leases the remainder. Much of the real estate is attractively located in popular malls. On a related note, department store chain Dillard's (NYSE: DDS) announced in January 2011 that it would roll its real estate into a REIT subsidiary.

TOP 10 SHAREHOLDERS

1 Pershing Square Capital Management	14.8%	6 Vornado Realty Trust	7.9%
2 Evercore Trust Company	10.8%	7 Hotchkis and Wiley Capital Management	6.2%
3 State Street Global Advisors	10.8%	8 Pzena Investment Management	4.4%
4 Societe Generale	8.3%	9 Vanguard Group	3.4%
5 SG Americas Securities	8.3%	10 BlackRock Institutional Trust Company	3.3%

Loral Space & Communications Inc. (NASDAQ: LORL)

The satellite manufacturing and communications service provider has been exploring strategic alternatives for its two business units since last year and may make a decision during the summer of 2011. Options include the sale or recapitalization of the communications service provider Telesat, of which LORL holds a 64% share (Canada's PSP Investments holds the remaining stake), and the potential spin-off of the manufacturing unit, Space Systems/Loral (SS/L). That said, management indicated in May 2011 that the company may make no major changes given improving activity at both units. In 1Q 2011, the manufacturing segment's revenue increased nearly 22% to \$281 million, while adjusted EBITDA improved to \$40.5 million from the year-earlier \$12.7 million. SS/L benefited from upgraded facilities that are running more efficiently and a lack of competition in the commercial satellite sector. Revenue for the satellite services unit, which includes the 64% Telesat stake, increased more than 7% in 1Q 2011 to \$206 million on rising fleet utilization. Net debt for Telesat stood at about \$2.7 billion at the end of 1Q 2011, but the debt load is likely considered more manageable given EBITDA expansion and strong backlog.

Loral Space & Communications was formed out of the remaining pieces following the sale of the once mighty defense contractor Loral Corp.'s defense electronics business to Lockheed Martin Corp. (NYSE: LMT). A year later, LMT spun off several units from the Loral purchase into a new company, L-3 Communications Inc. (NYSE: LLL).

TOP 10 SHAREHOLDERS

1 MHR Fund Management, L.L.C.	38.4%	6 Regiment Capital Advisors, LP	2.9%
2 EchoStar Corp	7.2%	7 BlackRock Institutional Trust Company	2.6%
3 Solus Alternative Asset Management	7.2%	8 Targoff (Michael B)	2.6%
4 Highland Capital Management, L.P.	7.0%	9 Vanguard Group, Inc.	2.6%
5 Dimensional Fund Advisors, LP	4.0%	10 GSO Capital Partners, L.P.	2.2%

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Symantec Corporation (NASDAQ: SYMC)

The buzz from late 2010 concerning a potential push to get SYMC to spin off its storage segment to prepare a sale of the security software unit appears to have died down. In the fall of 2010, in an interview, management told unhappy investors to sell shares if they were dissatisfied with current management strategy. The August 2010 announcement of the planned acquisition of McAfee (NYSE: MFE), its closest rival in the security software space, by Intel (NASDAQ: INTC) for nearly \$8 billion likely helped precipitate some of the breakup talk. INTC agreed to pay a significant premium over the stock price at the time, as MFE jumped 60% at the market open following the announcement. The deal valued MFE at about 18x-20x the forward consensus EPS estimate at the time of the announcement. The INTC-MFE transaction was completed in February 2011.

SYMC provides consumer security products under the Norton brand as well as storage and server products and services, strengthened by its 2005 acquisition of Veritas. SYMC is trading at about 12x consensus FY 2012 EPS estimates and approximately 11x FY 2013 consensus estimates, according to Thomson Financial. In late January 2011, SYMC announced that its Board had approved a \$1 billion share repurchase program. If the storage business were spun off, could another buyer be attracted to pay a premium for the remaining big software security maker?

TOP 10 SHAREHOLDERS

1 Dodge & Cox	7.6%	6 BlackRock Institutional Trust Company	3.5%
2 PRIMECAP Management	4.7%	7 Southeastern Asset Management	3.4%
3 Vanguard Group	3.8%	8 Invesco Advisers	2.6%
4 State Street Global Advisors	3.6%	9 DWS Investment	1.8%
5 Columbia Management	3.5%	10 Edinburgh Partners	1.6%

Tyco International Ltd. (NYSE: TYC)

Could the January announcement by ITT (NYSE: ITT) that it is planning to spin off into three separate companies be the start of the disentangling of industrial conglomerates? Tyco has been down this road before. In July 2007, Tyco split off its medical device and supply business into Covidien Ltd. (NYSE: COV) and its electronic components operations into Tyco Electronics (NASDAQ: TEL), leaving behind TYC with all the remaining segments, including the flow control, fire protection, and security businesses. Last year TYC announced plans to spin off its electrical and metal products operations, and it filed a Form 10 in September 2010. Just two months later TYC announced that private equity firm Clayton, Dubilier & Rice would buy a 51% stake in those businesses, generating proceeds of \$720 million to TYC. The funds would be used to repurchase shares. Even as TYC will begin reporting its electrical and metal products segments using the equity method of accounting, it will continue to fully report results for four separate remaining segments: fire safety, security, flow control, and ADT. Given the one-day rally in ITT shares following its spin-off announcement (up more than 16% on the day of the announcement in mid-January 2011), TYC could consider at minimum the spinning off of one these segments.

TOP 10 SHAREHOLDERS

1 Capital World Investors	6.5%	6 BlackRock Institutional Trust Company	3.3%
2 Dodge & Cox	5.1%	7 OppenheimerFunds	2.7%
3 Vanguard Group	3.8%	8 ClearBridge Advisors	2.7%
4 State Street Global Advisors	3.7%	9 Templeton Investment Counsel	2.4%
5 Invesco Advisers	3.5%	10 Davis Selected Advisers	2.2%