

BOX, CSC

BOX, the dry and refrigerated marine container co. is being acquired by the Ontario Pension fund. Coincidentally, we wrote a piece on the stock the day prior to the acquisition announcement and we were pleasantly surprised, since we valued the business at a higher price than what was traded the day prior. However, we wouldn't have pulled the trigger on the investment since we were hesitant on the asset side of the balance sheet, which included the long term investment in the finance leases. Our rationale was the assets were secured by the collateralized securities, so they offsetted each other and the creditors had a 1st lien on the assets. However, by including the finance lease as a long term investment, which is based off the containers, which is also secured by the containers, it created 2 claims on the containers – one by the creditors who own the collateralized securities, and another by the customers who will pay the lease to the co. based off the co's ownership stake on the containers. So, if we remove the finance lease, then the book value would go from +\$200MM to a negative \$400MM, thereby losing its' investment merit. However, seeing how the Ontario Pension fund acquired the stock at a premium, we can safely conclude the \$200MM book value.

CSC, the computer software developer, was on the list of long trades by Greenlight Capital, which is run by David Einhorn. The fund has an annual return of 19%, but was only up 8% in 2012. They were known for their short thesis on a coffee co., which appreciated after the quarterly results turned up positively and their long trade on Marvel, didn't pan out like they hoped, but they are adding shares on their books, with a strong conviction in their investment. They invested in CSC in Feb. 2012, and we wrote a couple pieces on the co. back in late 2011, so we also hit our 1 year price target and exited the investment early on. The co. generates strong cash flow relative to the trading price and it looks like the fund held on to the stock, as it is still cheap relative to its' earnings power.