



Steel Partners II Investment Portfolio Special Report

21 July 2009

CATALYST SUMMARY

This investment catalyst has been building since January 8 2009 when Steel Partners II first announced their intention to convert their hedge fund into a publicly-traded holding company. Following months of litigation with several investors seeking to block the restructuring, Steel was granted Court approval to move forward with the plan on June 19. As a result, on July 15, Steel Partners distributed approximately half of the economic value of their fund via cash and a pro rata in-kind distribution of securities to those investors seeking to exit the fund immediately. Following the distribution, a number of smaller, illiquid securities observed enormous selloffs – causing a massive imbalance in supply and demand, and resulting in a precipitous decline in the market value of certain companies. We believe the dramatic reduction in value at a few of these companies is a short-term phenomenon and not correlated with the fundamental value intrinsic to the company.

In this Catalyst Investment Research™ *Special Report* we analyze these companies to determine which have been unfairly impacted by the recent selloff. Listed below are 10 companies that are currently trading at a substantial discount to their average share value over the past three months.

Company	Ticker	Discount to 3-Month Avg Stock Price*
Conseco Inc	CNO	-11%
Adaptec Inc	ADPT	-11%
Gencorp Inc	GY	-6%
Nathans Famous Inc	NATH	-11%
SL Industries Inc	SLI	-29%
WHX Corp	WXCO	-170%
Continental Materials	CUO	-59%
Point Blank Solutions	PBSO.PK	-85%
Del Global Technologies Corp	DGTC.OB	-67%
Ronson Corp	RONC.PK	-200%

Share values at close of business on July 20, 2009 were compared to the average share price over the 90-day period before July 16th when the in-kind distributed securities became available for sale.

STEEL PARTNERS' RESTRUCTURING PLAN

Steel Partners II (SP) lost 39.36% of its value in 2008, falling another 17.9% in the first two months of 2009. In October 2008 the holders of 38% of SP's Investor equity had invoked their right to withdraw their capital.¹ As of June 11, 2009 51.33% of the interest in the fund wanted their capital back either through a pro-rata distribution of cash and in-kind securities or through a controlled liquidation of the fund.²

On January 8, 2009 SP presented a plan to Investors to exchange their LP interests in the hedge fund into a public LP interest in WebFinancial Co, a publicly traded Financial HoldCo controlled by SP. The new entity would have an equity value of \$1.2B worth \$20 per unit. SP management would own 12% of the new entity. Following the exchange, WebFinancial (renamed Steel Partners Holdings L.P.) would commence a \$200 million share buyback program to provide additional liquidity to LPs not interested in participating.³

In late January Carl Icahn, a \$15 million investor in SP, filed a lawsuit seeking to block the restructuring.

On March 12, after speaking with many of their LPs who had determined that they would prefer an immediate withdrawal from the fund, even if it

¹ Archstone Partners, L.P. Archstone Offshore Fund, Ltd., Bowdoin College, Carnegie Corp of NY, Caxton Select Investments LLC, Ted Dintersmith, Excelsior Discovery, The J Paul Getty Trust, David E. Moore, Oxbridge Associates, LP., The President and Trustees of Williams College, Michael F. Price, and University of Oklahoma Foundation v. Steel Partners II, et al.

² Steel Partners' Letter to Investors dated June 11, 2009.

³ Steel Partners Investor Presentation "The WebFinancial Solutions" dated January 8, 2009

would require the liquidation of some assets at deeply discounted prices, Steel offered a “Revised Plan” and asked investors to make an election between two options. **Option A** would entitle investors to receive Common Units of WebFinancial L.P. and certain cash distributions as a full withdrawal of their interest. **Option B** would entitle investors to receive a distribution-in-kind of assets along with a one-time cash distribution as a full withdrawal of their interest.⁴

On March 30 ten more of Steel’s Limited Partners filed a lawsuit seeking to block the restructuring and asked the Court to intervene by appointing a liquidating trustee to gather all assets of SP and to conduct an orderly liquidation and make fair distributions.

In April, Steel updated investors on the preliminary election to the Revised Plan and disclosed that 57% of investors had made an election for either Option A or B. Of the votes cast at that time, 36% wanted to participate in the new publicly-held entity Steel Partners Holdings, 11.73% wanted a distribution in-kind and 9.57% wanted a controlled liquidation.⁵ On June 11 Steel disclosed the final election results which indicated 38% wanted to participate in Steel Partners Holdings, 18% wanted a pro-rata distribution of cash and in-kind securities, 33.26% indicated an interest in a controlled distribution and 10.58% did not make an election.⁶

On June 15 the Delaware Chancery Court ruled that SP could move forward with the Revised Plan, enabling Steel to proceed with investor’s cash and in-kind distributions on July 15.

IN-KIND DISTRIBUTION: IMPACT ON SHARE VALUES

Since the July 15 distribution of nearly \$500 million of in-kind securities, a number of shares have been sold in the open market and through privately negotiated transactions. At least ten companies have witnessed a sharp reduction in share value as a result. Following is our analysis of SP’s portfolio.

In our analysis we (1) identified the number of shares owned by Steel before and after the July 16 distribution, (2) looked at the average daily volume of shares traded in each company over the 3-months prior to the distribution and (3) compared that to the volume of shares traded over the 3 days following the distribution. Finally, we (4) compared the share price at the close of business on July 20 (three days after the distribution) to the average share price of each company over the past 90-days and (5) calculated the premium or discount. (A detailed analysis is available on the next page)

Findings:

- Despite an increase in trading volume, larger market cap companies (RDC, ELNK, UIS) with relatively strong liquidity were not impacted negatively by the distribution/selloff.
- Ten investments were negatively impacted by the distribution/selloff.
- Companies with the least daily trading volume were impacted the greatest (RONC.PK, WXCO).
- There was no change in the number of SLTC shares held (i.e. none distributed); the stock price was unaffected (in fact share value increased by 2% over the last three days).
- Steel still holds substantial ownership positions in the remaining portfolio companies – ranging from 2.5% (UIS) to 32.8% (WXCO).

COMMENTARY

As previous Catalyst Investment Research™ reports have demonstrated, there are interesting investment ideas created out of the combination of activist investor activity in companies that also have a compelling deep value story. This *Special Report* demonstrates that there are also potential tactical opportunities essentially caused by “forced” selling by an activist who often needs to hold a large amount of stock in small/mid cap companies in order to realize their activist-oriented goals. In this case, the distribution of shares by Steel Partners to investors who simply can’t hold these shares due to size, liquidity, or some other constraint. Anytime a relatively large amount of a company’s stock, as compared to average daily volume, is put up for sale, it is natural that the price will fall, in some cases, quite precipitously.

Example: Take the case of WHX Corp (WXCO), a \$15 million market cap company in which Steel held a 75% stake as of 3/31/2009. SP now holds (as of 7/16/2009) a 32.9% stake, or about 4 million shares, which means that 5.14 million shares were distributed. This represents 764 days of average trading volume (based on a 3-mo. avg. daily trading volume of 6,725 shares). It’s no surprise, then, that the past 3 days, volume has increased more than 81 fold to nearly 550,000 shares, and the stock price has dropped 65% since July 19 (\$3.50). Of course, there’s often more to the story than forced selling, and prospective investors need to be very careful before attempting to take advantage of such situations. Selling pressure can continue until all desired shares have been unloaded, and the stock price can always go lower.

⁴ Steel Partners’ Letter to Investors dated March 12, 2009

⁵ Steel Partners’ Letter to Investors dated April 15, 2009

⁶ Steel Partners’ Letter to Investors dated June 11, 2009

SP Portfolio Company	Ticker	Company Financials				Ownership			3-Mo. Avg Volume	Last 3-Day Volume	Share Price 7/20 Close	3-Mo. Avg Stock Price	Discount/Premium to 3-Mo. Avg Price
		Market Cap (\$M)	EV (\$M)	EBITDA (\$M)	Revenues (\$M)	Before Redemptions 3/31/2009	Current Ownership 7/16/2009	Current % of Co. Shares Outstanding					
Rowan Companies Inc	RDC	2,270	2,440	826	2,220	9,878,219	4,321,611	3.8%	4,364,810	5,335,437	\$ 19.73	\$ 18.72	5%
EarthLink Inc	ELNK	835	549	276	892	9,921,255	2,591,399	2.5%	1,215,228	2,130,177	\$ 7.93	\$ 7.56	5%
Unisys Corporation	UIS	578	1,180	241	5,030	32,179,847	10,206,361	2.8%	5,343,153	5,683,125	\$ 1.60	\$ 1.40	13%
Conseco Inc	CNO	366	1,400	563	4,230	15,676,460	5,564,183	3.0%	4,291,405	4,802,062	\$ 1.96	\$ 2.17	-11%
Adaptec Inc	ADPT	295	(80)	(10)	114	23,171,338	10,137,206	8.4%	466,038	3,162,918	\$ 2.45	\$ 2.73	-11%
Gencorp Inc	GY	122	434	90	725	8,034,059	3,514,813	6.0%	326,021	1,040,280	\$ 2.11	\$ 2.24	-6%
Nathans Famous Inc	NATH	68	34	7	48	1,018,200	445,456	7.9%	17,128	47,161	\$ 12.11	\$ 13.39	-11%
SL Industries Inc	SLI	32	33	10	177	1,608,550	703,720	11.7%	5,012	54,733	\$ 5.56	\$ 7.17	-29%
Selectica Inc	SLTC	24	5	(5)	16	8,415,362	8,415,362	15.1%	76,449	86,267	\$ 0.42	\$ 0.41	2%
WHX Corp	WXCO	14	221	60	681	9,133,889	3,995,974	32.8%	6,725	548,903	\$ 1.55	\$ 4.18	-170%
Continental Materials	CUO	12	31	6	156	330,900	144,762	9.1%	123	24,052	\$ 8.10	\$ 12.89	-59%
Point Blank Solutions	PBSO.PK	9	46	(2)	170	4,902,351	2,144,724	4.2%	39,834	418,034	\$ 0.20	\$ 0.37	-85%
Del Global Technologies Corp	DGTC.OB	9	11	6	91	5,037,943	2,201,047	9.7%	12,111	806,053	\$ 0.36	\$ 0.60	-67%
P&F Industries Inc	PFIN	6	35	4	79	351,085	144,564	4.0%	4,214	33,327	\$ 1.58	\$ 1.47	7%
Ronson Corp	RONC.PK	-	5	(2)	23	483,034	211,361	4.2%	1,799	40,813	\$ 0.05	\$ 0.15	-200%

Company	Steel's Cost Basis	Share Price (7/20)
Rowan Companies	16.03	19.73
EarthLink	6.49	7.93
Unisys Corp	0.85	1.60
Conseco Inc	6.16	1.96
Adaptec Inc	3.46	2.45
Gencorp Inc	12.64	2.11
Nathans Famous	3.24	12.11
SL Industries	9.3	5.56
Selectica Inc.	0.40	0.42
WHX Corp	16.95	1.55
Continental Materials	18.93	8.10
Point Blank Solutions	3.5	0.20
Del Global Tech	1.05	0.36
P&F Industries	8.45	1.58
Ronson Corp	2.44	0.05

IMPORTANT DISCLOSURE INFORMATION

OWNERSHIP: Jonathan Heller has a long position in Ronson Corp and Damien Park has a long position in Point Blank Solutions, Adaptec, WHX Corp. and Del Global Technologies.

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PRINCIPALS



Damien Park, President & CEO

Mr. Park is an expert on shareholder activism. He regularly advises boards of directors, CEOs and institutional investors on these issues and has been a featured commentator on *RealMoney.com* discussing activist investments.

Damien is often quoted in publications like *The Wall Street Journal*, *BusinessWeek*, *CFO Magazine*, *The Deal*, *CNN Money*, *The New York Times*, *The Nikkei* and *Newsweek Japan*.

In addition, Damien is the chairman of the largest activist investing conference in the world and manages *The Official Activist Investing Blog*.

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Jonathan Heller, Partner

Mr. Heller, CFA, is an expert on value investing. He is a Partner at Hedge Fund Solutions, the President of KEJ Financial Advisors and a featured commentator on *RealMoney.com* discussing deep value investments.

Previously, Jon was with SEI Investments after spending 17 years at Bloomberg Financial Markets in various roles which included the management of Bloomberg's Equity Fundamental Research Department and Bloomberg's Equity Data Research Department. Jon was also a senior markets editor of Bloomberg's Publishing Group, a writer for Bloomberg Personal Finance Magazine, and an associate editor and contributor for Bloomberg Markets Magazine.

In addition, Jon manages the blog *Cheap Stocks: Below Net Current Asset Value, Real Estate and other Value Strategies*.

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"The Catalyst Investment Research report not only finds where the hidden gems are buried but also brings along the excavation equipment to help dig up the value."

- Ron Orol, Author

Extreme Value Hedging: How Activist Hedge Funds are Taking on the World

OVERVIEW

This professional grade research is dedicated to uncovering undervalued publicly traded companies that could have the potential to generate outsized returns due to an activist investor's involvement.

FEATURES & BENEFITS

Our research team analyzes EVERY active investment disclosure with the SEC and determines the most compelling catalyst investment opportunity for further examination. The research focuses on companies with extraordinary value potential where activist investors have taken sizeable investment positions and are pressing management to unlock hidden pockets of value.

PORTFOLIO PERFORMANCE

Catalyst Investment Research Portfolio				
Company	Research Issue Date	Issue Date Share Price	Current Price	Gain
TIER	4-Mar	5.01	7.50	49.7%
AVGN	24-Mar	1.13	1.32	16.8%
CTO	8-Apr	29.03	35.80	23.3%
TECUA	24-Apr	7.60	9.63	26.7%
CHE	8-May	40.56	40.19	-0.9%
PPCO	27-May	2.11	2.63	24.6%
ENZN	10-Jun	7.62	8.15	7.0%
LGF	2-Jul	5.61	5.99	6.8%
				19.3%

As of market close July 20, 2009

"Damien and Jon deliver a very compelling research product. Nobody does a better job of analyzing solid companies with a very real and quantifiable catalyst for value improvement. I'm a subscriber and highly recommend it to others."

- Timothy Brog
Locksmith Capital Management

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