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Some Timminco brass cashed in early

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As TSX high-flier Timminco Ltd. hunkered down yesterday to defend its stock against bearish short sellers, at least one group of early investors had already pocketed more than $390-million (U.S.) by indirectly spinning off their holdings.

Safeguard International Fund LP (SIF), a private equity fund based in Wayne, Pa., and headed by Timminco's chairman and chief executive officer Heinz Schimmelbusch and Timminco vice-chairman Arthur Spector, transferred the fund's controlling interest in Timminco to another subsidiary company on March 29, 2007, according to regulatory filings.

That company, Amsterdam-based AMG Advanced Metallurgical Group NV, conducted an initial public offering on the Euronext in July. The IPO and subsequent stock sales provided proceeds to SIF and its senior officials, including Mr. Schimmelbusch and Mr. Spector, of more than $390-million.

"To the layman, it is a complicated structure, but to us, it was a very logical endgame for how to take this group of companies and get value for them for the limited partners," Mr. Spector said in an interview yesterday.

His comments came on a hectic day of trading for Timminco shares on the TSX yesterday.

The company's stock slipped 3.5 per cent on heavy volume of more than five million shares. Major shareholder Eric Sprott, whose Sprott Asset Management Inc. owns nearly 18 per cent of Timminco's stock, said his firm added to its position on the weakness.

"To doubt is easy," Mr. Sprott said in an interview. "What you get paid for in this business is figuring out if something is right early, while everybody else is doubting. That's how you make money."

Mr. Spector, who's also deputy chairman of AMG, said SIF, whose investors included the "usual suspects" of large U.S. pension funds, was reshuffling its assets and was due to expire next year.

SIF's reorganization, that transferred its Timminco stake to AMG, came within weeks of the Toronto company's stunning announcement on March 15, 2007, that it had won a contract to provide solar-grade silicon to a major solar cell maker.

The surprise contract was the initial catalyst spurring Timminco's meteoric ascent on the TSX, which saw its stock climb from roughly 40 cents to a recent high of more than $28.

Timminco said it had developed a metallurgical process to make solar-grade silicon at a cost lower than its competitors, which include well-established players such as Dow Chemical.

Ravi Sood, president of Lawrence Asset Management Inc., is among a group of short sellers who have been critical of Timminco's lofty valuation and said it is "very peculiar" that insiders transferred the stock and profited through its IPO.

"It is curious that the major shareholders have effectively been reducing their stake," Mr. Sood said. "It makes you raise your eyebrows."

In an unusual development, some investors complained of a dearth of available Timminco stock to short.

"There is no place to borrow Timminco stock," said one hedge fund manger that was trying to do just that yesterday. A number of fund managers said institutional investors that currently own Timminco, including Sprott, are refusing to lend their shares to investors that want to bet on a drop in price of the silicon producer.

Short sellers profit from borrowing shares from other investors or dealers, and selling the stock. The shorts then buy the shares back at a lower price and replace what they borrowed.

"Preventing borrowing doesn't change fundamentals from dictating the price of Timminco. It just stops the shorts from profiting on any decline," said one equity trader who covers hedge funds and other short sellers.

Until the transfer to AMG, Safeguard had been Timminco's controlling shareholder. In 2006, Safeguard added to its position after making a series of loans to what was then a cash-strapped producer of industrial-grade silicon, magnesium and magnesium extrusions.

For example, in September of 2006, while Timminco was working on its process to use metallurgy to make solar-grade silicon, Safeguard agreed to lend Timminco $3-million (U.S.) in exchange for the right to buy an equal amount of shares at 40 cents each.

At the time, Timminco had not publicly disclosed it was working on the solar silicon process.

On February 8, 2007, Safeguard agreed to lend Timminco $4.5-million (Canadian) for the right to buy an equal amount of stock at 42 cents a share.

Mr. Spector said Safeguard was aware at the time that Timminco was working on the project, but didn't know if it would win the contract with the solar cell maker.

"What is, is," Mr. Spector said.

TIMMINCO (TIM)

Close: $22.15, down 80¢