



# SPIN-OFF ADVISORS, L.L.C.

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## Continuous Research on Corporate Spin-Offs

# SPIN-OFF RESEARCH

Table of Contents		Page
◆ Update:	Bell & Howell (BHW) .....	2
	C-Cube Semiconductor (CUBE) .....	3
	3COM (COMS) / Palm .....	6
	Kansas City Southern (KSU) .....	9
	Lanier Worldwide (LR) .....	10
	LifePoint (LPNT) .....	11
	Water Pik (PIK) .....	12
◆ Spin-Off Announcement Calendar .....		13
◆ Calendar Highlights .....		15
◆ Fresh Spin-Off Situations:		
	Technology Solutions (TSCC) / eLoyalty (ELOY) .....	19
◆ Recently Announced Spin-Offs:		
	American Software (AMSWA) / Amquest .....	21
	Applied Power (APW) / Electronics Business .....	23
	Avista (AVA) / Internet Billing .....	24
	BCE (BCE) / Nortel (NT) .....	25
	Comverse Technology (CMVT) / Ulticom .....	26
	Deluxe Corp. (DLX) / eFunds .....	27
	First Union Real Estate (FUR) / Imperial Parking .....	29
	Good Guys (GGUY) / GoodGuys.com .....	30
	Hewlett-Packard (HWP) / Deep Canyon .....	31
	MIM Corp. (MIMS) / Internet Pharmacy .....	32
	Network Associates (NETA) / Internet Division .....	33
	New York Times (NYT) / Internet Unit (Tracking) .....	34
	Rightstart (RTST) / Rightstart.com .....	35
	RPC (RES) / Chaparral Boat Unit .....	36
	S3 (SIII) / Internet & Networking .....	37
	Thermo Electron (TMO) / Thermo Fibertek (TFT) .....	38
	Wal Mart (WMT) / Online Business .....	40
◆ Foreign Announced Spin-Offs:		
	Deutsche Telekom (DT) / T-Online Internet .....	41
	T-Mobile .....	
◆ Potential Spin-Offs .....		42
◆ Implied Values .....		44
◆ Spin-Off Calendar by Date .....		46

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## Company Update

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### Bell & Howell to Create Two Separate Companies

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On January 12<sup>th</sup>, information services provider Bell & Howell (NYSE: BHW) announced that it plans to create two new companies to maximize the growth prospects of its business units. The Skokie-based company said it would **spin off its Internet related education and publishing businesses to shareholders, selling a minority stake in the yet-to-be-named company in an IPO**. James Roemer, chairman and chief executive hopes to raise \$100 million by selling 20% (which would likely be used to reduce the nearly \$500 million in debt Bell & Howell carries). This business provides periodicals and scholarly publications online to libraries and schools. It also sells equipment for storing and processing technical documents, primarily for the auto industry. The division has projected 2000 revenues of about \$300 million. The remaining stub business, which includes main and messaging technologies and an imaging business, would continue to operate under the 93-year old Bell & Howell name. This group is involved in making equipment used to collate, fold and send high-volume mailings, such as bills and junk mail for large companies. This business has projected 2000 revenues of \$600 million and has 4,300 employees. Wall Street applauded the move, bidding up Bell & Howell stock by 16% to \$34.81 a share.

#### Review

The company formed by combining the Information and Learning and Publishing Services businesses will operate as an independent, publicly traded entity through a spin-off to existing Bell & Howell shareholders. Prior to the spin-off, Bell & Howell plans to sell a minority stake in the Information and Learning and Publishing Services businesses to the public through an initial public offering. Bell & Howell expects to complete the restructuring initiatives before the end of this year. The spin-off, however, is contingent on obtaining a favorable tax ruling as well as any other regulatory approval.

Management expects that earnings from continuing operations, before the restructuring charge, and before considering the equity investment in the K-12 Internet company, will be in line with consensus street estimates of approximately \$2.00

per share for the fiscal 1999. As part of the spin-off, the company expects to record a restructuring charge of slightly less than \$30 million (after tax) in 1999. The company's scheduled earnings release is February 16, 2000. For the nine-months ending on September 30, Bell & Howell earned \$30.1 million on revenue of \$690.7 million.

These new restructuring efforts have no impact on the company's previously stated intention to transition its K-12 Internet business venture to a stand-alone entity with its own publicly traded stock, at some point in the near future. The K-12 Internet business has recently completed a large round of private financing, in which it raised \$55 million from a group of internet venture capitalists. As a result of the financing, Bell & Howell's equity stake in the K-12 Internet company is now slightly under 50%. The new Internet education company is focused on creating a virtual community for teachers, parents and students in kindergarten through high school.

**We believe that the creation of 2 separate companies makes sense.** We see virtually no lost synergies in segregating the 2 businesses. We believe that the spinoff will highlight the value of a business with better top-line growth visibility and will peel back another layer in helping investors see the value created by the potential IPO of BHW's K-12 education company. A number of catalysts will likely unfold over the next 9 months. 1) A potential spring IPO of BHW's K-12 Internet education company, (BHW now owns less than 50%, but at 10x revenues an IPO could be worth \$10 per share). 2) An IPO of 20% of Information and Learning and Publishing Services, and 3) the spinoff of Information and Learning and Publishing Services to shareholders. We believe that Mail & Messaging and Imaging will conservatively trade at around 6x EBITDA while Information Learning and Publishing Services will probably trade at 9x EBITDA. These assumptions yield a blended multiple of 8x and a target price of \$42. The potential IPO of BHW's K-12 education company represents upside to this number.

## Company Update

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### C-Cube to Complete Spin-Off of C-CUBE Semiconductor in March

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On October 27<sup>th</sup>, Harmonic Inc. (NASDAQ: HLIT) agreed to buy the Divicom business of C-Cube Microsystems Inc. (NASDAQ:CUBE) in a stock transaction. C-Cube shareholders will receive 0.5427 shares of Harmonic stock for each share of C-Cube. **A precursor to the transaction is the spin-off of C-Cube's Semiconductor Unit.** The implied value of the semiconductor unit is currently \$18 per share, and will be treated as a taxable event at the corporate level. The transaction is expected to close in March pending regulator approval and a proxy vote. In addition, there is a breakup fee of \$50 million should the deal not be approved.

#### **Harmonic**

Harmonic makes digital and fiber optic systems that enable cable TV and other network operators to provide interactive services such as high-speed Internet access and video-on-demand. C-Cube's Divicom division makes software and equipment for digital television, including audio/video encoding, network management systems, and provides consulting and integration services. Harmonic's stock price has risen over 74% since the transaction was announced as momentum players climbed aboard.

Harmonic reported net sales of \$184.1 million in 1999, up 119% over 1998. Net income was \$23.7 million or \$0.76 per diluted share in 1999, compared to a net loss of \$21.5 million or (\$0.92) per diluted share for 1998. Harmonic experienced strong demand for its fiber optic products during the fourth quarter. Domestic sales increased 197% from the fourth quarter of 1998. AT&T is the Company's largest single customer, Harmonic's shipments to other major domestic cable operators grew strongly during the quarter. International sales increased across all regions, up 47% from the fourth quarter of 1998.

#### **C-Cube Semiconductor**

Semiconductor designs, develops, manufactures and sells semiconductors, software and systems for digital video applications. Semiconductor has been a main contributor with Zoran (NASDAQ: ZRAN) to the growth of digital video. Semiconductor focuses on working with OEM customers and service providers to enable key applications in its consumer and communications markets. In the consumer market, Semiconductor is focused on playback and recordable Video Compact Disc or VideoCD and DVD as well as Digital VHS recorders and Digital Video Recorders or DVR. In the communications market semiconductor targets interactive set-top boxes, broadcast encoders and emerging appliances like non-linear editing, time shifting, video e-mail and internet TV boxes.

#### **Market Share**

C-Cube Semiconductor is a leading supplier of solutions with leading market share in each of the following categories: 30% in DVD, 60% in Kodak manipulation, 3<sup>rd</sup> in interactive set-up boxes behind Broadcom and ST Micro Electronics, 60% in Broadcasting encoding, 95% in Encoding/Decoding on a single chip design with non-Linear editing and time shifting capability.

#### **Tax Effect**

If the current valuation holds at the time of the spin-off, the corporate tax is estimated to be about \$220 million that will leave C-Cube Semiconductor with \$112 million in cash (post-spin). The exact tax will be computed at the time of actual trading in C-Cube Semiconductor. The tax bill was estimated using a \$14.50 tax basis, for every \$1 move above \$14.50 it will cost an additional \$20 million in tax expense. Accordingly, if semiconductor trades at \$25 their cash balance will be depleted.

**Revenues and Earnings**

C-cube semiconductor Management has forecasted 13% revenue growth for a 2000 target of \$250 million, growing by 25% the next four years thereafter. International revenues accounted for 79% of net revenues in the first nine months of 1999, vs 82% for 1998. Management has guided operating margins closer to 16%-18%. Assuming their assumptions are correct Calendar 2000 earnings would be about \$0.62 (30% tax rate, 48 million shares), implying 29x's 2000 earnings (\$18/.62). We believe their estimate is overly conservative and we would expect in excess of 20+% growth (conservatively), and operating margins about 20-22%. Our estimate for 2000 earnings is therefore closer to \$0.81 or 22x's the current implied value with further room for improvement as their industry outlook becomes clearer. In addition, we believe management's low guidance is a result of tax related issues and not representative of industry fundamentals. **The lower C-cube trades on the first day of regular way trading, the lower their tax payment!** Some estimates expect DVD shipments to double in 2000 and grow to 30 million units by 2003 (47% CAGR).

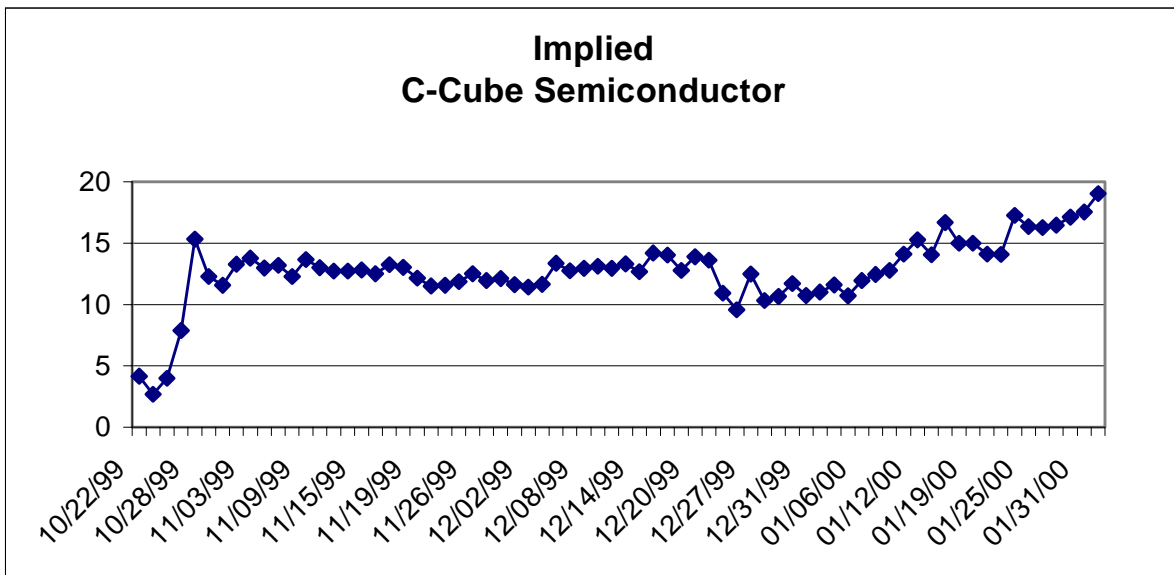
**Valuation**

We expect increased volatility on the implied valuation as we approach the spin-off date. **Based on comparable analysis using Zoran, C-Cube's closest comparable, it would suggest a fair value closer to \$36 per C-cube Semiconductor share.** Important to note that Technology and growth funds are unable to create the synthetic C-Cube Semiconductor division and therefore may create initial buying pressure at the time of the spin-off as funds would want to include the DVD industry in their holdings.

		To Create Spin-off Semiconductor
Sell	Harmon	0.5427
Buy	C-Cube	1

		To Short Spin-Off Semiconductor
Buy	Harmon	0.5427
Sell	C-Cube	1



## Comparables

Company	Semiconductor	Zoran	Conexant	Broadcom	LSI Logic	Average
Ticker		ZRAN	CNXT	BRCM	LSI	
Current Implied Price	\$ 19.88	\$ 57.38	\$ 99.00	\$ 323.13	\$ 92.88	
Shares Out. (000,000)	48	12.08	225.85	117.33	166.47	
Market Cap (000,000)	\$ 954	\$ 693	\$ 22,359	\$ 37,912	\$ 15,461	
Enterprise Value (000,000)	\$ 975	\$ 693	\$ 22,709	\$ 37,914	\$ 16,356	
EPS (Diluted)						
1999 9 months Pro Forma	\$ 0.51	\$ 0.57	\$ 0.34	\$ 0.40		
1999 9months Trailing P/E	39.0	100.7	291.2	807.81		
2000E (Calendar)*	\$ 0.82	\$ 1.04	\$ 0.87	\$ 1.40	\$ 2.21	
Forward P/E	24.2	55.2	113.8	230.8	42.0	110.45
9 Months						
EBITDA Per Share	1.02	1.00	2.87	2.41	7.68	
EBITDA Multiple	19.5	57.5	34.5	133.9	12.1	
EBITDA Margin	31%	29%	56%	81%	85%	
Enterprise Value / EBITDA	19.89	57.52	35.07	133.90	12.79	59.82
Enterprise Value / EBIT	28.42	235.74	238.29	401.54	110.58	
9 Months						
Trailing Sales	\$ 158	\$ 42	\$ 1,149	\$ 351	\$ 1,505	
Price to Sales	6.04	16.65	19.46	108.04	10.28	
Gross Margin	60.2%	56%	44%	59%	37%	49%
Operating Margin	21.7%	7%	8%	27%	10%	13%
Book Value	\$ 3.67	\$ 3.47	\$ 4.58	\$ 3.11	\$ 9.80	
Price to Book	5.42	16.52	21.60	103.88	9.47	37.87
Turnover's						
Account Rec. Turnover	18.6	2.1	4.8	5.4	4.1	
Current Asset Turnover	0.7	0.84	1.17	1.1	1.3	
Working Capital Turnover	0.9	1.11	1.90	1.5	2.4	
Leverage						
Current Ratio	4.53	4.07	2.61	3.58	2.17	
Quick Ratio	4.25	3.12	1.70	3.22	1.55	
Cash Ratio	4.068	1.51	1.06	2.503	0.859	
Financing Leverage	1.417	0.71	0.95	1.392	1.605	
Debt to Capital	10.4%	0%	25%	0%	35%	
Debt to Book Equity	11.6%	0%	34%	0%	55%	
Debt to Enterprise Value	2.1%	0.0%	2%	0%	5%	
Liabilities to Equity	38.6%	29%	78%	25%	82%	

## NOTES:

- 1) Information is based on 9 months fiscal trailing ending Sept.
- 2) 2000 earnings estimates are calendar year
- 3) C-CUBE 9 months EBITDA are estimates based on company discussions.

## Company Update

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### 3Com Carveout of Palm Expected at the End of February

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3Com shares have appreciated sharply recently, largely due to investors' strong interest in the forthcoming, nearly half-billion-dollar IPO by 3Com spinoff Palm, which makes the popular handheld electronic organizer. 3Com recently went public with the terms of the eagerly anticipated Palm stock offering. Palm (NASDAQ:PALM), which 3Com took possession of with its \$7.3 billion 1997 buy of U.S. Robotics, said it'll sell about 26.5 million shares at a maximum price of \$16 each in a deal led by Goldman Sachs. At \$16 a share, the offering would raise \$424 million. After the offering, the company expects to have 573.45 million shares outstanding, suggesting a market capitalization of \$9 billion. After the IPO, 3Com will continue to own 92.8% of the division (if over-allotment is exercised) for about six months (at that time 3Com intends to distribute the remainder to 3Com shareholders). The separation will allow 3Com focus on the 90% of 3Com's business that still comes from networking.

The IPO is now expected to price by the end of February. We expect Palm to rank among the stronger IPOs carveouts of the year. Palm is already a profitable company, with a market-leading share of the hand-held computer market. As of Dec. 31, Palm had sold more than 5.5 million hand-held devices worldwide, and more than 33,000 third-party developers registered to create applications based on the Palm platform. Revenue increased to \$564 million in 1999 from about \$1 million in 1995, long before 3Com bought U.S. Robotics. The Palm unit boasts 75% market share, sales growth in excess of 100%, real profits, and a worldwide brand. Palm's operating system is the de facto standard, while windows CE, Microsoft's entry in the segment, where the two companies compete. Palm has a comfortable lead over Windows CE, an adaptation of Microsoft's desktop system that consumers have yet to embrace.

#### Valuation

We believe that based on a likely post-pricing valuation of \$32 (a double off the IPO price) to \$48 (a triple) for Palm, there is potentially \$49 to \$73 worth of Palm embedded in 3Com. 3Com will own 532 million shares of Palm post IPO. 3Com has 349 million shares outstanding, for a ratio of 1.5248. Based on 3Com's January closing price of \$50.75, the imputed value of the 3Com stub is \$1.97 (assuming a post spin price of for Palm of \$32 per share).

Palm wants to change from mostly a hardware company (one that sells the popular Palm III, V, and VII series of personal digital assistants) into a software company that licenses the Palm OS and collects a royalty. It would like to benefit no matter who sells a handheld device. Rather than competing with Sony and Nokia, Palm is partnering with them and collecting a licensing fee. In fact, Nokia and America Online and Motorola are to buy a combined 4.5% of Palm at the IPO. 3Com CEO, Eric Benhamou, hired Carl Zankowski, former president of Sony Electronics, to run Palm. Zankowski is known for having doubled Sony's consumer electronics business to \$10 billion.

**3Com** is a data networking company. With its acquisition of U.S. Robotics, completed in June 1997, 3Com reorganized into two major business groups, Network systems products (40% of revenues if fiscal Q200) includes hubs, LAN (local area network) switches and adapters, router, and network management software. Client Access (42% of revenues) focuses on desktop-connectivity products, including modems and adapter cards. The core business is undergoing a transition from narrowband to broadband and from data to converged data voice. The company lacks revenue visibility as it faces challenges related to the competitive pricing environment.

<b>3Com (COMS)</b>			
Price (1/31)	\$50 ¾	Book Value/Share (Nov-99)	\$10.08
Fiscal Year	May	Price/Book Ratio	5.0x
52 Week Range	\$52 - \$20	LT Liability % of Capital	2.3%
Shares Outstanding	349 M	ROE (2000 Average)	15%
Market Capitalization	\$17.7 B	EPS 1999A	\$1.08
Options	Pacific	P/E 99A	47x

3Com is targeting five growth opportunities. First, LAN telephony, based on the acquisition of the NBX product line, which has the capacity to connect up to 200 lines. Second, broadband cable modems and DSL modems. Third, wireless access products, which leverages 3Com's expertise in CDMA modulation systems. Fourth, Voice Over IP products. Lastly, in-home networking, which 3Com has a broad product line and a well-established consumer distribution channel.

#### **Highlights of November Quarter**

3Com reported revenues of \$1.48 billion. Revenues from Network Systems products, which include LAN switches, remote access concentrators, shared hubs, declined by 12% and accounted for 40% of total revenues, or \$593 million. Revenues from Personal Connectivity Products, which include modems and network adaptor cards (NICs), declined by 14%, and accounted for 42% of revenues or \$621 million. Sales of handheld devices, primarily the Palm computing platform, increased by 77% and accounted for 18% of total revenues or \$261 million. The company reported EPS of \$0.51 which included a gain of \$71.3 million for the sale of certain assets offset by a \$5.9 million charge for corporate restructuring costs. Excluding these one-time events, operating EPS was \$0.37 versus \$0.36. On the balance sheet, the company reported cash and equivalents of \$2.0 billion, up \$300 million despite repurchasing 5.1 million shares (at a cost of \$150 million).

The performance in the handheld devices segment was very strong. Revenues increased by 50% sequentially, and operating margins exceeded 13%. In preparation for the Palm

spinoff, operating expenses are expected to increase in the next quarter. Sales of Personal Connectivity products declined on a year-over-year basis, but did show a 15% sequential increase, and operating margins exceeded 21%. The Network Systems segment experienced the most disappointing results. Revenues in this segment declined by 12% sequentially, and the segment was slightly profitable. Management suggested the poor performance was due to delays in introduction of new products, and postponement of purchases due to Y2K. The consensus FY00 EPS estimate for 3Com is \$1.70, and \$1.47 for 2001.

#### **PALM**

Over the next several quarters the company expects expenses to grow more rapidly than revenues, which will hurt quarterly operating results. A significant portion of Palm's revenues comes from only a small number of distributors. Ingram Micro represented approximately 34% of their revenues in the six months ended November 1999 and 24% of their revenues in fiscal 1999.

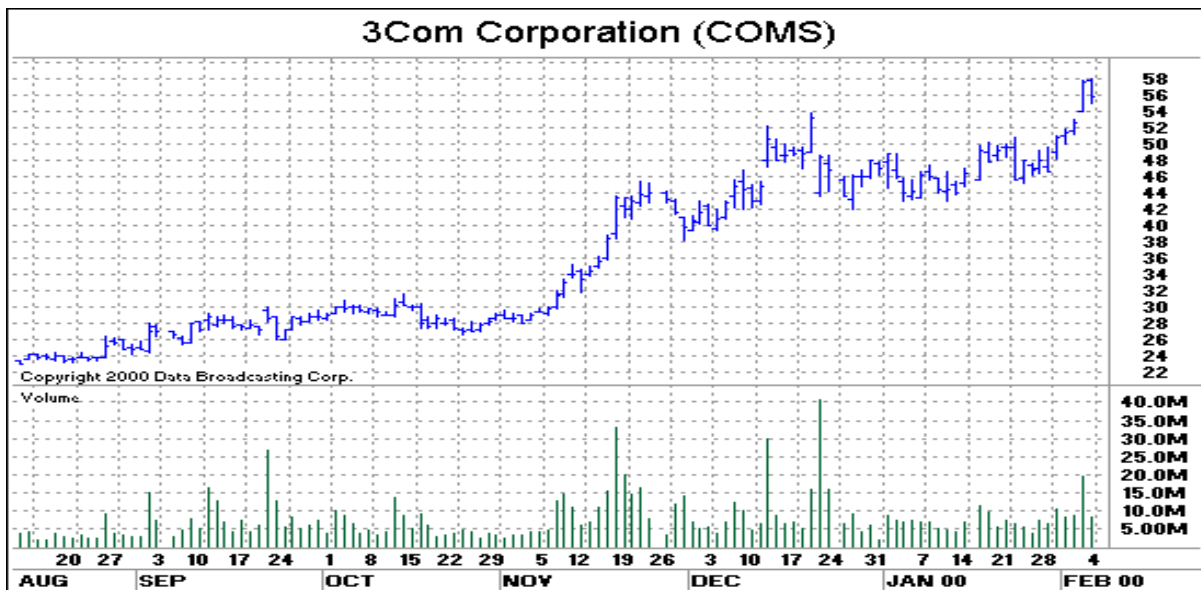
Palm intends to use the proceeds of the IPO and the private placements for payment of a dividend to 3Com of at least \$50 million, repayment of an intercompany payable to 3Com (which is approximately \$58 million), increased capital expenditures of approximately \$25 million to support growth in operations, infrastructure for their wireless and Internet services and hardware and software for the information systems and personnel. In addition, they plan increased marketing expenses to approximately \$30 million to establish the Palm brand.

Approximately 99% of Palm's revenues to date have been generated from sales of handheld devices and related peripherals and accessories. Less than 1% of revenues to date have been derived from licensing the Palm platform or from subscriptions to their new wireless Internet access service. As Palm expands their focus on Palm platform licensing and Internet services, they expect an increasing portion of revenues will come from these sources. International revenues represented 29% of Palm's total revenues in fiscal 1999 and 32% of their total revenues for the six months ended November 26, 1999. **Palm revenues were \$563.5 million in fiscal 1999, an increase of 107% over fiscal 1998.** Revenues in fiscal 1998 were \$272.1 million, an increase of 138% over revenues of \$114.2 million in fiscal 1997. Revenues from new handheld device products introduced during the preceding four quarters represented over 85% of Palm's revenues for fiscal 1999, 1998 and 1997. Palm added the Palm IIIx, Palm V and Palm VII devices to their product line in fiscal 1999. The company introduced the Palm III device late in fiscal 1998, and the PalmPilot Professional and PalmPilot Personal devices in late fiscal 1997.

Gross margin was 44% of revenues in fiscal 1999, a two percentage point increase over fiscal 1998. Gross margin was 42% of revenues in fiscal 1998, a 10 percentage point increase over gross margin of 32% of revenues in fiscal 1997. Cash provided by operating activities was \$66.3 million for the six months ended November 26, 1999. Cash provided by operating activities was \$84.0 million in fiscal 1999.

#### Palm Platform

The Palm platform combines the distinctive look, feel and ease of use of the Palm OS operating system with HotSync synchronization technology, pen-based input technology, personal information management applications such as address book and datebook, and, in the Palm VII product, web-clipping software that allows content providers and users to send and receive Internet data in a handheld device format. They also make development tools available for the developer community, and Palm shares select parts of the Palm OS operating system source code in order to enable developers to optimize the interface of their applications with the Palm platform.



## Company Update

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# KSU Spinoff of Stilwell Expected in February or March

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Management indicated that the spin would be delayed (again) by anywhere from several weeks to several months, depending on the SEC's decision as to whether the company must deconsolidate Stilwell for reporting purposes. If the SEC decides against the need for deconsolidation, the spin could proceed at any time. However, if KSU must restate its financials, the delay is likely to be more extended. KSU is a holding company composed of Stilwell Financial, a 32% stake in DST Systems (a leader in mutual fund services), and Kansas City Southern Railway.

**The earnings momentum at Janus is increasing due to continuous outperformance of benchmarks**, and the enormous net inflows the company enjoys. On February 1<sup>st</sup>, Kansas City Southern reported fourth quarter earnings per share of \$0.86 (excluding \$7.9 million after-tax of one-time costs recorded by the Transportation segment), compared to \$0.75 in Q399 and \$0.44 a year ago. First Call consensus was \$0.88. We estimate that the 32% stake in DST contributed about \$0.10 per share (implying that the future core Financial Services Group earned \$0.75). Earnings for the Financial Services business (without DST) were up 19% sequentially and 127% year-over-year. Financial Services revenues reached \$385.6 million in Q499, a 34% increase from \$311.2 million in Q399 and a 113% increase year-over-year. Revenues as a percentage of average assets under management were about 72.0 basis points in the fourth quarter. On an after-tax basis, margin (excluding DST) was 22.2% compared to 23.4% in Q399 and 20.5% in Q498. For the full year 1999, KSU reported earnings per share of \$2.86, up 53.8% from \$1.86 in 1998.

**Ending assets reached \$257 billion**, versus \$171 billion in Q399. January also enjoyed impressive inflows as assets reached \$264 billion. KSU's earnings growth has been

nothing short of staggering, boosted by a \$22.3 billion in net inflows to assets in the quarter. This compares with \$7.9 billion in Q399 and \$3.6 billion in the comparable prior year period. During 1999, Janus and Berger assets have grown nearly 130% compared to about 25% for the mutual fund industry as a whole. In addition, 51% of the increase in Janus and Berger assets came from net sales. In the fourth quarter, market appreciation accounted for about \$65 billion, or 74% of the \$86.8 billion increase in assets. In addition, Janus and Berger's market share continues to grow, reaching 3.7% at the end of 1999 (versus 2.0% at the end of 1998).

Janus employees will receive more equity in Stilwell. KSU has agreed to sell its ownership stake in Janus down to 80.1% from 82%. These shares will initially be held in Janus' treasury. KSU's ownership in Janus will remain at 82% until these shares are distributed.

Debt at Stilwell will be around \$125 million. The debt was placed at Stilwell to bolster the railroad's balance sheet. As such, we estimate that Stilwell will have about \$10 million in debt service charges in 2000.

**We believe that KSU has considerable upside.** The animosity between Janus and Stilwell apparently has not abated. The reality is that Janus would like to be completely separate from Stilwell. Investors are concerned about ensuring the continuity of the Janus corporate culture for the long haul. This baggage between Janus and KSU management has created a "wall of worry", constraining the stock price. This has created a disparity between the valuation of KSU shares and our view of what the parts are worth. We believe that Janus is worth a forward P/E multiple of 25 on 2000 estimates. This equates to a KSU share price of \$110.

## Company Update

### Lanier Worldwide Reports Results First Time as Stand Alone

On January 28<sup>th</sup>, Lanier reported its Fiscal Q2 (2000) EPS of \$0.14. Lanier Worldwide is an independent provider of office imaging products, document management solutions, and related services. The company has a network of over 1,600 sales and service locations in over 100 countries.

Second quarter fiscal 2000 revenues of \$353 million fell 5.5% from the \$373 million reported in the second period of fiscal 1999. On a pre-currency, apples-to-apples basis revenues were up 1.3% (adjusted for the sale of the France direct sales unit and the U.S. medical transcription business in F1999). On a year-over-year basis, December quarter product sales and rentals dropped 2.8%, to \$200 million; service income declined 10.1%, to \$142 million; but finance income increased 14.3%, to \$11 million.

Lanier attributes the decline in quarterly product revenues mainly to intense pricing pressure, and negative foreign currency (hit about \$12.4 million to the topline from a stronger U.S. dollar). About 23% of Lanier's sales come from Europe and the company sources most of its products from Japanese manufacturers (Ricoh).

The overall gross margin in the December quarter was 38.5%, down 310 basis points from

the same year-ago period and flat on a sequential basis. On a dollar basis, gross profit was \$136 million- down roughly \$20 million year-over year. Selling, Administrative, and R&D costs declined less than 1%, to \$103.6 million (29.4% of revenues) in FQ2 (2000) versus the \$104.5 million reported in the same period a year ago (28% of revenues). Operating income was down almost 37% in the December quarter, to \$32 million, a decline from \$51 million a year earlier. The overall operating margin was 9.1% down 450 basis points from 13.6% in the December period last year.

#### Lanier Buying Back Shares

Lanier announced on November 30 that its Board authorized an 8 million-share repurchase program. As of the end of the December, the company bought back 4.8 million shares for \$17.4 million (an average share price of \$3.61). Due to Lanier's debt covenants, it cannot repurchase any more shares for the rest of this fiscal year.

Lanier plans to use its free cash flow to first paydown their debt level. As of December 31, 1999 debt-to-total capital was 82%. The company's long-term goal is to bring the debt-to-cap down to the 60% range.

#### Lanier (LR)

Price (1/31/00)	\$3.50	Debt/Cap (12/99)	82%
52 Week Range	\$5.88 – 2.81	Consensus EPS (Jun 00)	\$0.63
Shares Outstanding	83.1 M	P/E 2000	5.5x
Market Cap	\$290 M	Fiscal Year	June

## Company Update

### Lifepoint Reports Solid Fourth Quarter Results

Lifepoint Hospitals reported Q499 EPS of \$0.11, beating the Street consensus estimate by \$0.04 per share. The company was spun-off from Columbia/HCA on May 11, 1999. Lifepoint operates hospitals in non-urban markets primarily in the Southeastern U.S. The company currently operates 23 hospitals with 2,108 beds in nine states as well as one ambulatory surgery center, one home health agency, and 10 skilled nursing units within its hospitals.

The EPS outperformance was driven by lower bad debt expense and lower interest expense. The results exclude three hospitals designated as held for sale. The company has subsequently sold one of the hospitals (Trinity Hospital, 40 beds) and plans to either close or sell the remaining two hospitals by mid-2000. During the quarter, the company recorded a non-cash, pretax charge of \$25 million to write down the carrying value of the three hospitals. Revenues in the quarter were \$118.3 million, up 8.8% from \$108.7 million in the year-ago quarter. Same store admissions increased 3.5% year-over-year, while equivalent admissions increased 5.1%. EBITDA in the quarter was \$21.1 million (17.8% margin). Salaries and benefits totaled 40.4% of revenues in the quarter. Supply expense in the quarter was 12.7%.

The company reduced bad debt expense in the quarter. Bad debt as a percentage of revenues was 6.5%. DSOs in the quarter declined 3 days

sequentially to 38 days. Other expenses accounted for 22.6% of revenues in the quarter. Management indicated that about \$2.5 million, or 10% of the "other expenses" line item, was attributable to physician recruitment in the quarter. Interest expense in the quarter was \$6 million.

#### Balance Sheet and Cash Flow

Lifepoint ended the quarter with lone-term debt of \$257 million, basically flat from \$258 million at the end of Q399. Long-term debt to trailing 12 month EBITDA was 3.3 times, while interest coverage was about 3.0 times. At the end of the quarter, the company had \$65 million available under its revolver as well as an \$35 million available for limited purposes through May 2000 under an additional term loan facility.

Cash flow from operations in the quarter totaled \$8.0 million (including a \$10.5 million tax payment), bringing the total for the year to about \$58 million. Capital spending for the quarter totaled \$24 million, bringing the total for the year to about \$65 million. Cap-ex in 1999 included approximately \$28 million related to the cost of constructing the Bartow replacement hospital. As such, we expect capital spending will decline to about \$35 million in 2000.

#### Lifepoint (LPNT)

Price (1/31/00)	\$13 ½	Fiscal Year	December
52 Week Range	\$17 ¼ - 6.88	LTD/EBITDA(12/99)	3.3x
Shares Outstanding	31.1 M	Dividend/Yield	\$0.0/0.0%
Market Cap	\$420 M	First Call 00 EPS	\$0.46
Enterprise Value	\$665 M	P/E 2000	29x

# Company Update

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## Water Pik Technologies

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Two month old Water Pik Technologies began trading on the NYSE on November 30<sup>th</sup>, 1999. The company was spun off from Allegheny Teledyne (NYSE:ALT) in a 100% tax-free distribution to shareholders as of November 29<sup>th</sup>. Water Pik Technologies is a leading consumer product company with estimated FY99 revenues of about \$250 million. Sales are split roughly 50% between in Personal Healthcare Products, 35% in Pool Products and 15% in Heating Systems. The shower product segment, which is the largest business in Personal Healthcare with about \$50 million in revenues, carries the highest gross margin and is benefiting from the recent “shower mist” launch. The firm has several leading products within the personal Healthcare group and Pool & Water-Heating group, including: the Water Pik Shower Massage, Water Pik Oral Irrigator, Water Pik F-7 Water Filter, Laars, Jandy, and Olympic brand swimming pool and spa accessories.

Water Pik distributes its products through more than 45,000 retail and wholesale outlets in North America. Personal health care products are distributed to consumers through mass merchandisers, home centers, drug stores and hardware chains. Pool and water heating equipment are sold through various channels of distribution, including pool wholesalers, and a network of plumbing and heating, ventilation and air conditioning (HVAC) wholesalers, as well as retailers and service companies. In 1998 sales were \$236 million, with \$126 million in sales was generated by the Personal Healthcare Products business, while Pool Products contributed \$77 million and Heating Systems added \$33 million. International sales amounted to 16% (84% domestic).

Water Pik has strong market share in household related product categories such as pulsating showers and oral irrigators, 43% and 77% market share respectively. Pik competes with large, well-known consumer brands such as Braun (a division of Gillette) and Brita (a division of Clorox).

Under the brands of Laars and Jandy, PIK is a leading provider of swimming pool and spa equipment. The pool supplies and accessories market is roughly \$1 billion at wholesale and is growing at 5-10% as “in-ground” pool penetration continues to increase. In August 1999, Water Pik acquired Olympic Pool Accessories based in Montreal, Quebec. Olympic makes a full line of pool accessories ranging from cleaning and maintenance equipment to pool toys and games. It is expected that Olympic will add about \$14 million in sales in FY00. Thus, the Pool and Water Heating segment should grow to about \$150 million in FY00.

### **Valuation**

Because Pik is a small cap stock (\$73 million market cap), we believe investors will take a “wait and see” attitude toward the company, until management builds some credibility with the Street.

On an Enterprise Value basis (total market value + debt – cash), PIK appears enticing, as it trades at less than 5x. This assumes 9.3 million shares outstanding (i.e., without options distribution) and \$40 million in debt (post spin). For longer-term investors, we feel Pik has considerable appeal.

### **IRS Tax-Free Ruling**

When Pik received the tax-free ruling from the IRS, Pik indicated that it would undertake a public offering within one year following the spin-off and use the anticipated proceeds for further product line extensions, improving manufacturing capabilities and for acquisitions. The problem is, Pik probably does not wish to issue stock when the price is so low. Stay tuned.

# ANNOUNCEMENT CALENDAR

Announced					
Company	Symbol	Date	Spin-Off	Symbol	Type
3COM	COMS	09/13/99	PALM COMPUTING	PALM	CO/SP
ACTION PERFORMANCE	ACTN	07/06/99	GORACING.COM	GRCN	CO
ACX TECHNOLOGIES	ACX	06/15/99	COORSTEK	CRTK	SP
<b>AMERICAN SOFTWARE</b>	<b>AMSWA</b>	<b>01/25/00</b>	<b>AMQUEST</b>		
AMR CORP.	AMR	12/14/99	THE SABRE GROUP	TSG	CO/SP
<b>APPLIED POWER</b>	<b>APW</b>	<b>01/27/00</b>	<b>ELECTRONICS BUSINESS</b>		
AT&T	T	12/06/99	WIRELESS GROUP		TR
AUTONATION	AN	05/25/99	AUTONATION.COM		TR
<b>AVISTA</b>	<b>AVA</b>	<b>01/21/00</b>	<b>INTERNET BILLING</b>		
BANYAN	BNYN	10/29/99	SWITCHBOARD.COM	SWBD	CO
BAXTER	BAX	07/12/99	EDWARDS LIFE SCIENCES		SP
<b>BCE</b>	<b>BCE</b>	<b>01/31/00</b>	<b>NORTEL NETWORKS</b>	<b>NT</b>	<b>CO?SP</b>
BELL & HOWELL	BHW	12/16/99	INTERNET LEARNING		CO
CABLEVISION	CVC	12/22/99	RAINBOW PROGRAMMING		TR
CABOT CORP.	CBT	07/29/99	MICROELECTRONICS		SP
C-CUBE	CUBE		C-CUBE SEMICONDUCTOR		
CENTURY BUSINESS	CBIZ	04/06/99	INSURANCE UNIT		
CMGI	CMGI	12/17/99	ALTA VISTA	ALTA	CO
COMDISCO	CDO	06/17/99	PRISM		CO
COMPUTER HORIZONS	CHRZ	10/18/99	eB NETWORKS		CO
<b>COMVERSE TECHNOLOGY</b>	<b>CMVT</b>	<b>01/19/00</b>	<b>ULTICOM</b>		<b>CO</b>
COPART	CPRT	12/17/99	INTERNET BUSINESS		SP
CRANE	CR	06/21/99	HUTTIG	HBP	SP
DAISYTEK	DZTK	09/21/99	PFSweb	PSWB	CO
DELIA'S	DLIA		iTURF	TURF	CO/SP
DELTA WOODSIDE	DLW	02/09/99	APPAREL DIVISION		SP
<b>DELUXE</b>	<b>DLX</b>	<b>01/31/00</b>	<b>eFUNDS</b>		<b>CO</b>
DISNEY	DIS	07/12/99	GO.COM	GO	TR
DUN & BRADSTREET	DNB	12/15/99	MOODY'S		
DUPONT	DD	03/10/99	LIFE SCIENCES		TR
EXCITE/@HOME	ATHM	11/22/99	INTERNET MEDIA		TR
<b>FIRST UNION</b>	<b>FUR</b>	<b>01/24/00</b>	<b>IMPERIAL PARKING</b>		<b>SP</b>
GREAT LAKES CHEMICAL	GLK	09/20/99	OSCA		CO
HARRIS CORP.	HRS	04/14/99	LANIER WORLDWIDE	LR	SP
HNC SOFTWARE	HNCS	09/10/99	RETEK	RETK	CO
HEWLETT-PACKARD	HWP	03/02/99	AGILENT TECHNOLOGIES	A	SP
HOLLYWOOD ENTERTAINMENT	HLYW	12/2/99	REEL.COM		CO
HYPERFEED TECHNOLOGIES	HYPR	04/26/99	PC QUOTE.COM	PCQT	CO
INTERPOOL	IPX	08/09/99	MICROTECH AND POOLSTAT		SP
JC PENNEY	JCP	05/18/99	ECKERD DRUG CHAIN		TR
KANSAS CITY SOUTHERN IND.	KSU	02/03/98	STILWELL FINANCIAL	SV	SP
LASON	LSON	12/20/99	E-COMMERCE		
MASTER GRAPHICS	MAGR	09/09/99	EAGLEDIRECT.COM		CO
MILLER	MLR	05/13/99	ROADONE		SP
<b>MIM CORP.</b>	<b>MIMS</b>	<b>01/20/00</b>	<b>INTERNET PHARMACY</b>		
MODIS PROF. SERVICES	MPS	11/09/99	IT DIVISION / SOLUTIONS UNIT		SP/CO
NATIONAL DATA	NDC	12/21/99	eCOMMERCE		SP
NETWORK SOLUTIONS	NSOL	12/22/99	REGISTRAR		
<b>NETWORK ASSOCIATES</b>	<b>NETA</b>	<b>01/31/00</b>	<b>INTERNET DIVISION</b>		
<b>NEW YORK TIMES</b>	<b>NYT</b>	<b>01/28/00</b>	<b>INTERNET UNIT</b>		<b>CO/TR</b>
NORDSTROM	JWN	08/26/99	NORDSTROM.COM		CO

## ANNOUNCEMENT CALENDAR

Announced					
Company	Symbol	Date	Spin-Off	Symbol	Type
ODETICS	ODETA	03/02/99	ITERIS		SP
OLSTEN	OLS	08/18/99	GENTIVA HEALTH SERVICES		SP
OSICOM	FIBR	03/11/99	NETSILICON	NSIL	CO
PLAYBOY ENTERPRISES	PLA	09/28/99	PLAYBOY.COM		CO
POMEROY COMPUTERS	PMRY	01/15/99	POMEROY SELECT	PSIS	CO
PRIMARK	PMK	11/08/99	YANKEE GROUP		CO
RALSTON PURINA	RAL	06/10/99	EVEREADY		SP
PREMIER TECHNOLOGIES	PTEK	10/28/99	WEB PROPERTIES		
RELIANCE	REL	10/27/99	SURETY DIVISION		CO
<b>RIGHTSTART</b>	<b>RTST</b>		<b>RIGHTSTART.COM</b>		<b>CO</b>
<b>PRC</b>	<b>RES</b>	<b>01/14/00</b>	<b>CHAPARRAL BOAT DIVISION</b>		<b>SP</b>
<b>S3</b>	<b>SIII</b>	<b>01/31/00</b>	<b>INTERNET &amp; NETWORKING</b>		
SEAGATE TECHNOLOGY	SEG	06/07/99	INTERNET SOFTWARE		CO
SCHLUMBERGER	SLB	07/13/99	TRANSOCEAN SEDCO FOREX	RIG	SP/MERGE
SGI	SGI	02/26/99	MIPS TECHNOLOGY	MIPS	CO
STAPLES	SPLS	09/15/99	STAPLES.COM		TR
ST. JOE COMPANY	JOE	10/27/99	FLORIDA EAST COAST IND.	FLA	SP
SYLVAN LEARNING SYSTEMS	SLVN	09/24/99	PROMETRIC TESTING		CO
SYMANTEC	SYMC	06/10/99	INTERNET TOOLS SOFTWARE		CO
TECHNOLOGY SOLUTIONS	TSCC	03/31/99	eLOYALTY	ELOY	SP
<b>THERMO ELECTRON</b>		<b>01/31/00</b>	<b>THERMO FIBERTEK</b>	<b>TFT</b>	<b>CO/SP</b>
TITAN CORP	TTN		CAYENTA		CO/SP
US BANCORP	UBAN	07/12/99	THREE RIVERS BANK		SP
US INDUSTRIES	USI	05/18/99	STRATEGIC INDUSTRIES		SP
VIACOM	VIA.B	05/06/99	BLOCKBUSTER	BBI	CO/SPLIT
<b>WALMART</b>	<b>WMT</b>	<b>01/07/00</b>	<b>ONLINE BUSINESS</b>		<b>CO</b>
WEATHERFORD	WFT	07/21/99	GRANT PRIDECO DRILLING	GRP	SP

{SP} Spin-Off                      {CO} Carve-out                      {TR} Tracking

## FOREIGN CALENDAR

Announced					
Company	Symbol	Date	Spin-Off	Symbol	Type
BANCA POPOLARE DI BRESCIA	BPB.IM	06/18/99	FIN-ECO ONLINE		CO
CANAL PLUS	CNPLY		CANAL NuMEDIA		CO
COMMERZBANK	CBK.F	06/10/99	DIRECT-BANKING		CO
<b>DEUTSCHE TELEKOM</b>	<b>DT</b>	<b>01/25/00</b>	<b>T-ONLINE</b>		<b>CO</b>
			<b>DEUTSCHE TELEKOM MOBILENET</b>		<b>CO</b>
HYUNDAI		10/14/99	NON-SEMICONDUCTOR		CO
MAGNA INTERNATIONAL	MGA - MG.T	05/25/99	VENTURES		SP
MANNESMANN AG	MNNSY	09/23/99	TELECOMMUNICATIONS		SP
NATIONAL POWER	NP	11/17/99	INTERNATIONAL POWER UNIT		
NOVA NORDISK	NVO	09/09/99	ENZYMES AND HEALTHCARE		CO
REUTERS	RTR, RTRSY		INSTINET		CO
ROCHE	ROHHY	12/06/99	GIVAUDEN		SP
RSL COMMUNICATIONS	RSLC	09/09/99	AUSTRALIAN UNIT		CO
SCOTTISH POWER	SPI.N	09/17/99	TELECOMMUNICATIONS		CO
SIEMENS	SIEG.F		INFINEON		CO
TECK CORP.	TEK	07/27/99	GOLD MINING UNIT		SP
TELEFONICA S.A.	TEF.N TDESF.MA	08/25/99	TERRA NETWORKS	TRRA	CO
THYSSEN KRUPP	THAG	11/ /99	STEEL OPERATION		CO

## Calendar Highlights

Price (01/31/99):	\$63 7/8	<b>Listed</b>			<b>Date</b>	<b>Spin-Off</b>	<b>Tax</b>			
Shares Out.	290 m	<b>Parent</b>	<b>Symbol</b>	<b>Options</b>	<b>Spin-Off</b>	<b>Symbol</b>	<b>Announced</b>	<b>Date</b>	<b>Exempt</b>	<b>Ratio</b>
Market Cap.	\$ 18,523 m	Baxter	BAX	Y	Edwards Life Sciences		07/12/99	Mar-00		

FY: Dec

Baxter International Inc. (NYSE:BAX) announced that the newly formed cardiovascular company will be named Edwards Lifesciences Corporation. Edwards Lifesciences will be a global leader in products and services used to treat late-stage cardiovascular disease. 1999 revenue was estimated at close to \$1 billion with leading brands, including Bentley, Carpentier-Edwards, Cosgrove-Edwards, Fogarty, Research Medical, Starr-Edwards and Swan-Ganz.

Edwards Lifesciences' headquarters will be located in Irvine, Calif., where the Baxter CardioVascular Group is currently based. The Irvine facility employs more than 1,400 people and is home to one of the most advanced heart-valve manufacturing facilities in the world. Edwards Lifesciences will conduct business in more than 80 countries and have approximately 5,000 employees worldwide.

Currently, Baxter's CardioVascular Group offers a comprehensive line of products and services to treat late-stage cardiovascular disease, focusing on cardiac surgery, critical care, vascular and perfusion products and services. Additionally, Edwards Lifesciences will have a strong global presence with more than 40 percent of its sales generated outside of the United States, and extensive manufacturing operations in North America, Japan, Europe and Latin America.

Baxter is a global medical products and services company that provides critical therapies for patients' life-threatening conditions. The company's products and services in blood therapies (biopharmaceuticals and blood collection, separation and storage devices), cardiovascular medicine, medication delivery and renal therapy are used by health-care providers and their patients in 112 countries.

Price (01/31/99):	\$24	<b>Listed</b>			<b>Date</b>	<b>Spin-Off</b>	<b>Tax</b>			
Shares Out.	67.3m	<b>Parent</b>	<b>Symbol</b>	<b>Options</b>	<b>Spin-off</b>	<b>Symbol</b>	<b>Announced</b>	<b>Date</b>	<b>Exempt</b>	<b>Ratio</b>
Market Cap	1,615 m	Cabot Corp.	CBT		Cabot Microelectronic		07/29/99	2-qtr-00	Y	CO

FY: Sept

On January 24<sup>th</sup>, Cabot (NYSE: CBT) announced earnings of \$38 million, or \$0.50 per diluted common share, for the Company's fiscal first quarter ended December 31, 1999, compared with \$32 million, or \$0.43 per diluted common share, for the year ago-quarter. Cabot reported operating profit of \$72 million for the quarter, compared with \$60 million for the same quarter of 1999. Higher volumes in their chemical businesses combined with cost reduction efforts enabled Cabot to more than offset the effects of higher feedstock costs and a stronger dollar to achieve increased quarterly earnings.

MMD contributed an incremental \$5 million to the Company's operating profit in the first quarter year-over-year. Revenues increased by approximately 70% compared with 1999's first quarter, due to greater volumes and an increase in sales of new generation slurries. **On January 20<sup>th</sup>, Cabot filed a Form S-1 for an IPO on MMD, renamed Cabot Microelectronics corp. Goldman Sachs, Merrill Lynch and Robertson Stephens are the underwriters.**

Cabot Microelectronics is a leading supplier of slurries used in chemical mechanical planarization, or CMP, a polishing process used in the manufacturing of integrated circuit, or IC, devices. CMP is an increasingly important part of the IC device manufacturing process because it helps manufacturers make smaller, faster and more complex IC devices and improves their production efficiency. CMP slurries are liquids containing abrasives and chemicals that facilitate and enhance the CMP polishing process. Cabot sells approximately 80% of all CMP slurries sold to IC device manufacturers worldwide.

## Calendar Highlights ...

Price (01/31/99):	\$9 11/16	<b>Listed</b>			<b>Date</b>	<b>Spin-Off</b>	<b>Tax</b>			
Shares Out.	92.7 m	<b>Parent</b>	<b>Symbol</b>	<b>Options</b>	<b>Spin-Off</b>	<b>Symbol</b>	<b>Announced</b>	<b>Date</b>	<b>Exempt</b>	<b>Ratio</b>
Market Cap	\$ 898 m	CompUSA	CPU				2/99			
FY: June		<p>On January 24<sup>th</sup>, CompUSA (NYSE:CPU), and Grupo Sanborns, S.A. de C.V., a leading Mexican retail group with an expanding presence in e-commerce, announced that they have reached a definitive agreement for Grupo Sanborns to acquire all of the outstanding shares of CompUSA for \$10.10 per share in cash. In February of 1999, CompUSA announced a restructuring that was to include an e-commerce initiative and possibly followed up with an Internet IPO.</p> <p>On February 1<sup>st</sup>, the Company's announced net sales for the second quarter of fiscal 2000 had decreased approximately 21% to \$1.38 billion from \$1.75 billion for the comparable period ended December 26, 1998. Comparable store sales for the Company's Retail business for the quarter decreased 1.8% for the 204 stores open one year or more.</p> <p>Grupo Sanborns has over 30,000 employees and one of the strongest retail brand portfolios in Mexico. It owns and operates 305 stores in major cities across the country, including Sanborns, Sanborns Cafe, Sears Roebuck de Mexico, Pasteleria el Globo, Mix-up and Discolandia throughout Mexico. The group's e-commerce initiatives include a shopping portal for Sanborns products.</p> <p>CompUSA Inc. is one of the nation's leading retailers and resellers of personal computers and related products and services. The company currently operates 217 CompUSA Computer Superstores in 84 major metropolitan markets across the United States that serve retail, corporate, government and education customers and include technical service departments. Many of the stores also include classroom training facilities. CompUSA employs approximately 20,000.</p>					<b>SOLD</b>			

Price (01/31/99):	\$ 28	<b>Listed</b>			<b>Date</b>	<b>Spin-Off</b>	<b>Tax</b>			
3/16		<b>Parent</b>	<b>Symbol</b>	<b>Options</b>	<b>Spin-Off</b>	<b>Symbol</b>	<b>Announced</b>	<b>Date</b>	<b>Exempt</b>	<b>Ratio</b>
Shares Out.	305 m	Ralston Purina	RAL		Eveready		06/10/99	April-00		
Market Cap	\$8,597	<p>In January, Ralston Purina Co. stated its fiscal first quarter profit before one-time items rose 56 percent. This figure beat estimates on strong sales of pet foods and batteries. Net income rose to approximately \$190 million or 64 cents per diluted share from \$132 million or 41 cents per diluted share in the year ago period excluding one-time items in both quarters.</p> <p>The Company stated that sales for North American pet foods increased 7 percent to \$560 million from \$523 million last year. Profitability within this segment rose 16 percent during the quarter due to lower ingredient costs. International pet food sales increased 2 percent during the quarter as a result of volume increases in most world areas.</p> <p>Sales for battery products rose to \$686 million. Excluding sales associated with its rechargeable battery business, which was sold off to Moltech Corp. in November, sales rose 16 percent. Energizer volume growth fueled by Y2K preparedness demand boosted sales. Profitability for battery products excluding the OEM business rose 55 percent. The Company stated that the Energizer Power Systems Original Equipment Manufacturer's rechargeable battery business contributed sales of \$12.5 million during the first quarter and pretax operating losses of approximately \$3 million.</p> <p><b>The anticipated spin-off of Eveready is on track and expected to take place during April 2000.</b></p>								
FY: Sept										

## Calendar Highlights ...

Price (01/31/99):	\$23 5/16	<b>Listed</b>			<b>Date</b>	<b>Spin-Off</b>	<b>Tax</b>			
Shares Out.	23.6	<b>Parent</b>	<b>Symbol</b>	<b>Options</b>	<b>Spin-Off</b>	<b>Symbol</b>	<b>Announced</b>	<b>Date</b>	<b>Exempt</b>	<b>Ratio</b>
Market Cap	\$ 550 m	Playboy	PLA		Playboy.com	PBOY	01/10/00			CO
FY: Dec		<p>On January 10<sup>th</sup>, Playboy (NYSE:PLA) file an S-1 to raise \$50 million through an IPO of Playboy.com. Lead underwriters will be CSFB, Bearstearns and BOA Securities. On news of the filing playboy shares rallied from \$23 3/8 to \$29 1/2, but have since returned to pre-registration levels. The proposed ticker is "PBOY", and the business model is based on monetizing the growing traffic on their sites through multiple revenue streams, including advertising and sponsorships, e-commerce and fees for subscription services and pay-per-view events. Revenues for the nine months ending September were \$6.7 million and approximately 54% of revenues were from advertising and sponsorships.</p> <p>On January 20th, Playboy announced it had settled a suit brought by the World Wrestling Federation over the publisher's use of a buxom blond character known as "Sable" in a special issue last year. Playboy said it made an undisclosed cash payment to the wrestling body, and will provide it with some free advertising and royalties on future sales of the special issue.</p> <p><b>This is one Road show I will not miss !</b></p>								

Price (01/31/99):	\$ 13	<b>Listed</b>			<b>Date</b>	<b>Spin-Off</b>	<b>Tax</b>			
9/16		<b>Parent</b>	<b>Symbol</b>	<b>Options</b>	<b>Spin-Off</b>	<b>Symbol</b>	<b>Announced</b>	<b>Date</b>	<b>Exempt</b>	<b>Ratio</b>
Shares Out.	55 7 m	Sylvan Learning	SLVN		Prometric		9/24/99			
Market Cap	\$745m	<p>Sylvan Learning Systems (NASDAQ: SLVN) announced it has agreed to sell its Prometric division to Thomson Corporation (Toronto: TOC) for \$775 in cash or over \$600 million net after tax. Prometric, had 1999 revenues of \$214 million and has more than 1,400 employees worldwide. Prometric, delivers standardized tests and exams at 2,900 testing sites in 141 countries, will make Thomson Learning a leading provider of computer-based testing. Thomson Learning is a leading provider worldwide of education and training materials and is quickly transitioning its rich library of materials into online courseware and services</p> <p style="text-align: right;"><b>SOLD</b></p> <p>Testing is estimated to represent a \$4 billion market with a projected annual growth rate of more than 20 percent. Professional testing is particularly important in fields that require mandatory exams, such as information technology, healthcare, financial services, real estate, and insurance. The evolution to computer-based systems for facilitating testing has provided several benefits for companies, including simplifying the process by streamlining registration and improving the reliability of the results. Such systems also increase convenience by allowing testing of smaller groups or administration of several different tests simultaneously, and boost security by eliminating test booklets, answer sheets and varying test questions.</p> <p>Subject to regulatory approval and the sale is expected to close during the first quarter. Prometric's current senior management will remain in place to continue leading the company. Stephen A. Hoffman and Martin Bean respectively will remain CEO and President of Prometric. Chris Hoehn-Saric, Co-Chief Executive Officer of Sylvan Learning Systems, will continue as Chairman of Prometric.</p>								
FY: Dec										

## Calendar Highlights ...

Price (01/31/99):	\$12 15/16	<b>Listed</b>				<b>Date</b>	<b>Spin-Off</b>	<b>Tax</b>	
Shares Out.	87 M	<b>Parent</b>	<b>Symbol</b>	<b>Options</b>	<b>Spin-Off</b>	<b>Symbol</b>	<b>Announced</b>	<b>Date</b>	<b>Exempt Ratio</b>
Market Cap	\$ 1,124 M	US Industries	USI		US Diversified		05/18/99		
FY: Sept		<p>January 18<sup>th</sup>, U.S. Industries, Inc. (NYSE-USI) announced it has signed agreements to sell its Diversified business unit to Vectura Holdings LLC, a Citicorp Venture Capital portfolio company, for approximately \$600 million. USI determined that the value to be received and the February completion were superior to the previously announced spin-off. The purchase price consists of cash and notes totaling approximately \$600 million, an 18.6% common equity interest in the Diversified unit and an additional 25% direct stake in the unit's Rexair vacuum cleaner business which will both be retained by USI. The cash consideration will be satisfied by \$95 million to be provided by the purchaser and its affiliates, \$300 million to be provided from bank borrowings, \$9 million in existing bank debt which the Diversified unit will assume, and approximately \$200 million in notes to be issued to USI. It is expected that the notes will be refinanced by a high yield offering to be made by the Diversified unit shortly after closing.</p> <p>USI expects to report an after-tax gain on the sale of approximately \$15 million. USI will guarantee approximately \$175 million of initial bank debt associated with the Diversified unit's Rexair business following closing, with Rexair, however, responsible for repayment of this debt. USI will also recognize a \$50 million deferred gain as the guaranteed portion of the bank debt is reduced.</p> <p>U.S. Industries, headquartered in Iselin, New Jersey, is a building products company with three major business units and market leading brands: USI Bath and Plumbing Products, Lighting Corporation of America, and USI Hardware and Tools. <b>USI expects to earn approximately \$1.40 to \$1.50 per share from continuing operations excluding unusual items for the year ending September 30, 2000.</b></p>							<b>SOLD</b>

Price (01/31/99):	\$17 3/8	<b>Listed</b>				<b>Date</b>	<b>Spin-Off</b>	<b>Tax</b>	
Shares Out.	103.3	<b>Parent</b>	<b>Symbol</b>	<b>Options</b>	<b>Spin-Off</b>	<b>Symbol</b>	<b>Announced</b>	<b>Date</b>	<b>Exempt Ratio</b>
Market Cap	\$ 1,775 m	Ziff-Davis	ZD		ZDNet	ZDZ		3/31/99	TR
		<p>Once a top media firm focusing on technology, Ziff-Davis is selling its businesses and plans to merge into its Internet tracking stock, ZDNet, which it is spinning off as a public company. The company is selling its publishing unit (more than 80 magazines) for \$780 million to investment firm Willis Stein &amp; Partners. It sold its interest in cable TV channel ZDTV to Paul Allen's Vulcan Ventures in 2000 (\$205 million), and it has said it will sell its trade show unit (COMDEX, Seybold Seminars). Ziff-Davis in 1999 created a tracking stock for ZDNet, which offers online versions of its magazines (Ziff-Davis owns 84%). Japanese technology giant SOFTBANK owns nearly 70% of Ziff-Davis. Ziff Davis said they planned to use the proceeds of its sales to eliminate debt and distribute dividends. Ziff Davis expects the dividend will be \$5 a share.</p> <p>On January 28<sup>th</sup>, ZDNet (NYSE: ZDZ), announced that its parent company, Ziff-Davis (NYSE: ZD), plans to eliminate its tracking stock structure and make ZDNet a stand-alone, independent Internet company. The tracking stock structure will be eliminated by merging Ziff-Davis Inc. into a newly formed subsidiary so that all current holders of its ZD stock and ZDNet stock will hold their investments through a single class of ordinary common stock. The surviving company will be renamed ZDNet Inc. Ziff-Davis currently expects to complete the merger in the second quarter of 2000. Ziff Davis plans to merge each share of Ziff Davis stock equivalent to 0.5 to 0.6 share of ZDNet stock. Ziff Davis finished the day down 18.75 cents at \$18.8125, and ZDNet was down 1/16 to \$30 1/16. ZDNet is scheduled to announce its 1999 fourth quarter and year-end financial and operating results on February 8, 2000.</p> <p>Softbank Corp., currently the holder of approximately 70% of the ZD stock, will continue to be the largest stockholder of ZDNet, owning approximately 45% of the company's fully diluted shares. The restructuring will be the subject of a stockholder meeting that Ziff-Davis expects to hold on February 29, 2000. Stockholders of record as of the close of business on February 7, 2000 will be entitled to vote at that meeting. A proxy statement containing additional details relating to the restructuring will be mailed to shareholders shortly after the record date. ZDNet operates a Web site offering nearly 30 channels centering on issues such as home computing, technology news, and e-commerce. It also offers access to more than 60 Web sites (including online versions of Ziff-Davis publications such as <i>PC Magazine</i> and <i>Inter@ctive Week</i>). Registered users can take advantage of services such as e-mail, auctions, and chat rooms.</p>							

## Fresh Spin-Off Situations

### Technology Solutions to Spin-off eLoyalty

Technology Solutions (NASDAQ:TSCC) plans to spin-off eLoyalty through a tax-free distribution as a result of a favorable IRS tax ruling on January 28<sup>th</sup>. The record date is expected to be on or about February 8<sup>th</sup>, or 9<sup>th</sup>, and the distribution date is expected to be February 15<sup>th</sup>. When-issued trading is expected on or about the record date with regular way trading commencing on February 16<sup>th</sup>. The distribution will be one share of eLoyalty for every one share of Technology Solutions; eLoyalty is expected to trade on the NASDAQ under the symbol "ELOY". eLoyalty will have about 43 million shares. Street estimates have indicated Technology Solutions' current stock price (\$34) has between 60-90% of eLoyalty value imbedded. If we take the mid-point of street estimates (75%) it implies that eLoyalty's will commence trading around \$25 per share.

#### Technology Solutions

Technology Solutions post spin will provide corporate network systems and enterprise resource planning, supply chain, and customer service applications. TSC assesses a company's procedures, then designs and implements systems that streamline them. Its customers are primarily large corporations in the financial services, communications, and manufacturing industries. The company sells custom designed application software packages and acts as a value-added reseller of computer hardware.

#### eLoyalty

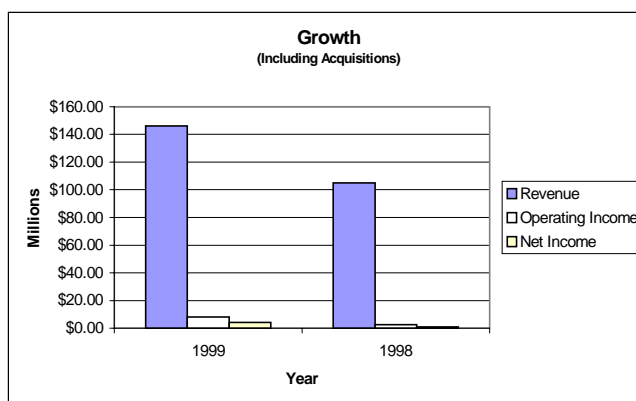
eLoyalty is a management consulting firm providing enterprise-wide solutions to improve customer-client relationships. eLoyalty has evolved as an eCRM, which is an expansion of Customer Relationship Management (CRM) that includes customer access channels including the Internet. A loyalty solution is a combination of business rules, strategy and eCRM technology that enables companies to build relationships and maximize the efficiency of customer interactions across multiple channels and capitalize on cross-sell opportunities based on customer information gathered during these interactions.

International Data Corporation (IDC) estimates worldwide Internet users will grow from 142 million in 1998 to 502 million in 2003, and IDC further expects e-mail users in the United States to grow from 48 million in 1998 to 112 million in 2005. In addition, the Gartner predicts that the market for CRM services will grow from \$2.9 billion in 1998 to \$20.8 billion in 2003.

Switching costs will continue to decrease as technology improves competition for consumer loyalty. Customer loyalty can have a significant impact on the bottom line of a company. As reported in our December update on eLoyalty, a report "Zero Defections: Quality Comes to Services, September-October 1990 Harvard Business Review" reports that companies can almost double their profits by retaining just 5% more of their customers. Typically, new customers entail a one-time cost that may take years to recover (database entry, advertising and marketing costs, service cost and learning curve). Companies focusing on increasing revenues should also focus on client retention and the cash flow generated over the life of the relationship.

#### Year End Results

eLoyalty reported a 39 % increase in 1999 revenues of \$146 million compared to \$105 million in 1998, and EBITA of \$13 million, a 9% increase over 1998. Net Income was reported at \$4.1 million or \$0.08 per share, and the hourly billing rate was \$219 per eLoyalty representative. In addition, eLoyalty



announced that it has signed its first hosting solutions customer that is scheduled to commence in Q2.

### Investor Conference

eLoyalty is expected to host an investor conference at its Austin, Texas, facility once the quiet period has ended, probably in Q2.

### Competition

The eCRM market is relatively new and very competitive. eLoyalty competes against most major consulting firms including; Andersen Consulting, Arthur Andersen, IBM Global Services, Cambridge Technology Partners, Sapient, Diamond Technology Partners, Razorfish, Computer Sciences, Bain & Company, Booz, Allen & Hamilton, Boston Consulting Group, Inc. and McKinsey to name a few.

### Retention of Human Capital

The people-intensive IT professional services industry currently faces a shortage of qualified personnel, which is expected to continue, and in addition, the industry suffers from a high rate of employee turnover (eLoyalty's 15.7%). As a

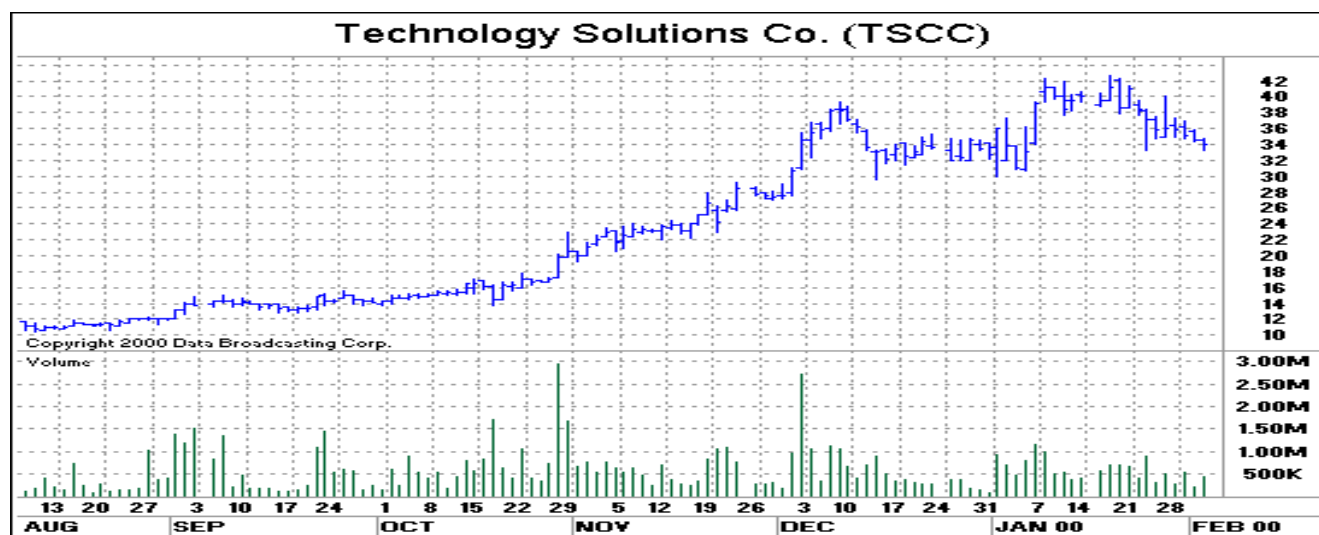
publicly traded company, eLoyalty will recruit and retain from this limited pool with its stock as a retention incentive. In addition, eLoyalty has focused on recruiting experienced personnel. Over 50% of new hires have come from consulting, 25-30% from industry, 10-15% from hardware and software firms and less than 5% from universities, average experience is 12 years per consultant.

### Revenue Diversity and Clientele

eLoyalty has a diverse client base with no single client represents more than 10% of total revenues. eLoyalty clients include: Deutsche Telecom, Glaxo-Wellcome, Hewlett-Packard, Lucent, Royal Bank of Canada, Sprint, US West, Virgin Atlantic Airways.

### Valuation

eLoyalty appears to be off to the races as the internet craze remains intact. The rapid growth in companies utilizing internet sites for e-commerce, will undoubtedly cause rapid growth in customer integration and consulting services. It appears that eLoyalty's spin-off comes at an opportune time to ride the wave of e-solutions. As with most internet companies we will not predict a fair valuation, but leave it up to the markets.



## Recently Announced Spin-Off Situations

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### American Software Evaluating IPO of AmQuest Unit

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On January 25, American Software (Nasdaq: AMSWA) announced that it is “actively evaluating” an initial public offering of shares of its wholly owned subsidiary. AmQuest develops outsourcing services, such as technical support and outfitting of Web sites for electronic-commerce transactions. AmQuest is an established Hosting Service Provider (HSP) that offers application infrastructure services to the high growth Application Services Provider (ASP) marketplace. American Software did not disclose the size of the potential IPO. Projections for market growth vary. In December 1999, Forrester Research Inc. predicted that the application hosting market would reach \$11.3 billion by 2003. Dataquest expects the ASP market to reach \$22.7 billion by 2003. The stock closed at \$14 ½, up \$2.25 on the Nasdaq.

AmQuest client portfolio includes ASPs, Systems Integrators, ISVs, Network Service Providers (NSPs), and other corporations. AmQuest 's hosting center currently hosts all major server platforms and operating systems as well as many of the leading software applications. AmQUEST's hosting and monitoring services include: Managed Server Hosting: Providing pre-configured servers for Web and Application hosting needs with full support for security, backup, administration and monitoring. Co-location Hosting: Services include basic co-location hosting and fully managed operational environments. Enterprise Monitoring: Monitoring of servers and applications across entire enterprise. Network Management: Comprehensive management of all private, Frame Relay, and VPN networks, including monitoring services and security.

#### American Software

American Software was founded in 1970 by James Edenfield (CEO) and Tom Newberry (Chairman) to sell software that helps mid-sized businesses to improve efficiencies and reduce costs. Together they own 73% voting shares. ASI's ERP product e-Intelligence was designed to accommodate both

traditional and Internet business models, which allows it to deliver web-enabled ERP that is fully functional for “bricks” or “clicks” or both. In 1997, ASI combined its Supply Chain Planning and Distribution Sciences divisions and spun-out Logility (LGTY) as an IPO. AMSWA owns 85% (80% fully diluted) of Logility, a stake it plans to hold indefinitely. So, buying AMSWA is an effective way to garner exposure to Logility, while also getting upside potential from AmQuest, the potential 2000 IPO. Atlanta based, ASI has 10 offices located throughout the world with some 700 employees (200 with Logility).

American Software provides software to discrete and process manufacturers to automate the business functions such as order taking purchase orders to suppliers and collecting receivables using e-Intelligence, and Enterprise Resource Planning (ERP) solution. **Flow Manufacturing** is a product designed to optimize the production process from raw materials to finished goods, cutting costs and increasing efficiencies at every step. ASI also provides **Supply Chain Management** (SCM) via Logility (its 80% owned subsidiary) for coordinating suppliers to manage inventory, scheduling and purchasing. **WarehousePro** is connected to Logility's SCM solutions and manages warehousing from start to finish. ASI's **Forecasting** tools provide sophisticated analysis of results and prediction of outcomes. **E-Comm enablement** ties all the systems together so that once a purchase order is called for, it is executed through an automated process so that costs are reduced and efficiencies gained from the plant level to the administrative level to procurement and finally to the customer. AMSWA focuses on leveraging relationships (900 and 380 installed clients for ASI and LGTY respectively) between its clients and its customers/suppliers by applying integrated solutions to link together internal functions, external suppliers and e-commerce execution. Integration between ERP and SCM is an important competitive differentiator.

### AmQuest

ASI's AmQuest division is one of the top ASPs (Application Services Provider) based on its \$20 - \$30 million expected revenues for F2000. The ASP model in general allows a customer to choose between leasing or buying the software (and hardware). This option allows outsourced solutions and brings otherwise prohibitively expensive systems into the reach of thousands of small to mid-sized businesses. AmQuest is evaluating the timing to go public in an IPO that could occur sometime this year. The company is well positioned in this rapidly emerging industry as the only player with monitoring capabilities, and only one of a few firms prepared to host industrial strength systems. Its offering includes data centers, help desks and network outsourcing services that provide complete, full-time solutions to ASP providers like Exodus and Corio. The potential market for ASP-based ERP, SCM, Flow Manufacturing and other Web-Channel components is vast. **Based on recent IPO's in this space, AmQuest could be worth more than the whole of ASI and Logility combined.**

### Financials

ASI generated \$109 million in revenues in 1999 and lost 28 cents a share. We expect they could increase sales by roughly 5% in F2000 (\$114 million). This reflects Y2K impacts and softness in its core markets. Earnings are estimated to be \$0.15 on First Call for F2000 (April). There is no debt on the balance sheet. Cash on hand at the end of last quarter was \$43.5 million, or \$2 per share.

### Sum-of-the-Parts

AMSWA could be a good speculation at current levels (\$12). AMSWA owns 11.3 million shares of Logility (LGTY) worth about \$8  $\frac{3}{4}$  per AMSWA share. That coupled with the \$2 per share in cash suggests the remaining core business is being valued at \$1.25 (\$12 - \$10.75). If the company pursues an IPO for its promising AmQuest (ASP provider) division, we suspect that the stock will respond favorably. Essentially you are getting a free option on AmQuest based on current prices.

#### American Software (AMSWA)

Price (2/2/00)	\$11 15/16	Fiscal Year	April
Shares Outstanding	22 M	Revenue 99A	\$109.177
Market Cap	\$264 M	Net Income 99A	\$(6,254)
52 Week Range	\$2 - \$12	EPS 99A	\$(0.28)
Long-Term Debt	\$0	Price/Revenue	2.4x

#### Logility (LGTY)

Price (2/2/00)	\$16 7/8	Fiscal Year	April
Shares Outstanding	13.46 M	Revenue 99A	\$27,017
Market Cap	\$228 M	Net Income 99A	\$(8,105)
52 Week Range	\$2 $\frac{3}{4}$ - \$23 $\frac{5}{8}$	EPS 99A	\$(0.60)
Long-Term Debt	\$0	Price/Revenue	8.5x

## Recently Announced Spin-Off Situations

### Applied Power to Spin-Off Enclosure Division

On January 27, Applied Power (NYSE: APW) announced plans to spin off its electronics business from its industrial business to create a pure global supplier in the high-growth electronic manufacturing services (EMS) sector. The new enclosure division will be called APW, and will be the largest player in the \$90 billion EMS industry focused on the integrated electronic enclosures systems business. As part of the spin-off, **APW will be converted to a Bermuda corporation** (a one-time \$40 million tax-bill is expected to be paid at the time of the spin in order to convert APW to an offshore corporation). The spin-off should be tax-free to Applied Power shareholders. Credit Suisse First Boston served as financial advisor to Applied Power. Applied Power's current industrial business segment will operate on a stand-alone basis, and will remain incorporated in Wisconsin. The spin-off is expected to be completed by fiscal year-end (August), at which time each Applied Power shareholder of record would receive a dividend of one newly issued share of APW for each Applied Power share they hold. The stock closed at \$32 15/16, down 3/8<sup>ths</sup>.

Applied Power, based in Waukesha, Wis., has two main divisions: APW Electronics (60% of sales), a leading manufacturer of custom electronic enclosures and APW Industrial (40% of sales) which includes a number of niche businesses such as electrical tools and supplies, motion and vibration control solutions, and hydraulic force tools. The company's products are offered under such established brand names as Enerpac, Gardner Bender, Power-Packer, Power Gear and Barry Controls. The enclosure products and systems unit manufactures office and lab furniture, including computer storage racks. Applied Power operates in 25 countries, primarily in North America and Europe. APW is the most vertically integrated provider of integrated electronic enclosures systems in the EMS industry. The company offers a full array of electro-mechanical products and services, from fabrication to integration and drop-ship to provide end-to-end services on a global basis. APW's top customers for electronic enclosures and related services include IBM, NCR, EMC, Applied Material, Ericsson, Sun Microsystems, Lucent, Nortel and Hewlett-Packard.

The separation of the two businesses has been under formal evaluation by the company since late September. APW focuses on providing electronic enclosures, thermal

integration and test services. Its revenues are projected to reach \$1.2 billion in fiscal 2000 ending in August. The remaining business will retain the name Applied Power. The stub business is expected to generate more than \$700 million in revenues in fiscal 2000. As a part of the spin-off, APW will be converted into a Bermuda corporation and should benefit from a lower tax rate (expected to be about 30% in the first year). The company indicated it expects the standalone APW can grow revenues by 15% organically and 20 – 30% including acquisitions.

The market appears to be “underwhelmed” by the restructuring plans, as the stock closed out January at \$27 14/16. For several months, management has been considering strategic alternatives, which included the potential sale of the APW Industrial. APW's management wanted to accomplish its strategic alternatives in a tax efficient manner, which was difficult given APW Industrial's low tax basis. Applied Power's debt levels have increased (now \$778 million) over the past two years to fund acquisitions in Applied Power Electronics. Management indicated they expect that roughly \$550 to \$600 million in debt will go with Applied Power, and the remaining portion (about \$300 – 350 million) will go with new APW. Applied Power's debt-to-capital ratio at the end of the first quarter was 66% and its debt-to-equity ratio was 192%.

#### Fiscal First Quarter Highlights

Operating profit margins at APW Electronics in the fiscal first quarter were 9.1%, compared to 11.4% overall. APW has completed three significant acquisitions (VERO, Zero, and Rubicom) since June 1998, which has weighed on profit margins. The company reported FQ100 EPS of \$0.57, up 8% year-over-year. Revenues increased 6% year-over-year to \$462 million. Revenues in APW electronics reached \$289 million, up 10% year-over-year, and up 3% sequentially. Gross margins fell 110 basis points to 30.2%. EBITDA margin was 15.8% from 16% in F4Q99. Return on equity fell to 21.3% from 22.1% in the prior quarter. On the conference call, management indicated that Applied Power is on track to meet consensus estimates for Fiscal Q2, ending in February. The company will report earnings on March 17<sup>th</sup>. Revenues are projected to reach \$440 million, an increase of 4%. First Call consensus EPS for FQ200 is \$0.52. Applied Power has 40.2 million shares outstanding for a market cap of \$1.1 billion.

## Recently Announced Spin-Off Situations

### Spin-Off Fever Sends Avista Soaring

On January 21, diversified utility holding company Avista Corp. (NYSE:AVA) announced plans to spin off three subsidiaries during the next couple of years, including its fuel cell unit, Avista Labs. The stock of Avista, in which Microsoft chairman Bill Gates recently took a 5.1 percent stake, soared 14 1/4 to 46 3/8 on the New York Stock Exchange. Avista said it planned to spin off its Internet-based billing consolidation subsidiary, Avista Advantage, later this year (Q4). It would then spin off its fuel cell unit, Avista Labs, some time in 2001 and its telecommunications unit, Avista Communications, in 2002. The company has not yet decided whether the spin-offs would be in the form of initial public offerings (IPOs), or Tracking stocks. Fuel cell technology uses hydrogen-based fuels to generate power electrochemically without combustion, producing only heat and water as byproducts.

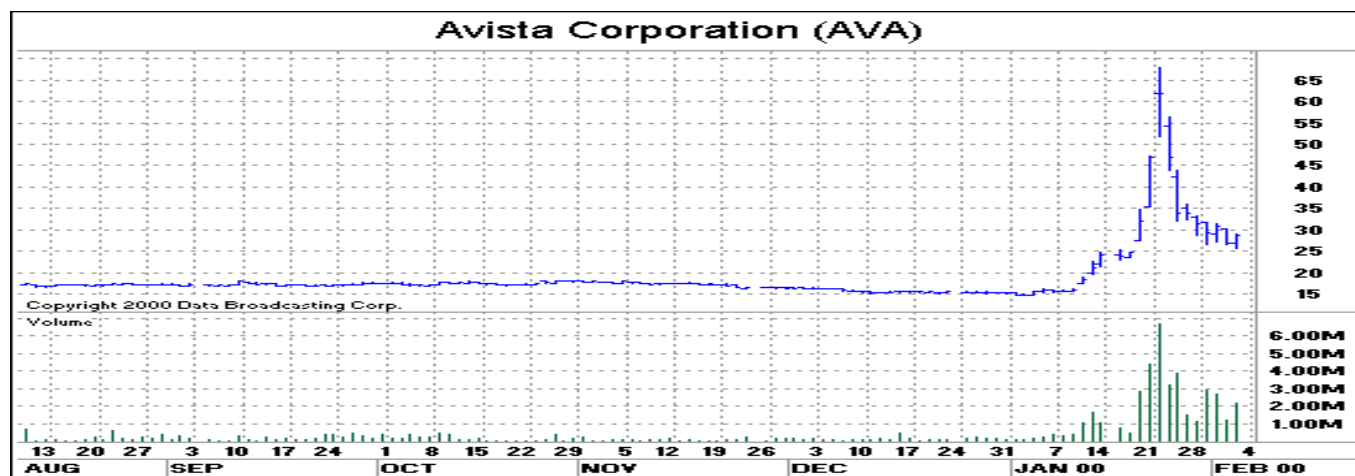
Avista (formerly Washington Water Power) has moved beyond its electric and natural gas utilities to engage in nonregulated and non-energy businesses. Nonregulated operations include energy trading and marketing, fuel cell, fiber-optic network construction, local telephone services for businesses, and Internet-based utility bill analysis. The firm's Avista Utilities unit distributes electricity to some 300,000 customers and natural gas to 260,000 in California, Idaho, Washington, and Oregon.

The stock has gone wild due to speculation of potential IPO valuations of three nonregulated

businesses that do not provide near-term earnings (Avista Advantage, an Internet-based utility billing aggregation business, Avista Labs—which has developed a proton exchange membrane (PEM) fuel cell, and Avista Communications—a small fiber-based CLEC. In addition, it was recently disclosed that Bill Gates' investment arm (Cascade Investment) has purchased more than 5% of the company. While we acknowledge that the non-regulated subsidiaries have significant potential, they remain several years from producing meaningful earnings and cash flow. Avista's stock quadrupled more than \$60 from \$15 1/2 on January 7<sup>th</sup>, on enthusiasm for the potential spins. The stock closed out January at \$29 3/8.

#### What is all the fuss about?

Avista may accelerate the timing of an IPO for its Avista Labs fuel cell business. Avista management had planned to possibly initiate an IPO of Avista Labs at the end of 2001. However, the company is reviewing its timetable based on investor interest in the stocks of fuel cell companies. Investors are excited about potential valuation of this division, since Plug Power (PLUG-NYSE: 111 7/16), a developer of residential and commercial fuel cells, went public last November (6 million shares at \$15). Plug uses the same fuel cell technology as Avista Labs. Investors appear to be using PLUG as a benchmark for valuing Avista's fuel cell business. **After speaking with Avista, we believe that they have no intention of taking Avista Labs public in 2000. Thus, we would not get overly excited about potential embedded value just yet.**



## Recently Announced Spin-Off Situations

### BCE to Spin-Off Nortel Networks

On January 31<sup>st</sup>, BCE acknowledged its intention to spin-off 37% of Nortel Networks. The deal was expected for several months (Report November-99) and is intended to erase the discount between BCE's implied value and its intrinsic value. On news of the spin-off, BCE's implied value shot up \$14 as arbitrageurs bought BCE and shorted Nortel. Currently, the implied value of BCE is about \$17 per share.

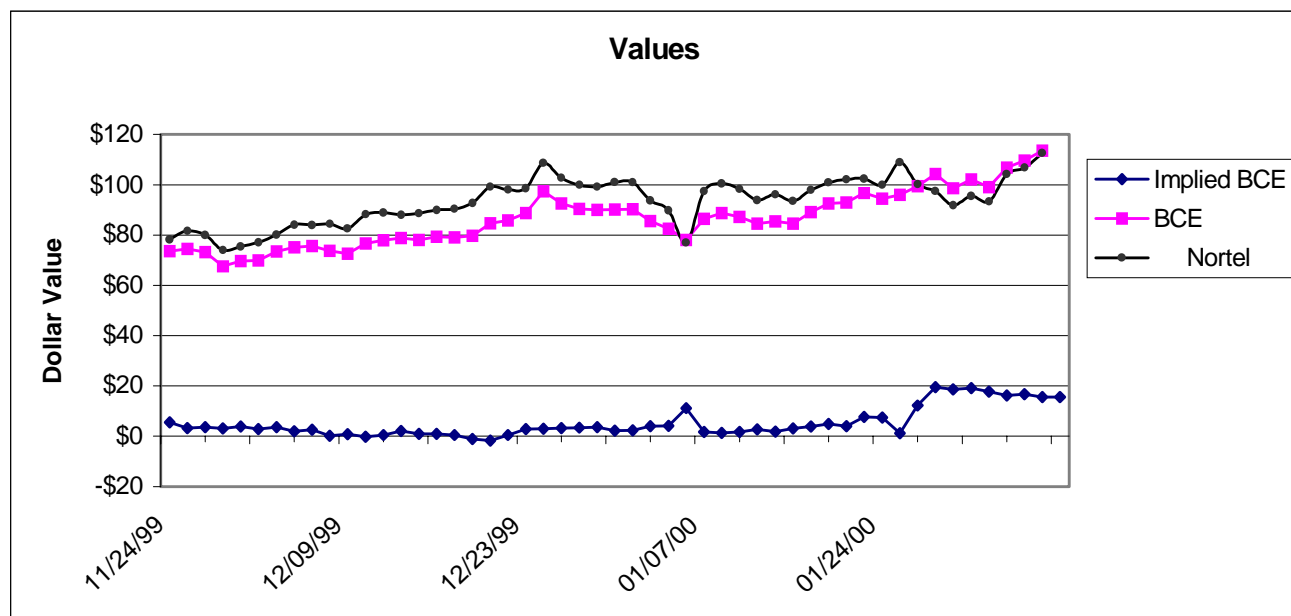
#### Terms of the Spin

The plan, BCE common shareholders will receive approximately .78 of a common share of a new Canadian company that will continue as Nortel Networks. As part of the plan, all Nortel Networks common shareholders will exchange their current shares for common shares of the new company on a one-for-one basis. Thus the economic interest remains the same in the transaction. Currently, ninety-five percent of BCE shareholders are Canadian, and under Canadian law the deal will be treated as a tax free exchange. However, for the remaining five percent who are US residents, the deal will be treated as a taxable event.

**BCE, Canada's largest telecommunications company**, is the holding company for Bell Canada, whose local and long-distance service area covers

about 70% of the country's population. Its BCE Mobile Communications subsidiary offers wireless service in Ontario and Quebec. BCE owns 41% stake in Nortel Networks (formerly Northern Telecom), which makes advanced telecommunications equipment, and Aliant, which provides telecom services in Atlantic Canada. Moving onto the global stage, BCE has invested in network companies in developing countries, and in satellite companies; a 48% stake in Iridium Canada Communications, a 90% stake in Express Vu (direct-to-home broadcasting), and ownership of Telsat Canada.

**Nortel Networks (NYSE:NT)**, based in Ontario, Canada, is a leading provider of communications network solutions. Nortel designs, manufactures, and supplies complete networks for local exchange and long-distance carriers, wireless operators, enterprise networks, and governments. Over the last several years, Nortel has transformed itself from a predominately North American switching company into a global company with a broad product portfolio. Nortel is broadening its offerings with computer-telephony integration, multimedia, and telephone management systems, and using acquisitions such as the 1998 purchase of Bay Networks, to expand its voice/data-networking equipment business.



## Recently Announced Spin-Off Situations

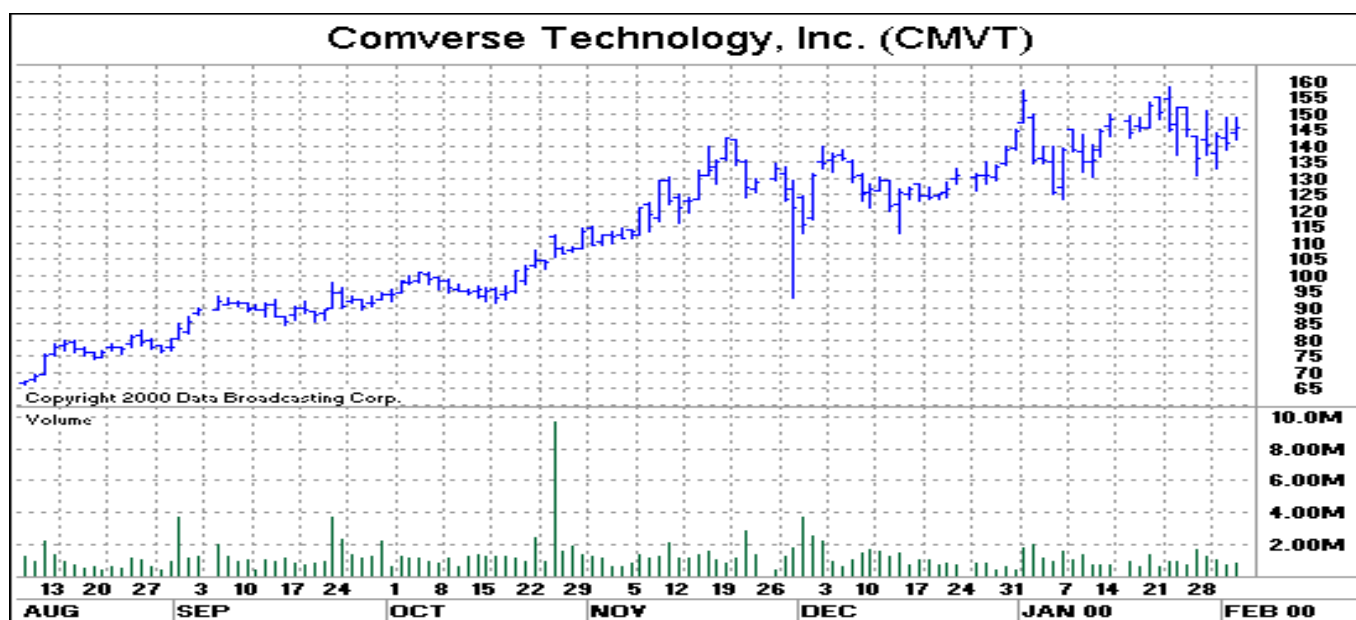
### Comverse says Ulticom unit files with SEC for IPO

Jan 19, 2000, Ulticom, Inc., a provider of network signaling software for wireless, wireline, and Internet communication services, announced the filing of a registration statement with the Securities and Exchange Commission for an initial public offering of its common stock. Ulticom is a subsidiary of Comverse Technology, Inc. (NASDAQ:CMVT). Lehman Brothers will serve as lead managing underwriter of the offering. Comverse Technology, sells computer and telecommunications systems for communications and information processing applications.

**Comverse Technology** makes enhanced telecommunications systems and is the third-largest firm in the voice mail market (after Lucent's Octel Messaging Division and Nortel Networks). Its TRILOGUE Infinity and Access NP product lines supply voice and fax messaging, automated personal assistant, and call answering services. TRILOGUE is marketed to telecommunications network operators and gives multiple telephone users access to integrated digital information and messaging services. Comverse's AUDIODISK and ULTRA lines are communications monitoring systems used by police and surveillance agencies, correctional institutions, emergency 911 services, financial institutions, and telemarketers.

Market Data:	1/31/00	FY: Jan	
Comverse	CMVT		
Price:	143 3/8	Shares Out:	76.3 m
52 Week Range	\$43 3/8 \$168	Market Cap:	10,940 m
Annual Dividend	\$0.00	Book Value	\$8.95
Dividend Yield	0.0	Price-to-Book	16x
EPS 00A	\$2.13	00E P/E:	67x
EPS 01E	\$2.56	01E P/E:	56x

**Ulticom** (formerly DGM&S Telecom) wants to be the ultimate software company for telecom providers. Ulticom makes SS7-based network signaling software that connects Internet and telecommunications service providers' switching, database, and messaging systems and manages number, routing, and billing information. Its products enable telcos to offer advanced services including voice-activated dialing and unified messaging, and let consumers manage and personalize such services. Customers include equipment makers Siemens (13% of sales) and Ericsson, application developers Clarent and Logica, and service providers Level 3 and MCI WorldCom.



## Recently Announced Spin-Off Situations

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### Deluxe to Carveout and Split-Off eFunds in Digital Makeover

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On January 31, Deluxe (NYSE: DLX) announced a plan for a strategic realignment of Deluxe that will create two independent companies. Under the plan, Deluxe will spin-off its electronic payment and technology businesses into a separate, independent publicly traded company, to be called eFunds. **It is anticipated that an S-1 will be out within the next two months** (a roadshow is expected to begin in early June), with a full split expected to close during the fourth quarter of this year. Deluxe Paper Payment Systems (PPS) will continue to operate under the Deluxe Corporation name and continue to trade under the ticker symbol DLX. e-Funds provides end-to-end solutions for managing, securing, and processing both off- and on-line debit-related transactions. The unit also offers risk assessment and marketing services through its DebitBureau data bank. e-Funds account for approximately 16% of FY99 revenues.

Deluxe intends to sell a minority interest in eFunds to the public through an initial public offering (IPO). Following the IPO, Deluxe intends to pursue a split-off of eFunds Corporation through an exchange offer that would provide Deluxe shareholders the opportunity to exchange, on a tax-free basis, shares of Deluxe common stock for shares of eFunds Corporation. A split-off would be conditioned upon obtaining a favorable tax ruling from the Internal Revenue Service and there can be no assurance that such a ruling would be obtained. **e-Funds currently has about \$261 million in annual sales and is growing at a double-digit rate.** Deluxe plans an initial public offering of 10% to 15% of eFunds (Q4), followed by “split-off”, whereby existing Deluxe shareholders will have the chance to swap their Deluxe shares for shares of eFunds, based on some exchange ratio. Deluxe’s \$1.2 billion a year check business, which enjoys a 50% market share, but has modest growth prospects. Deluxe Corporation expects to continue its \$1.48 annual dividend. Lawrence Mosner, current vice chairman of DLX, will become the Chairman & CEO of the new Deluxe.

**Deluxe** is the #1 check printer in the US, Deluxe is also a leading provider of electronic payment systems to financial and retail industries. The printing of checks and business forms accounts for most of its sales. The company also provides payment protection systems (check authorization, account verification, and collection services), electronic payment systems (electronic funds services, including ATM solution systems), and electronic benefits transfer services for state governments. Deluxe sold its specialty papers businesses to focus on financial services and is also expanding overseas.

**eFunds Corporation: eFunds and iDLX Technology Partners.** eFunds provides a variety of e-payment products and services including: electronic transaction processing, electronic funds transfer, and integrated payment protection services to the financial and retail industries. iDLX provides information technology and technology-related professional services to financial services companies as well as Deluxe's businesses. The IPO will give e-Funds a currency to expand its service offerings. **We would anticipate that separate e-Funds could garner a market valuation of roughly \$1 billion, or about \$13 per DLX share.** John Blanchard will take over as CEO of e-Funds, while Deborah Jansen (current President and CEO of e-Funds) will act as President and COO of the new e-Funds entity.

e-Funds was formed during DLX’s April 1999 restructuring, and is comprised of five former units: Chex Systems (applicant verification), SCAN (check verification business), DebitBureau (discussion support analytics), and Electronic Check Conversion. Today, the combined e-Funds are a provider of solutions for managing, securing, and processing debit-related transactions. In addition, the division offers risk assessment and marketing services through its DebitBureau data bank. Once the spin is complete, e-Funds will also combine DLX’s Government Services and iDLX units. Government Services provides EBT services to state and local governments.

**e-Funds revenues in 1999 were \$241 million.** The company's strategy will be to focus on areas such as identification, account and payment verification, and guarantee for any commercial client engaged in electronic bill presentment, Internet commerce and banking, as well as traditional payment environments. These types of service offerings generate revenue per transaction in the \$0.10 - \$0.90 range.

iDLX provides two types of services to its financial services clients: 1) IT consulting, software maintenance and support, development and management services; and 2) business process outsourcing. This unit provides senior IT consulting professionals who work on-site with clients, combined with lower-cost IT and processing resources in India. iDLX stand alone revenues in 1999 were \$19 million (up 47% over 1998).

#### Q499 Results

Deluxe's Q499 results were \$0.79 a share (diluted). Revenues and operating income came in at \$411.5 million (-17.4%) and \$73.6 million (-29.1%), respectively). Operating margins declined 290 basis points to 17.9% due to additional loss contracts within the company's Government Services unit, reorganization expenses, and further investments in iDLX and DebitBureau. Pretax income was \$91.1 million, down 5.4%. Net income was \$58.2 million (+1.5%), benefiting from the sale of NCR (about \$20 million pre-tax). Management guided down 2000 operating results, indicating that additional investments in Paper Payment Systems and the proposed divestitures of e-funds. Management did indicate that they expect EBITDA to be up in 2000 versus 1999. During the quarter, DLX bought back roughly 3.5 million shares. Going forward, the current repurchase program will be suspended.

DLX management suggested that in order to prepare the Paper Payments segment for life as a stand-alone company, that they would incur an additional \$25 million in operating expenditures (not related to e-funds spin costs). These expenditures will focus on enhancing the unit's Internet check ordering infrastructure, as well as new business opportunities.

#### Valuation

Our initial estimate is that the new company (e-funds with iDLX) could have an initial market valuation of around **\$1 billion (\$13.60 per share)**. This is 3.85x the revenue e-Funds and iDLX produced (\$260 million) in 1999. We believe the spin could generate about \$325 million in 2000, suggest a price/revenue of 3x our projected valuation. In 1999, Deluxe as a whole, produced \$385.6 million in EBITDA. Paper Payments (the future stub) produced \$347 million in EBITDA. Applying a 5x multiple to 1999 Paper Payments' EBITDA suggests a market **value of \$1.735 billion, or \$23.60 per current share of Deluxe.**

This is based on shares outstanding at the end of the fourth quarter (73.5 million). **This suggests that the combined value of the two separate companies may be worth \$37 per share.** The level of shares outstanding may be considerably lower following the potential "split-off" exchange (perhaps 15 -20% lower). At the end of January, Deluxe was trading at \$26 <sup>3</sup>/<sub>4</sub>. This is about 10.7x the \$2.50 or so we think they can earn in 2000.

#### Deluxe (DLX)

Price (1/31/99)	\$26 <sup>3</sup> / <sub>4</sub>	52 Week Range	\$24.50 – \$40.50
Shares Outstanding	73.5	Book Value/Shr (99)	\$6.31
Market Value	\$1.96 B	Dividend (99)	\$1.48
Revenue 1999	\$1.65 B	Yield	5.5%
EPS 1999	\$2.64	P/E 12/99	10.1x

## Recently Announced Spin-Off Situations

### First Union Real Estate to Spin-Off Parking Unit

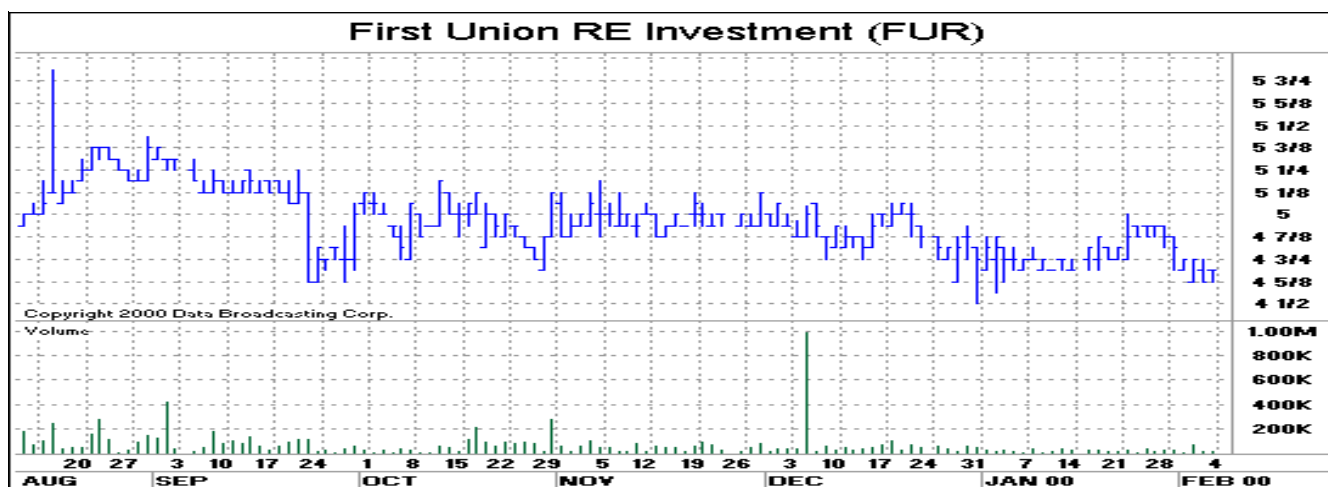
On January 24th, First Union Real Estate Investments (NYSE: FUR), said it plans to spin off its Imperial Parking Corp., or "Impark," unit to shareholders. The business and assets of Imperial Parking Corp. include the parking business of Imperial Parking Ltd., a Canadian company, and 16 parking properties in Canada. No date has been set for the spinoff, but **First Union expects to complete the distribution in first half 2000.** First Union plans to list Imperial Parking on the American Stock Exchange. An information statement on Form 10 has been filed with the Securities and Exchange Commission in connection with a planned distribution

**First Union Real Estate** Equity and Mortgage Investments is a real estate investment trust (REIT) with a portfolio including 21 shopping malls (98% occupancy; it plans to sell six) and eight apartment communities (95% full) in the midwestern and southeastern US. Its five office buildings in the midwestern, southern, and western US have nearly 1.6 million sq. ft. of total space. Other holdings include mortgage investments, parking facilities, and land. First Union is one of only three publicly traded paired-share REITs, whose investors are allowed to have beneficial ownership in both the REIT and the management firm that operates its properties. The company has 42.46 million shares outstanding for a market capitalization of \$200 million. First Union generated sales of \$324.6 million and lost \$93.9 million in 1998.

#### First Union Real Estate Investments Announces Fourth Quarter Dividends

In December First Union Real Estate Investments declared a quarterly dividend of \$0.525 per share for its Series A Cumulative Preferred Shares and \$0.155 per share for its Common Shares. Both dividends are payable January 28, 2000 to shareholders of record December 31, 1999.

The Preferred Share dividend is the normal recurring quarterly dividend that has been declared and paid since the inception of the Preferred Shares. The Common Share dividend is the continuation of the Board's planning for the Company to distribute dividends in order to meet the real estate investment trust ("REIT")-qualification requirements provided in the Internal Revenue Code. The Company had sold real estate assets during 1999 resulting in net capital gains, which it is required to distribute or pay the tax in order to maintain its tax status as a REIT. The Company is paying the Common Share dividend in order to meet required distribution amounts that would result from gains recognized in 1999. A portion of the dividends is expected to be treated as a 1999 capital gain distribution for individual shareholder tax purposes. The final capital gains treatment is subject to review and modification.



## Recently Announced Spin-Off Situations

### Good Guys to Spin-Off Web Store

On January 5<sup>th</sup>, the beleaguered electronics retailer Good Guys will announce today it has created a new company to manage its forthcoming Web store. The San Francisco-based retailer said GoodGuys.com would be open for business by the end of the second quarter this year. The Web store will sell high-end electronics products, targeting early adopters of technology goods. Good Guys becomes the latest in a string of traditional retailers attempting to cash in on the promise of e-tail sales. One of the first companies to do so, Barnesandnoble.com, completed an IPO last May, but has since seen its shares fall below their IPO price.

Good Guys' move comes as the company has struggled to right its financial ship. With 79 stores in California, Washington, Oregon and Nevada, the company has had net loses for each of the last four fiscal years. Good Guys lost \$39 million on \$916 million in sales in the year ended Sept. 30, 1999.

As a result of its continuing losses, Good Guys discontinued sales of increasingly low-margin computer and home office products last September. **Good Guys will own 49.9 percent of GoodGuys.com, and will sell the remaining majority stake in the company to a collection of angel investors, venture capitalists and Good Guys management.** Good Guys is in the process of selecting an experienced e-commerce technology partner to create and host the site and expects to announce its choice by the end of the month. GoodGuys.com is also reserving a substantial number of shares for option grants to attract personnel.

**Good Guys** sells TVs, VCRs, audio systems, PCs, stereos, cellular phones, and other consumer electronics in California, Nevada, Oregon, and Washington. Stores offer some 4,600 products from 240 vendors. The company has teamed with Tower Records to open WOW! Multimedia Superstores, which sell music, videos, and computer software in addition to consumer electronics. Good Guys plans to

Market Data:	1/31/00		FY: Sept
Good Guys	GGUY		
Price:	\$7 1/2	Shares Out:	19.6 m
52 Week Range	\$11 \$2 3/4	Market Cap:	147 m
Annual Dividend	\$0.00	Book Value	\$4.88
Dividend Yield	0.0%	Price-to-Book	1.5x
EPS 00A	\$0.17	00E P/E:	44x

phase out its computer and home office selections in favor of Internet- and communications-related products. Chairman and CEO Ronald Unkefer owns 10% of the company.

On January 25<sup>th</sup>, Good Guys announced net income for the first quarter of fiscal 2000 increased 240 percent to \$5.6 million from \$1.7 million in the prior-year period. Earnings per diluted share for the quarter ended December 31, 1999, rose 125 percent to \$0.27 on 21.0 million shares, versus \$0.12 on 14.3 million shares during the first quarter of fiscal 1999. Gross profit margin improved to 30.0 percent from 24.3 percent the year before, representing a 24 percent increase and reflecting the Company's emphasis on higher-margin digital and high-tech consumer entertainment electronics.

Sales during the quarter were \$262.2 million, compared to \$294.1 million during the same period last year. The expected decline in overall sales was primarily due to the discontinuation of low-margin computers and home office products as of September 30, 1999. Comparable store sales for continuing categories decreased approximately 1 percent from the same period last year, while total sales for continuing categories increased approximately 1 percent.

## Recently Announced Spin-Off Situations

### Hewlett-Packard to Spinoff DeepCanyon Unit

On January 1<sup>st</sup>, Hewlett-Packard said it'll spin off its DeepCanyon Web marketing unit. The move comes on the heels of the computer giant's initial public offering for its Agilent measurement unit last year. HP plans to launch Agilent Technologies as an independent company by the middle of the year. Hewlett-Packard described DeepCanyon as a "a multidimensional, innovative Web resource for marketers." HP will maintain an equity position in DeepCanyon, but didn't offer any additional details on how the spinoff would be structured. DeepCanyon is aimed at helping pros find faster, easier way to use the Web as part of the development process for their marketing strategies and plans. DeepCanyon, which launched its Web site in September 1999, was incubated in HP's Digital Document Services (DDS) Operation. DeepCanyon was formed after research revealed the need of business professionals for a faster, easier way to use the Web as part of the development process for their marketing strategies and plans.

Hewlett-Packard designs, manufactures, and services electronic products and systems for computing, imaging, communication, and measurement used by industry, business, science, medicine and education. Hewlett-Packard the #2 computer company worldwide (behind IBM), is a top provider of computers, peripherals, and computer-related

services, which account for nearly 85% of sales. More than half of HP's sales come from outside the US. To further fuel its growth, HP is restructuring itself as an Internet specialist providing Web hardware, software, and support to corporate customers. To that end the company has spun off its test and measurement equipment and medical electronics businesses as **Agilent Technologies**, of which HP still owns 85%.

#### HP Valuation

Since HP still owns 380 million shares of Agilent, valuation metrics for Hewlett-Packard appear inflated. Agilent shares account for \$29 billion in HP market capitalization at current share levels. With Agilent, HP's Price/Sales ratio is 2.9 and without Agilent the ratio drops to 2.2x. Similarly, HP's P/E ratio including the value of Agilent is 40 and 30 without it. Currently, IBM is trading at 2.1x sales and 27x EPS.

#### Hewlett-Packard (HWP)

Price (1/31)	\$118 13/16	Fiscal Year	October
52 Week Range	\$119 - \$66	EPS 1998 A	\$2.53
Shares Outstanding	1.019 B	Price/Book	7x
Market Capitalization	\$121 B	ROE (1999)	23.0%
Annual Dividend	\$0.64	Dividend Yield	0.53%

## Recently Announced Spin-Off Situations

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### MIM Corporation Exploring Separation of Internet Pharmacy Business

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Jan. 20, MIM Corporation (Nasdaq:MIMS), a small cap (\$105 million) independent pharmacy benefit management and pharmacy e-commerce company said it is considering, among a number of alternatives, **separating MIMRX.com's business and operations into a new company and then raising capital through an initial public offering.** MIM has met with investment banking firms to explore these and other alternatives. MIM is a pharmacy management organization that targets nursing homes, HMOs, and other managed care organizations with a promise to help them control their pharmacy benefit costs. MIM works with its client companies and with retail pharmacies and drug manufacturers to develop formularies, establish financial risk-sharing arrangements, and encourage the substitution of lower-cost generic drugs for brand-name drugs. Almost 70% of the company's revenues come from health services related to TennCare, a Medicaid waiver program for formerly Medicaid-eligible and certain uninsured Tennessee residents.

**MIMRx.com is an online specialty healthcare commerce and information website** dedicated to providing, confidential, and cost-effective home-delivery of healthcare goods and services to a selected customer base. The healthcare products featured for sale on MIMRx.com include prescription drugs, over-the-counter medications, health and beauty aids, vitamins and nutritional supplements, and home medical supplies. MIMRx.com also allows members to access an extensive database of drug and health information and send MIMRx.com pharmacist's health-related inquiries via e-mail.

Unlike other online pharmacies, MIMRx.com also builds custom pharmacy sites for organizations and affinity groups, including MIM Corporation's existing client base of over 3 million lives and strategic partners, which now include Revelation America Incorporated, GenerationA.com, and POZ magazine and Community Prescription Services, Inc. MIMRx.

com offers a specialty site to its strategic partners' members, giving them a sense of ownership and belonging through these affiliations, and offers these organizations the ability to donate a percentage of profits back to the respective communities served.

MIM Corporation is an independent pharmacy benefit management, e-commerce, and mail order organization that partners with managed care organizations and healthcare providers to control prescription drug costs. MIM provides its customers with innovative pharmacy benefit products and services utilizing clinically sound guidelines to ensure cost control and quality care. MIM encourages improved quality of care, increased patient accessibility and medical cost effectiveness. The Company also provides mail order pharmacy services with an emphasis on serving specific groups of individuals affected with diseases, particularly diabetes and AIDS, which require long-term maintenance medications.

Through the first nine months of 1999, net income was \$1.9 million, or \$0.10 per diluted share, on revenues of \$265.2 million, down from net income of \$5.8 million, or \$0.37 per diluted share, on revenues of \$323.6 million for the comparable period of 1998. Revenues were lower because MIM changed its contract arrangements with Tennessee's TennCare health organizations to serve them directly instead of as a subcontractor to another organization. As of September 30, 1999 the company had long-term debt of \$2.8 million and shareholder equity of \$40.8 million. MIM went public on August 15<sup>th</sup>, 1996 at \$13 per share.

## Recently Announced Spin-Off Situations

### Network Associates Planning to Launch New Internet Unit

On January 31, Network Associates, the largest computer security firm, said it is launching a new unit to tackle security issues for business customers by hosting applications over the Internet. The unit will be set up as a separate company called myCIO.com that "could be floated in the stock market," said Zach Nelson, chief executive officer of the new unit. Network last year floated the stock of its McAfee.com Inc. consumer-aimed Internet security business. "It could be (a separately traded company) and if it were as successful as McAfee.com and the current conditions continue you might expect that to happen," said Nelson.

The unit being set up has sales of \$800 million, said Nelson, and its focus will be shifted from selling software out of packages or under licensing agreements to a monthly subscriber fee paid by customers linked to myCIO's Web site. The shift reflects the growing demand for applications that are hosted over the Internet and updated from a central point for many users. MyCIO's hosting partner for the venture will be Exodus Communications Corp. The first products the new site offers will check for viruses and for other potential weaknesses in a company's computer installation. In addition to Network Associates core business of computer security, MyCIO will also concentrate on building up its "availability services," the testing and monitoring of Internet traffic for e-commerce sites. It is anticipated that users will pay a monthly fee of about \$3.50 per month for up to 25 users, and different fee schedules based on the amount of custom setup work and the size of the installation.

Nelson said that the monthly fee is about the same price as a license fee for the same software, but companies

can save money because myCIO will maintain the service from a central point. Maintenance amounts to about 80 percent of the cost of such services, much of which will be eliminated for users, Nelson said. Network Associates said this service would provide "simple, quick and cost-effective application services that free companies from managing complicated enterprise security and availability software."

#### Q4 99 Results

Network Associates reported Q4 99 of \$0.20 (versus \$0.48) on sales of \$218.1 million (down 20%). License sales were \$170.7 million, or 78.3% of total revenues. Service revenues dropped 17% sequentially to \$47 million. By product area, Antivirus contributed about 45% -50% of revenue, Sniffer (network monitoring) was 30 -35%, Security was 12% and Service Desk was 8%. Gross margins were 84.3% (up from 82.9%). Operating margins for the quarter were 12.4% well off of the 30% margins in 1998. Net income for the quarter was \$30 million, or \$0.20 per share, representing 100% sequential growth but down 59% year on year. Geographically, 59% of sales came from the United States, down from 65% last quarter. On the balance sheet, DSO's improved by 16 days to 72 days. Short term cash and investments improved by \$55 million to \$786 million excluding the money raised by the spinoff of McAfee.com. Management is aiming for a 15 -20% operating margin in the second half of 2000. The company should generate about \$860 million in sales in 2000. Business for McAfee anti-virus was very strong for the quarter, showing its strongest results to day. Network Associates spun-off about 17% of its stake in McAfee.com to the public last year, generating \$79 million in net proceeds.

#### Network Associates (NETA)

Price (1/31/00):	\$25 15/16	Price/Book Ratio:	9.5x
52 Week Range:	\$57 - \$10	LT Liability % of Capital	40.0%
Shares Outstanding:	144 M	EPS: 1999A	-\$0.40
Market Value:	\$3.74 B	EPS: 2000E (First Call):	\$0.89
Book Value/Share	\$2.73	Dividend/Yield:	\$0.0/0.0%

## Recently Announced Spin-Off Situations

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### The New York Times Files Registration Statement for IPO of Tracking Stock for Online Unit

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On January 28, the New York Times Company (NYSE: NYT) filed a registration statement with the Securities and Exchange Commission relating to a proposed initial public offering of a new class of common stock, which will be **Class C common stock**, that is intended to track the performance of Times Company Digital, its Internet business division. Times Company Digital operate the following Internet properties: nytimes.com, boston.com, NYToday.com, WineToday.com, GolfDigest.com and Abuzz. The stock closed down 5/8<sup>th</sup>, to \$46.3125. The deal is a first in which a major newspaper company is attempting to unlock value for its Internet assets, create a currency for its employees and acquisitions. We would not be surprised to see Dow Jones and or Knight Ridder follow suit.

The Company will allocate all net proceeds from the offering to Times Company Digital. Times Company Digital plans to use the net proceeds (it hopes to raise \$100 million) for general corporate purposes, including promotion and advertising, and domestic and international expansion. The Company has reserved a portion of shares, which will be available for purchase by its Board of Directors and employees of the Company at the initial public offering price through a directed share program. Goldman, Sachs & Co. will be the lead manager of the offering. J.P. Morgan & Co. and Robertson Stephens will be the co-managers.

The New York Times Company publishes one of the world's most respected newspapers, *The New York Times*; owns *The Boston Globe*, 19 smaller dailies, three weeklies, half of the *International Herald Tribune*, and two newspaper distributors; and has stakes in two paper mills in the US and Canada. The company also operates eight TV and two radio stations (5% of revenues) and publishes three golf magazines. In addition, it sells classic photos and other products through its Internet Web site, offers wire and photo services, and licenses trademarks and copyrighted material. The Sulzberger family controls the company.

**Times Company Digital** (TCD), is home to *The New York Times on the Web* and nearly 50 other Web sites, including Boston.com (online home of *The Boston Globe*) and the Web sites for its parent company's regional newspapers, broadcast properties, and magazines. TCD, which also owns a stake in TheStreet.com. Its *New York Times* site is free, but requires registration to track users for advertising purposes, its primary source of income. Times Company Digital reported a net loss of \$11.7 million for the nine months ended September 26<sup>th</sup>, more than double the net loss of \$5.6 million of the year-earlier period. Revenue, 90% of which came from advertising, rose 48% to \$15.3 million from \$10.4 million for the year earlier period. We expect to them to lose around \$25 million for the year. The online unit has a 10-year licensing deal in which TCD will pay its parent a minimum of \$5 million a year for use of certain trademarks and copyrights.

#### Valuation

As you know, we are not convinced that a tracking structure will reflect optimum value of the online assets. We would not be overly excited about the restructuring as a means to create value for NY Times shareholders. For 1999 we estimate that TCD generated about \$30 million in revenue and lost \$21 roughly million. We expect that the division to have a minimum of \$40 million in revenues with losses of \$50 million or more as the unit steps up marketing, advertising, etc. **We would value Times Company Digital at approximately \$400 million (10 times estimated 2000 revenues) or 14 times 1999 estimated revenues of \$30 million. This compares to with New York Times' total market cap of \$7.9 billion (enterprise value \$8.8 billion). The company has 171 million shares outstanding, suggesting the implied \$400 million of value is worth \$2.35 per NYT share, or only 5% the current stock price.**

## Recently Announced Spin-Off Situations

### Right Start Unit Files with SEC to Go Public

Rightstart.com Inc the online unit of child-products retailer Right Start (RTST: NASDAQ), filed for a public offering less than a year after its incorporation. The SEC filing proposes a \$69 million offering. As part of the offering, the parent will sell some of its 60% stake in Rightstart.com. Deutsche Bank Alex Brown and JP Morgan are co-lead underwriters.

**Right Start** markets upscale child and baby items to educated, upper-income parents through retail stores (nearly 90% of revenues), a Web site, and catalogs. Right Start operates about 50 Right Start stores in 15 states and has closed some mall locations in favor of street stores. In addition to diaper pails and mobiles, the company sells items like remote-controlled lullaby nightlights and bug-proof stroller netting. The company owns 60% of RightStart.com and is offering a stake to the public. Investor Richard Kayne owns about 60% of Right Start. The parent, Right Start, has 5.37 million shares out for a market capitalization of \$80 million. The company generated sales of \$36.6 million and lost \$5.7 million in fiscal 1999 (January).

**RightStart.com** was (proposed symbol "TOTS") formed in 1999 to sell its merchandise online. They launched their online store on June 29, 1999. RightStart.com's offerings include books, software, music, videos, toys, furniture, and feeding, safety, bath, and travel items. Items purchased online can be

Market Data:	1/31/00	FY: Jan
Rightstart	RTST	
Price:	\$14 1/2	Shares Out: 5.3 m
52 Week Range	\$23 3/4 \$4 1/2	Market Cap: 77 m
Annual Dividend	\$0.00	Book Value \$1.10
Dividend Yield	0.0%	Price-to-Book 13x

returned to any of its parent's 50 or so stores. The company's sales increased to \$10 million in fiscal 1999 from \$4.7 million in 1998. The company has partnerships with Oxygen Media's cable TV network and MomsOnline site. Investor Richard Kayne owns about 60% of Right Start, which in turn owns most of RightStart.com. Investment firm Sierra Ventures owns 30.5% of RightStart.com. As of January 1, 2000, the company had 27 full-time employees. As of January 1, 2000, Rightstart.com had \$6.6 million in cash and shareholders equity of \$6.77 million on its balance sheet. In the 48 weeks ended January 1, 2000, the company lost \$9.49 million.



## Recently Announced Spin-Off Situations

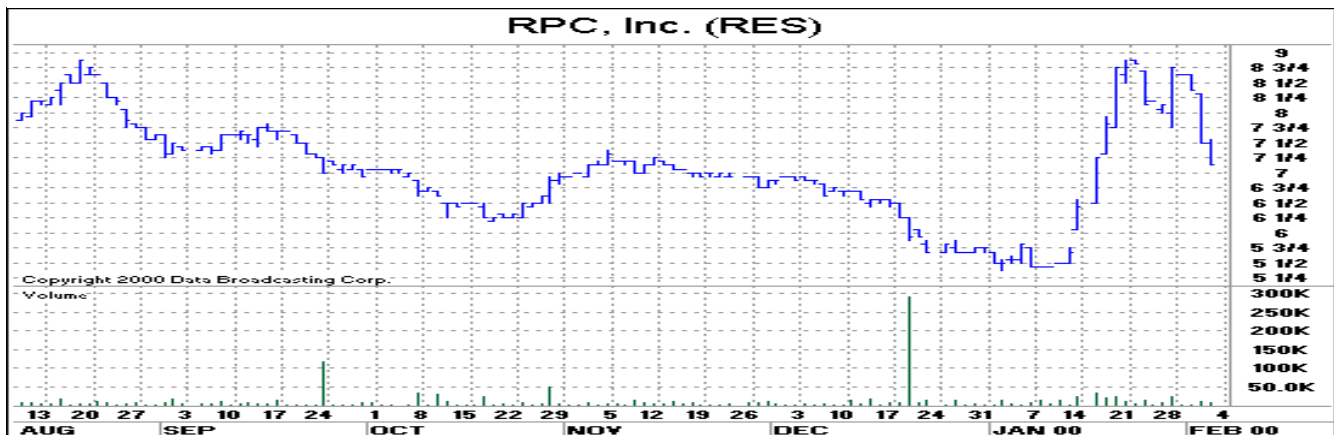
### RPC, Inc. to Spin-Off Chaparral Boats to Shareholders

On January 14th, RPC, Inc. (NYSE: RES), a provider of services to the oil and gas industry and a manufacturer of recreational powerboats, surged 13.2% after announcing that it has taken the initial steps to spin-off its 100% equity ownership in Chaparral Boats, Inc. The transaction, expected to be completed during the third quarter of 2000, will be structured as a tax-free distribution of Chaparral stock to RPC shareholders. The spin-off transaction is subject to various approvals including a favorable tax ruling from the Internal Revenue Service (IRS) and final approval from RPC's Board of Directors. A ruling request has been filed with the IRS, and a listing application is expected to be filed for each company to be separately traded on the NYSE. The spin is expected to be completed in the third quarter. The stock closed up 75 cents to \$6.4375. Chaparral generated about 55% of the company's revenue of \$168 million for the first nine months of 1999.

The separation will allow management to focus on their specific industries and to deploy tailored strategies thereby building value for customers, shareholders and employees. The spin-off also sets the stage for future growth, including acquisitions, helps analysts evaluate the values for each of the oil and gas services company and the leisure boat manufacturing company, and creates separate investment opportunities. The oil and gas services companies rent specialized oil field equipment and provide well controlled tubular services to exploration and drilling companies, primarily in the mid-continent and Gulf of Mexico regions.

Through its Chaparral Boats subsidiary, the company sells four lines of powerboats. RPC's other subsidiaries rent specialized tools and equipment such as drill pipe, tubing, and blowout preventors to oil and gas companies (Patterson Services); and inspect and store oil-field tubular goods (Patterson Tubular Services). It also provides consulting and services that include snubbing, coiled tubing, wireline, well-control, and marine services. Chairman and CEO R. Randall Robins, his brother Gary, and other family members own more than half of the company.

RPC Energy Services was incorporated in 1984. The businesses of RPC was spun off as an independent, publicly held company on June 30, 1984. At that time 14.6 million shares of RPC common stock were issued to stockholders on the basis of 0.6 share of RPC for each share of Rollins common held. In April 1995, stockholders voted to change the company's name from RPC Energy Services to RPC, Inc. because "Energy Services" no longer accurately described the business conducted by RPC. In November 1986, RPC acquired Chaparral Boats. Located in Nashville, Georgia, Chaparral is a leading manufacturer of award winning powerboats. In November 1989, Chaparral acquired the assets of Marine Interiors Ltd., a primary supplier for Chaparral's interior work. RPC has 28.56 million shares outstanding for a market cap of \$183 million.



## Recently Announced Spin-Off Situations

### S3 Intends to Separate Internet & Networking-Related Businesses from Graphics Business

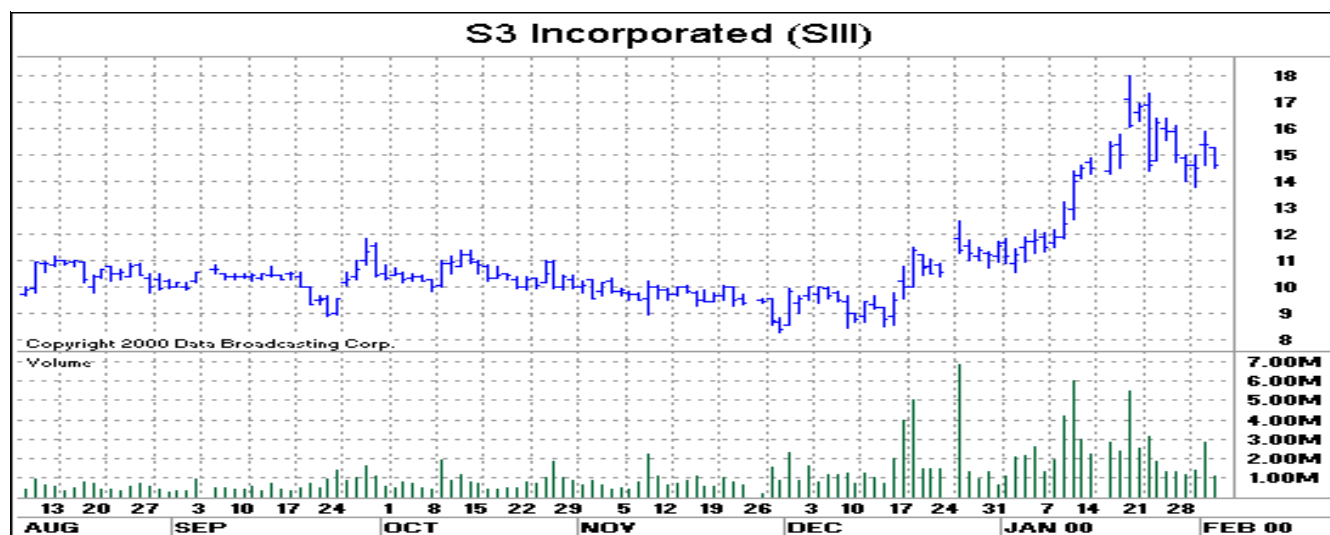
On January 31, S3® Inc. (Nasdaq:SIII) announced plans to separate its growing Internet and networking-related business from its graphics-chips unit. S3, which supplies graphics chips used in computers and consumer appliances and makes networking equipment such as high-speed modems used over digital subscriber lines. The company also announced its trimmed its fourth quarter net loss to \$6.9 million on strong sales of its RioPort MP3 players. Sales in its Internet Division, which includes most of the assets from its September acquisition of Diamond Multimedia Systems, grew 46% from the third quarter. S3 has not decided whether it will spin off the Internet business or which business will assume the S3 name. The company has retained Lehman Brothers to research the separation of the new company.

S3's high-performance multimedia accelerators handle complex graphics and video, freeing a computer's CPU to deal with other computing functions. S3 offers graphics and video accelerators for 2-D and 3-D image, as well as software that optimizes its accelerators' performance. Its Savage chips let PC monitors deliver cinema-quality video. IBM and distributors Synnex Technology and Promate Electronic Co. account for two-thirds of sales. Almost 90% of sales are outside the US.

#### Fourth Quarter Results

S3 reported fourth quarter and fiscal year 1999 financial results for the period ended Dec. 31, 1999. Net revenues for the fourth quarter of 1999 were \$180.5 million; and net revenues for the 1999 fiscal year were \$352.6 million. Net revenues for the fourth quarter of 1998 were \$41.5 million; and net revenues for the 1998 fiscal year were \$224.6 million. The 1998 comparative results do not include the financial results of Diamond Multimedia Systems, Inc. In September 1999, S3 acquired Diamond Multimedia Systems, Inc. in a transaction accounted for as a purchase. Operating results for 1999 include Diamond's results from the date of acquisition. Net loss for the fourth quarter of 1999 was \$6.9 million or \$0.09 per diluted share compared to a net loss for the fourth quarter of 1998 of \$70.3 million or \$1.36 per share. The reported net loss for fiscal year 1999 was \$30.8 million compared to a net loss for fiscal year 1998 of \$113.2 million.

The company stated that they have shown significant gains in their investments in VIA and UMC. S3's UMC holdings currently have a fair value in excess of \$1.0 billion according to the company. The current worth of S3's UMC shares is based on UMC's current stock price and current NT exchange rates.



## Recently Announced Spin-Off Situations

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### Thermo Electron to Turn Many Businesses Into Three

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On January 31, Industrial conglomerate **Thermo Electron** (TMO) said that it plans to transform from an umbrella group of two-dozen public companies. Thermo Electron will focus solely on its measurement and detection instruments unit. The two new firms will be Thermo Fibertek, which provides separation technologies for the pulp and paper industries, and a new medical products company. In a complex reorganization plan rife with acquisitions, divestitures and regroupings of more than 20 publicly traded, majority owned businesses, Thermo Electron plans to ultimately divide itself into three publicly traded entities. The shares of the new companies will fall into the hands of current Thermo Electron holders. ThermoElectron's stock has fallen about 60% from its peak in the last 13 months as investors soured on its satellite company structure. The stock closed at \$17.3125, up \$1.0625 or 6% on the news. The company has 159 million shares outstanding for a market cap of \$2.75 billion.

The effort to collect and regroup over 20 publicly traded companies into three will undo years of Thermo Electron's business-building strategy, which consisted mainly of inventing a new product or idea, building or acquiring a business to market it, then "spinning out" shares of the business to employees and the public while retaining a controlling stake. The structure was initially intended to increase funding opportunities for emerging businesses, and to provide a mechanism for executives to be rewarded with stock options. But, Richard Syron, who took over as Thermo Electron's chief executive in June, believed that the complex structure resulted in operational inefficiencies, reduced stock market liquidity and reduced coverage by analysts.

The company will retain its core measurements and detection devices business under the name Thermo Electron. It will spin off **Thermo Fibertek**, a maker of composite fiber materials and technologies for the pulp and paper industry, and will also spin off each of its medical devices companies into a single company,

which hasn't been named yet. Thermo Electron is the parent of a brood of technology-related firms. The company's Thermo Instrument Systems (80% owned) develops analytical instruments used to measure air pollution, radioactivity, and chemical compounds. Other majority-owned companies include Thermedics (quality-control devices), Thermo Cardiosystems (heart-assist implants), and Thermo TerraTech (environmental services).

Thermo Fibertek (Amex: TFT) makes equipment that turns wastepaper into recycled paper worth writing home about. The company's main products are pulp and papermaking equipment and systems, such as stock-preparation equipment, cleaning and de-inking systems; accessories to clean the rolls of papermaking equipment and to cut and remove sheets of paper; and water-management equipment to drain water from pulp slurry and process reusable fiber. Thermo Fibertek makes its products in North America and Europe and through licenses in South America and the Pacific Rim. It sells to markets mainly in the US and France. **Thermo Fibertek will be spun off as a dividend to Thermo Electron shareholders.** Thermo Fibertek's obligations relating to its 4.5% convertible subordinated debentures, due July 15, 2004, will not be affected by the plan. After the spin, the debentures will remain convertible into Thermo Fibertek common stock and will continue to be guaranteed by Thermo Electron. Thermo Electron expects to complete the spinoff during the first quarter of 2001. **In 1999, the companies had consolidated sales of approximately \$225 million.**

#### Thermo Electron

Thermo Electron will focus solely on its measurement and detection instruments business. Thermo Electron is a world leader in the instrument industry, with 1999 instrument revenues of approximately \$2.3 billion. The "new" Thermo Electron will provide instruments for the life sciences, telecommunications, analytical, process control, laser, optical components, precision temperature-control, and environmental-monitoring

markets. Currently these technologies are designed and distributed through a number of public and private companies, including Thermo Instrument Systems and its subsidiaries: Thermo Optek, ThermoQuest, Thermo BioAnalysis, ONIX Systems, ThermoSpectra, Metrika Systems, Thermo Vision, and Thermo Environmental Instruments, as well as through Thermedics Detection and Thermo Sentron. Under the plan, public subsidiaries would be "spun in" or merged into Thermo Electron, ultimately creating one integrated public company. Spectra-Physics Lasers, acquired by Thermo Instrument in February 1999, will remain a public company while Thermo Electron continues to evaluate this business. Thermo Electron is expected to generate \$2.5 billion in revenue in 2000 and EBITDA of \$350 - \$375 million. The estimated long-term growth rate of this business for both revenues and earnings is 15 -20%. Approximately 50% of the growth is expected to be internal while acquisitions will account for the balance.

### Medical Products

Thermo Electron has had a growing presence in the medical products industry through a number of wholly owned businesses and public subsidiaries. Currently, Thermo Electron is the number one player in neurodiagnostic and monitoring equipment, and holds the number two positions worldwide in respiratory and pulmonary care products. Several of Thermo Electron's healthcare businesses will become part of a new medical products company that will include its neurodiagnostic, patient-monitoring, auditory, respiratory and pulmonary care, enteral feeding systems, and medical polymers product lines. **In 1999, these businesses had sales of approximately \$335 million with operating margins of 15+%**. Thermo Cardiosystems and Trex Medical will not be part of the new medical products company. Thermo Electron is currently conducting an extensive search for a president and chief executive officer of this new medical products company, considering both internal and external candidates. The company will fill the position before the spinoff to shareholders, which is expected to occur by early 2001.

### Divestitures

Over the next 12 months, the company also plans to sell businesses with aggregate sales of approximately \$1.2 billion. It expects to realize approximately \$1

billion in proceeds from these sales. This is in addition to businesses with approximately \$150 million in revenues sold since May 1999. Thermo Electron believes that these businesses would better prosper within other strategically aligned organizations that can provide greater focus, resources, and targeted marketing strength. The additional businesses that are expected to be sold include, among others, the following: Thermo Cardiosystems, Trex Medical, the Thermo TerraTech businesses, Thermo Coleman, Peek, NuTemp, Thermo Trilogy, and Peter Brotherhood. In the aggregate, the company does not currently expect to incur losses from the disposition of these businesses. The proceeds from these divestitures will be retained by Thermo Electron for reinvestment in future acquisitions and product development efforts related to measurement and detection instruments.

### Spin-Ins

The company previously said it would acquire the outstanding minority stakes in 12 of its other majority-owned units, so that the latest action brings the number of spin-ins to 19. Thermo Electron has already announced the terms for, and is proceeding with, the spin-ins of ThermoTrex, ThermoLase, Thermo TerraTech, ThermoRetec, and The Randers Killam Group. Under the plan, Thermo Electron would also spin in Thermo Optek, ThermoQuest, Thermo BioAnalysis, Metrika Systems, ONIX Systems, Thermo Instrument Systems, Thermedics, and as previously announced, Thermo Sentron, Thermedics Detection, and Thermo Ecotek. Judging from the tone of comments from the conference call, not everyone is thrilled with the plans. Holders of Onix Systems Inc. and other units to be spun back into the company feel that they are being short-changed. Thermo Electron is proposing that Thermo Instrument, which now owns 80% of Onix, buy the rest of it for \$9 a share in cash. Onix closed at \$8.625 a share, down 1/8<sup>th</sup> on the AMEX. In total the cash costs of all the "spin-ins" (including those previously announced) is expected to be approximately \$400 million.

## Recently Announced Spin-Off Situations

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### Wal-Mart Plans to Spin-Off Web Site Wal-Mart.com

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Retailing giant, Wal-Mart Stores, Inc. (NYSE: WMT) announced on January 7, that it plans to team with Silicon Valley Internet venture capitalist firm, Accel Partners, to form a separate company for its Web site with plans to take the new Company public. Wal-Mart has been building its Web site since last spring and says it desires to, close “the digital divide”. Some 100 million people visit a Wal-Mart store per week, many of which have no Internet access. Wal-Mart and Accel Partners will jointly own the new Company. Accel and its managing partner James Breyer, struck the deal and will be sitting in on Wal-Mart.com’s board. A public offering of Wal-Mart.com would allow the new venture to use stock as currency for new acquisitions. Equity stakes between the two companies are yet to be disclosed, however speculation has it that cash investments on both sides could likely be between \$50-\$100 million. Wal-Mart will maintain majority ownership. In December, Wal-Mart and America Online announced a partnership in offering a low-cost, co-branded Net-access service. The two also agreed to develop various cross-marketing initiatives. The launch of Wal-Mart.com is expected to have support from America Online. A new CEO and management team will be recruited for the new Company. Wal-Mart.com will be headquartered in Palo Alto, California.

**Wal-Mart Stores, Inc.** of Bentonville, Arkansas, is the world’s largest retailer and aside from temp agencies, the nation’s largest employer. Participating in diverse categories from automotive parts to electronics and toys through 560 Supercenters, which are open 24 hours a day. Approximately 150 new Supercenters are added within the US per year. Wal-Mart operates approximately 3,600 Wal-Mart discount stores, Sam’s Club members only warehouse stores and Supercenters in all 50 states and in select foreign countries. The Company also owns wholesale distributor McLane Company, which it purchased in 1990.

Wal-Mart stated that **Wal-Mart.com** would focus on speeding the development of its e-commerce site and entice more of its offline customers onto the Internet. Management stated “The combination of the trusted Wal-Mart brand and retail expertise with the Company-building and technology savvy of Accel Partners is an exciting development for our customers, Wal-Mart.com and the Internet.” Management also stated, “By locating this new Company in the heart of Silicon Valley, we will have access to an outstanding talent base as well as emerging Internet technologies.” “This puts Wal-Mart.com right where it needs to be, and should allow us to further develop our e-commerce businesses at both Wal-Mart and Internet speed.” If successful, the new venture could pose a serious threat to Amazon.com.

Lee Scott, Wal-Mart vice chairman and chief operating officer, said the deal was more “human – capital driven” than financial, promising Wal-Mart wouldn’t overly meddle in management and “wouldn’t be defensive in our approach.” The move is likely to attract top industry talent it will need to compete with Web giants such as Amazon.com Inc. The new venture will likely replace the team that has worked to relaunch the Web site, which includes airline, hotel and rental car booking as well as usual Wal-Mart products from gardening equipment to toothpaste.

By creating an independent spin-off, offline retailers attempt to channel their Internet efforts in to a unit which is able to compete with fast growing e-commerce startups and also have a good chance of recruiting top engineering and management talent through offering stock options with the potential of Internet riches.

## Foreign Announced Spin-Off Situations

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### Deutsche Telekom Plan Internet IPO

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Deutsche Telekom (NYSE:DT-ADR), Europe's biggest phone company, plans to sell shares in T-Online in mid-April and use the proceeds to finance the Internet unit's expansion abroad. Telekom said it would sell as many as 100 million shares in T-Online, or less than 10 percent of the total. With 4.2 million subscribers, T-Online is Europe's largest Internet service provider, beating America Online Europe, a joint venture of America Online and Bertelsmann. Telekom wants to expand T-Online outside of Germany and Europe and transform itself into a global telecommunications company, a goal it has said would require an U.S. acquisition. The company declined to name potential takeover targets or countries where acquisitions are planned. Analysts expect the offering will value T-Online at as much as \$30 - \$40 billion. The subscription period would most likely be in the first two weeks of April.

Deutsche Telekom is the #1 telecommunications firm in Europe and #3 in the world, behind NTT and AT&T. The company has more than 47 million fixed phone lines (#1 in Germany) and more than 7 million mobile phone customers (#2 behind Mannesmann). It is also Germany's #1 cable TV provider, serving nearly 18 million households, though it plans to sell its cable network. The company's T-Online, with 4 million customers, is Europe's leading ISP. The German government retains a 66% stake in Deutsche Telekom. In the fall, TeleKom also plans to list shares in mobile phone unit Deutsche Telekom MobilNet GmbH. TeleKom will retain a majority stake of at least 51% in both units.

Deutsche Telekom hopes the partial listing of the unit, will benefit from the success of other listings by European ISP's in the past year. Terra Networks, spun off from Telefonica of Spain, has risen about eightfold since its IPO. T-Online's customer base is growing at about 200,000 per month. The division just about broke even last year before tax. Revenues totaled about \$462 million. Subscriber growth at T-Mobile continues unabated (up 62% in 9 months of 99) and with German penetration at just 25%, there appears to be room for this to continue.

DTs Fixed Line Business is still losing market share. After losing significant market share in 1998, DT slashed call prices early this year in an attempt to stem further losses. As a result, pure fixed-line revenues have decreased 18% in the first 9 months of this year and caused Group EBITDA to fall 13% over the same period. Market share is still being lost, but at a slower rate.

#### Unlocking Value

The transparency in valuation through the planned IPOs of T-Online and T-Mobile (comprised of T-Mobile, one2one and max.mobile) should help DT stock performance. By seeking to carveout these high-growing assets, we believe that interest in DT's stock should grow. Internet stocks are still scarce in Europe. The recent carveout of Telefonica's Terra networks has focused investor attention on the value of Internet assets "hidden" within companies. The German government still owns 65.2% of DT, 41.4 directly and 23.8% through the kfW. Under the terms of the recent rights issue these equity stakes cannot be reduced until June 2000. However, a convertible instrument can be issued, on either stake, from January 2000. Investors remain structurally underweight the largest telecom stock in Europe, with most of the shares in State hands.

#### 9 Month Results

Total group revenues grew 2.7% in Q3 after declines of 6.8% in Q1 and 1.2% in Q2. Revenues from the pure fixed-line operations were down 18% for the 9 months, as a result of the aggressive price cuts in the first half of 1999, but the EBITDA margin actually improved slightly in Q3. The EBITDA margin in the mobile division also improved in Q3 to 48%. Group EBITDA was back above 40%.

## Potential Spin-Off Situations

# Aetna Decides to Separate Global Health and Global Financial Services

Aetna Inc. (NYSE: AET) announced that it is restructuring its main business units. The split of operations into two global units, one covering health and the other financial services, is a push to achieve greater efficiency and potentially to attain cross-selling opportunities. Management stated that the Company's U.S. Healthcare and Aetna International health businesses would make up the Company's new global health unit. In addition, Aetna Global Financial will consist of the Company's financial services business under Aetna international and the Group Insurance business that is currently part of Aetna U.S. Healthcare, which includes life, disability and long-term care insurance products. Wall Street analysts were disappointed in Aetna's decision to merge its international business rather than an outright sale, which could have brought in up to \$5 billion. **The Company also stated that it is mulling around plans to combine its online services into a separate subsidiary to be taken public next year as a combination of its IntelliHealth Web site and other online services into a separate subsidiary.**

Aetna Inc. of Hartford, Connecticut, is the biggest US health insurer, with approximately 21 million members. Since exiting the property-casualty business in 1996 through a sale to Travelers

(Citigroup) and a merger with US Healthcare, Aetna has reinvented itself as a healthcare specialist. The merger turned Aetna into one of the nation's top managed health care firms. In 1999 the purchase of Prudential HealthCare shot it to the top of the heap and made it the health benefits provider for 10 percent of Americans. The Company plans on slowly integrating Prudential's operations into its own to prevent the backlash it felt from doctors and patients after acquiring US Healthcare.

Aetna provides group and individual health care, including indemnity insurance, PPOs, and HMOs. Also offered are annuities, individual retirement advice, asset management services group pensions and pension plan management. Aetna is bolstering its position via acquisitions (US Healthcare and Prudential) and divestitures (sale of its individual life insurance business to Lincoln National, and is selling NYLCare to Blue Cross and Blue Shield of Texas. Aetna is also opening a savings bank, Aetna Trust Company.



## Potential Spin-Off Situations

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### Speculation of Newbridge Networks Spinning Off Digital Subscriber Line (DSL) Unit

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Newbridge Networks (NYSE: NN) based in Ottawa, Canada, is a manufacturer of asynchronous transfer mode switches (ATMs), multiplexers and other switching products. There is speculation that Newbridge is considering a spin-off of its digital subscriber line (DSL) unit after its confirmation of a deal to supply a range of digital subscriber line (DSL) equipment to Ireland's eircom Plc. Newbridge has been on takeover watch since it hired an investment banker and was open to offers when it reported weak second quarter results in November. Management stated that "It might be that the sum of the parts are potentially more valuable than the whole." Newbridge's DSL equipment enables companies to offer services such as broadcast television, movies, music on demand, speedy Internet access and phone service – all accomplished via traditional copper wire phone lines.

**Newbridge Networks** specializes in multiplexers and a host of switching products such as (ATM) asynchronous transfer mode, which carry high-speed multimedia transmissions across telephone and data networks. Newbridge also manufactures wireless and satellite access products and Internetworking tools. The Company's products are utilized by more than 350 telecommunications, including AT&T, MCI WorldCom, local-exchange-carriers, regional Bells and several Internet service providers. Major competitors include Nortel Networks, Cisco Systems and Lucent Technologies. Lucent's (Ascend's) GX550 core ATM switch has double the capacity and incorporates fast optical (OC-48) connection ports. Nortel's Passport 15000 has 40 Gb/s capacity also with OC-48 interfaces. Newbridge's DSL gear, called 3DSL because it encompasses a 3 dimensional range of technology, includes equipment such as content servers and licences, billing software, set-top boxes and access equipment. Newbridge's flagship product,

the **MainStreetXpress 36170 Multiservice Switch**-accounts for the majority of its sales and is the fastest growing source of revenue. **However, similar products are on the market by Lucent and Nortel, which are more comprehensive in bandwidth capabilities.**

In 1993, the Company introduced a switched routing system for videoconferencing and other multimedia applications. The Company also won several contracts overseas during 1995 including France telecom and approximately 75 telephone companies in China. That year it acquired controlling interests in Advanced Computer Communication, a maker of LAN bridges and routers. In 1996 Newbridge and Siemens formed an alliance to develop products for ATM networks. In 1999, newbridge discontinued its LAN operations. To bolster its Internet equipment presence, the Company purchased TimeStep (virtual private network encryption), Northchurch Communications (routers), and Stanford telecommunications (digital communications systems). Later that year, the resignations of several top-level executives and the decision to cut 10 percent of the Company's workforce fueled rumors of a possible takeover.

The future is uncertain for Newbridge knowing the ATM technology it currently employs to cross networks is likely to be replaced altogether with Layer 2 architecture for value-added bandwidth services. As carriers move towards packet networks and expanded bandwidth capabilities in the local loop, demand for ATM and IP-based switching and network management is rapidly expanding. The Company is using investments and acquisitions to move away from its traditional role in the switching supply business, which it has been struggling under due to fierce competition from Cisco, Nortel and Lucent. Founder and CEO Terence Matthews owns approximately 22

## Implied Value of Stubs

Parent Company	Symbol	Price	Carve-Out / Holding	Symbol	Price	Ratio (1)	Intend To Spin	Embedded Value (2)	Residual Stub Value (3)	Parent P/E (4)	Residual P/E (5)
Alpine Group	AGI	\$ 12.56	Superior Telecom	SUT	\$ 15.06	0.634		\$ 9.55	\$ 3.01		
American Mobile Satellite	SKYC	\$ 15.56	XM Satellite Radio	XMSR	\$ 28.63	0.301		\$ 8.63	\$ 6.94		
AMR Corp.	AMR	\$ 53.81	Sabre Group	TSG	\$ 44.50	0.676	Y	\$ 30.06	\$ 23.75	8.94	5.2
ARC International	ATV	\$ 1.19	Ballantyne of Omaha	BTN	\$ 5.81	0.204		\$ 1.19	\$ 0.00		
			Cabletel Communications	TTV	\$ 4.63	0.232		\$ 1.07	\$ 0.12		
									\$ 2.26	\$ (1.07)	
Ascent Entertainment Group	GOAL	\$ 11.63	On Command	ONCO	\$ 16.25	0.578		\$ 9.39	\$ 2.24		
Banco Santander Spain	STD	\$ 10.00	Banco Santander Puerto Rico	SBP	\$ 16.13	0.032		\$ 0.52	\$ 9.48		
Barnes and Noble	BKS	\$ 20.13	Barnesandnoble.com	BNBN	\$ 11.63	0.849		\$ 9.87	\$ 10.26		
BCE	BCE	\$ 102.19	Nortel	NT	\$ 95.50	0.870	Y	\$ 83.10	\$ 19.09		
Boise Cascade	BCC	\$ 35.38	Boise Office products	BOP	\$ 15.06	0.946		\$ 14.25	\$ 21.13	10.28	9.4
Bowne	BNE	\$ 10.94	Edgar Online	EDGR	\$ 9.13	0.040		\$ 0.36	\$ 10.58		
Brook Trout	BRKT	\$ 26.81	Interspeed	ISPD	\$ 21.38	0.593		\$ 12.68	\$ 14.14		
CBS	CBS	\$ 58.31	Infinity Broadcasting	INF	\$ 32.50	0.968		\$ 31.45	\$ 26.87		
			MarketWatch.com	MKTW	\$ 38.13	0.007		\$ 0.25	\$ 58.06		
			Medscape	MSCP	\$ 11.06	0.020		\$ 0.22	\$ 58.10		
			Sportsline USA	SPLN	\$ 35.31	0.007		\$ 0.23	\$ 58.08		
								\$ 32.14	\$ 26.17		
Cerner	CERN	\$ 19.88	CareInsite	CARI	\$ 73.03	0.387		\$ 28.27	\$ (8.40)		
Citizens Utility	CZLN	\$ 14.81	Electric Lightwave	ELUX	\$ 17.50	0.159		\$ 2.78	\$ 12.03		
Cohesion Technology	CSON *	\$ 9.63	Boston Scientific	BSX	\$ 31.00	0.083		\$ 2.58	\$ 7.04		
			Pharming N.V.	PHAR	\$ 8.50	0.100		\$ 0.85	\$ 8.78		
			Innovative Devices	IDEA	\$ 8.06	0.100		\$ 0.81	\$ 8.81		
								\$ 4.24	\$ 5.38		
Cordant	CDD	\$ 33.06	Howmet International	HWM	\$ 18.38	2.308		\$ 42.42	\$ (9.35)		
Daiseytek	DZTK	\$ 20.25	PFSWeb	PFSW	\$ 34.13	0.808	Y	\$ 27.57	\$ (7.32)		
Delia's	DLIA	\$ 6.56	iTurf	TURF	\$ 13.38	0.688	Y	\$ 9.20	\$ (2.64)		117.2
Disney (Walt)	DIS	\$ 36.31	Go.Com	GO	\$ 25.63	0.052		\$ 1.33	\$ 34.98		
Dixons PLC	DXNS.L	-	Freeserve	FREI	\$ -	2.087		-	-		
Donaldson Lufkin & Jenrette	DLJ	\$ 47.81	DLJ Direct	DIR	\$ 10.94	0.622		\$ 6.81	\$ 41.01		
Flowers Ind.	FLO	\$ 12.19	Keebler	KBL	\$ 22.81	0.464		\$ 10.58	\$ 1.61	11.72	6.2
Ford	F	\$ 49.75	Hertz	HRZ	\$ 44.25	0.077		\$ 3.39	\$ 46.36	8.33	8.2
Gartner Group	IT	\$ 15.56	Jupiter Communications	JPTR	\$ 25.00	0.064		\$ 1.61	\$ 13.95		
Motorola	MOT	\$ 136.50	Next Nevel Communications	NXTV	\$ 80.63	0.147		\$ 11.89	\$ 124.61		
GM	GM	\$ 80.56	Hughes	GMH	\$ 112.50	0.397		\$ 44.71	\$ 35.85		
Hartford Financial Services	HIG	\$ 38.13	Hartford Life	HLI	\$ 40.69	0.406		\$ 16.53	\$ 21.60	9.25	8.29
Hewlett-Packard	HWP	\$ 108.25	Agilent	A	\$ 66.19	0.373	Y	\$ 24.68	\$ 83.57		
HNC Software	HNCS	\$ 90.19	Retek	RETK	\$ 53.13	1.569	Y	\$ 83.33	\$ 6.85		
IDT	IDTC	\$ 20.88	Net2Phone	NTOP	\$ 45.25	0.689		\$ 31.17	\$ (10.30)		
IMS Health	RX	\$ 22.50	Cog Tech Solutions	CTSH	\$ 75.25	0.022		\$ 1.68	\$ 20.82	22.96	22.0
Intermedia	ICIX	\$ 43.00	Digex	DIGX	\$ 91.75	0.694	N	\$ 63.72	\$ (20.72)		
IPC Communications	IPI	\$ 84.75	Ixnet	ixnt	\$ 44.50	4.425		\$ 196.91	\$ (112.16)		
Kansas City Southern	KSU	\$ 69.19	DST Systems	DST	\$ 62.13	0.234		\$ 14.55	\$ 54.64		
Kushner-Locke	KLOC	\$ 6.13	USSearch.com	SRCH	\$ 9.75	0.751		\$ 7.32	\$ (1.19)		
Limited	LTD	\$ 30.69	Intimate Brands	IBI	\$ 30.38	0.922		\$ 27.99	\$ 2.70	14.97	23.5
Loews	LTR	\$ 56.00	Diamond Offshore Drilling	DO	\$ 27.81	0.626		\$ 17.40	\$ 38.60		
			CNA Insurance	CNA	\$ 33.88	1.415		\$ 47.92	\$ 8.08		
								\$ 65.32	\$ (9.32)		
Maxxam	MXM	\$ 35.06	Kaiser Aluminum	KLU	\$ 6.00	7.143		\$ 42.86	\$ (7.79)		
Medical Manager (new)	MMGR	\$ 70.19	CareInsite	CARI	\$ 73.03	1.454		\$ 106.20	\$ (36.01)		
Metamor Worldwide	MMWW	\$ 28.25	Xpedior	XPDR	\$ 27.50	1.211	Y	\$ 33.30	\$ (5.05)		
Nabisco Group Holdings	NGH	\$ 8.63	Nabisco	NA	\$ 30.19	0.655		\$ 19.76	\$ (11.14)		

1) Shares held of (Carve-Out or Holding by Parent Company) divided by shares outstanding of the Parent Company.

2) Embedded Value = (Carve-Out or Holding price) multiplied by the Ratio.

3) Residual Stub Value = Parent Price less Embedded Value.

4) Parent P/E = Parent price divided by First Call Estimate

5) Residual P/E = First Call estimates of the parent company less the holding company's contribution, if the parent consolidates the holding.

## Implied Value of Stubs

Parent Company	Symbol	Price	Carve-Out / Holding	Symbol	Price	Ratio (1)	Intend To Spin	Embedded Value (2)	Residual Stub Value (3)	Parent P/E (4)	Residual P/E (5)
Nabisco Group Holdings	NGH	\$ 8.63	Nabisco	NA	\$ 30.19	0.655		\$ 19.76	\$ (11.14)		
National City	NCC	\$ 21.69	National Processing	NAP	\$ 9.50	0.142		\$ 1.35	\$ 20.34		
Navarre	NAVR	\$ 5.56	Net Radio	NETR	\$ 7.31	0.327		\$ 2.39	\$ 3.17		
Network Associates	NETA	\$ 25.94	McAfee	MCAF	\$ 33.75	0.295		\$ 9.95	\$ 15.98		
News Corp	NWS	\$ 47.94	Fox Corp	FOX	\$ 23.50	0.541		\$ 12.72	\$ 35.21	47.00	41.9
Osicom	FIBR	\$ 49.56	NetSilicon	NSIL	\$ 22.50	0.877		\$ 19.73	\$ 29.84		
Owens Financial	OCN	\$ 5.81	Owens Asset Investment	OAC	\$ -	0.031		\$ -	\$ 5.81		
PepsiCo	PEP	\$ 34.13	Pepsi Bottling Group	PBG	\$ 20.69	0.037		\$ 0.76	\$ 33.37		
PICO Holdings	PICO	\$ 13.19	Hyperfeed Technologies	HYPR	\$ 5.00	0.485		\$ 2.43	\$ 10.76		
Pittway clA,B	PRY	\$ 45.31	Cylink	CYLK	\$ 12.88	0.205		\$ 2.64	\$ 42.67		
Ralston Purina	RAL	\$ 28.19	DuPont	DD	\$ 59.00	0.063		\$ 3.72	\$ 24.47		
			Interstate Bakeries	IBC	\$ 15.25	0.094		\$ 1.44	\$ 26.75		
			Conoco	COC	\$ 23.56	0.023		\$ 0.55	\$ 27.64		
								\$ 5.70	\$ 22.48		
RSL	RSLC	\$ 18.06	DeltaThree	DDDC	\$ 44.00	0.332		\$ 14.63	\$ 3.44		
Seagate Technology	SEG	\$ 39.75	Veritas Software	VRTS	\$ 145.88	0.382		\$ 55.67	\$ (15.92)		
			SanDisk	SNDK	\$ 133.88	0.022		\$ 3.01	\$ 36.74		
			Gadzoox Networks	ZOOX	\$ 38.00	0.022		\$ 0.85	\$ 38.90		
								\$ 59.53	\$ (19.78)		
ShopKo	SKO	\$ 18.31	Provantage Health	PHS	\$ 7.75	0.477		\$ 3.70	\$ 14.62	6.10	
Silicon Graphics	SGI	\$ 9.69	Mips Technology	MIPS	\$ 44.38	0.133		\$ 5.90	\$ 3.79		
Synovus	SNV	\$ 19.00	Total Systems	TSS	\$ 16.50	0.580		\$ 9.58	\$ 9.42		
Toronto-Dominion	TD	\$ 25.25	TD Waterhouse Group	TWE	\$ 13.44	1.088		\$ 14.61	\$ 10.64		
			Knight-Trimark	NITE	\$ 31.63	0.030		\$ 0.96	\$ 24.29		
								\$ 15.57	\$ 9.68		
Telephone & Data Systems	TDS	\$ 104.00	U.S. Cellular	USM	\$ 67.00	1.155		\$ 77.42	\$ 26.58		
			Aerial Communications	AERL	\$ 52.00	1.277		\$ 66.42	\$ 37.58		
			Vodafone	VOD	\$ 56.00	0.044		\$ 2.47	\$ 101.53		
								\$ 146.31	\$ (42.31)		
Time Warner	TWX	\$ 79.94	Time Warner Telecom	TWTC	\$ 60.75	0.046		\$ 2.78	\$ 77.15		
UnitedGlobalCom	UCOMA	\$ 68.38	United Pan-Europe Comm.	UPCOY	\$ 127.50	0.700		\$ 89.25	\$ (20.88)		
USA Networks	USAI	\$ 49.63	Ticketmaster-Online	TMCS	\$ 36.00	0.131		\$ 4.72	\$ 44.90		
Viacom	VIA	\$ 55.38	Blockbuster	BBI	\$ 13.00	0.203		\$ 2.63	\$ 52.74		
Williams	WMB	\$ 38.06	Williams Communications	WCG	\$ 37.63	0.892		\$ 33.58	\$ 4.48	65.63	2.4
Ziff-Davis	ZD	\$ 17.38	ZD.net	ZDZ	\$ 27.81	0.600		\$ 16.69	\$ 0.69		

1) Shares held of (Carve-Out or Holding by Parent Company) divided by shares outstanding of the Parent Company.

2) Embedded Value = (Carve-Out or Holding price) multiplied by the Ratio.

3) Residual Stub Value = Parent Price less Embedded Value.

4) Parent P/E = Parent price divided by First Call Estimate

5) Residual P/E = First Call estimates of the parent company less the holding company's contribution, if the parent consolidates the holding.

## Spin-Off Calendar by Date

Parent	Symbol	Listed		Symbol	Listed Options	Date Announced	Spin-Off Date	Report Date	Tax	
		Options	Spin-Off						Exempt	Ratio
Schlumberger	SLB	Y	Sedco Forex (Merger)	RIG		07/12/99	12/31/99	January	Y	1:5
ACX Technologies	ACX	Y	Coorstek	CRTK		06/15/99	01/04/99	January	Y	1:4
<b>Technology Solutions</b>	<b>TSCC</b>	<b>Y</b>	<b>eLoyalty</b>	<b>ELOY</b>		<b>03/31/99</b>	<b>2/16/00</b>	<b>February</b>	<b>Y</b>	<b>1:1</b>
<b>3Com</b>	<b>COMS</b>	<b>Y</b>	<b>Palm</b>	<b>PALM</b>		<b>09/14/99</b>	<b>Feb/</b>	<b>January-U</b>		<b>CO/SP</b>
<b>Banyon</b>	<b>BNYN</b>		<b>Switchboard.com</b>	<b>SWBD</b>		<b>11/11/99</b>	<b>Feb/</b>	<b>January</b>		<b>CO</b>
AutoNation	AN	Y	ANC Rental Corp.	ANC		08/02/99	March	September	Y	1:6-8
C-Cube	CUBE		C-Cube Semiconductor			10/27/99	March	February-U	N	SP
Olsten Corp.	OLS	Y	Gentiva Health Services			08/18/99	March	November-U		SP
Great Lakes Chemical	GLK		OSCA			09/20/99	1st qtr-00	October		CO
Cabot Corp.	CBT		MMD			07/29/99	1st qtr-00	August		CO
Weatherford	WFT	Y	Grant Prideco Drilling	GRP		07/21/99	1st qtr-00	January	P	1:2
Kansas City Southern Ind.	KSU	Y	Stilwell Financial	SV		02/03/98	1st qtr-00	April	Y	2:1
Ralston Purina	RAL	Y	Eveready			06/10/99	April-00	July	P	SP
US Bancorp	UBAN	N	Three Rivers Bancorp			07/12/99	April-00	August	P	SP
AT&T	T	Y	Wireless Group			12/06/99	2nd qtr-00	January		TR
Comdisco	CDO	Y	Venture Unit			12/22/99		December		TR
Baxter Int.	BAX	Y	Cardiovascular Unit			07/12/99	June-00	August	P	SP
HNC Software	HNCS		Retek	RTEK			3rd qtr-00	December		SP
Daisytek	DZTK		PFSweb	PFSW		09/21/99	3rd qtr-00	December		SP
Hyperfeed Technologies	PQT	Y	PCQuote.com	PCQT		04/26/99		September		CO
Symantec	SYMC	Y	Internet Software			06/10/99		July		CO
Century Business	CBIZ	Y	Insurance			04/06/99		May		
Delta Woodside	DLW	Y	Apparel Division			02/09/99		March	N	SP
Silicon Graphics	SGI	Y	Mips Technology	MIPS	N	02/26/99		March		CO
JC Penney	JCP	Y	Eckerd Drug Chain			05/18/99		June		CO-TR
<b>US Industries</b>	<b>USI</b>	<b>Y</b>	<b>Strategic Industries</b>			<b>05/18/99</b>	<b>Sold</b>	<b>June</b>		<b>1:10</b>
<b>Sylvan Learning</b>	<b>SLVN</b>		<b>Prometric Testing</b>			<b>09/24/99</b>	<b>Sold</b>	<b>October</b>		<b>CO</b>
Action Performance	ACTN		Goracing.com	GRCN		07/06/99		September		CO
Odetics	ODETA	N	Intelligent Transportation			05/04/98		April		CO
Pomeroy Computers	PMRY	Y	Pomeroy Select	PSIS		01/15/99		February		CO
Miller Industries	MLR	Y	RoadOne			05/13/99		June	P	SP
Interpool	IPX	N	Microtech and Poolstat			08/09/99		September		SP
Nordstrom	JWN	N	Internet Unit			08/26/99		September		CO
Staples	SPLS	Y	Staples.Com			09/15/99		October		TR
St. Joe	JOE	Y	Florida East Coast	FLA		10/27/99		November		CO
FRP Properties	FRP	N	Real Estate Properties			09/24/99		November		SP
Premier Technologies	PTEK	Y	Web Properties			10/28/99		November		
Computer Horizons	CHRZ	Y	eB Networks – Softech			10/18/99		December		CO
Excite/@home	ATHM	Y	Internet Media			11/22/99		December		CO
Modis Professional Services	MPS	Y	IT Division-Solutions			11/09/99		December		SP/CO
Primark	PMK	Y	Yankee Group			11/08/99		December		CO
Reliance	REL	Y	Reliance Surety			10/27/99		December		CO
Titan	TTN	Y	Four Units					December		SP

## Spin-Off Calendar by Date

Parent	Symbol	Listed		Symbol	Listed	Date	Spin-Off	Report	Tax	
		Options	Spin-Off						Options	Announced
AMR Corp.	AMR	Y	Sabre Group Holdings	TSG	Y	12/14/99		January		SP
Bell & Howell	BHW	Y	Internet Education Unit			01/12/00		January		SP
Cablevision	CVC	Y	Rainbow Programming			12/22/99		January		TR
CMGI	CMGI	Y	Altavista	ALTA		12/17/99		January		CO
Copart	CPRT	Y	Internet Business			12/17/99		January		SP
Dun & Bradstreet	DNB	Y	Moody's			12/15/99		January		SP
Hollywood Ent.	HLYW	Y	Reel.com	REEL		12/02/99		January		CO
Lason	LSON	Y	E-Commerce			12/20/99		January		
National Data	NDC	Y	eHealth & eCommerce			12/21/99	3rd qtr-00	January		SP
Network Solutions	NSOL	Y	Registrar Services			12/22/99		January		
			Internet Division			01/31/00		February		CO
Odetics	ODETA,B		Iteris			12/20/99		January		SP
American Software	AMSWA		Amquest			01/25/00		February		CO
Applied Power	APW	Y	Electronic Business			01/27/00	August-00	February		SP
Avista	AVA	Y	Internet Billing			01/27/00	4th qtr-00	February		
BCE	BCE	Y	Nortel Networks	NT	Y	01/31/00		February		SP
Comverse Technology	CMVT	Y	Ulticom			01/19/00		February		CO
Deluxe Corp.	DLX	Y	eFunds			01/31/00		February		CO/SP
First Union Real Estate	FUR		Imperial Parking			01/24/00		February		SP
Good Guys	GGUY		Good Guys.com			01/05/00		February		CO
Hewlett Packard	HWP	Y	Deep Canyon			01/01/00		February		
MIM Corp.	MIMS		Internet Pharmacy			01/20/00		February		CO
New York Times	NYT	Y	Internet Unit			01/28/00		February		CO/TR
Rightstart	RTST		Rightstart.com			01/ /00		February		CO
RPC	RES		Chaparral Boat Unit			01/14/00	3rd qtr-00	February		SP
S3	SIII	Y	Internet & Networking			01/31/00		February		SP
Thermo Electron	TMO	Y	Thermo Fibertek	TFT		01/31/00		February		SP
Wal Mart	WMT	Y	Online Business			01/07/99		February		CO

## Foreign Spin-Off Calendar by Date

Parent	Symbol	Spin-Off	Symbol	Date	Spin-Off	Report	Tax	
							Announced	Date
VEBA AG	VEB.F, VEB.N	Stinnes	SNS.F		06/23/99	August		CO
Dixons Group PLC	DXNS.L	Freeserve	FRE.L FREE	06/07/99	07/06/99	August		CO
Shaw Communications	SJR.A, SJR.TO	Corus Entertainment	CJR	06/10/99	09/01/99	September	Y	1:3
Hoechst AG	HFAG.F, HOE.N	Celanese Chemicals	CZ, CZZ	12/01/98	10/26/99	November	Y	1:10
Telefonica S.A.	TEF,N, TDESF.MA	Terra Networks	TRRA	08/25/99	11/17/99	December		CO
Magna International	MGA.N, MG.TO	Non-Automotive		05/25/99		June		SP
Banca Popolare Brescia	BPB.IM	Fin-Eco Online		06/18/99	2000	July		CO
<b>Deutsche Telekom</b>	<b>DT</b>	<b>T-Online</b>		<b>01/25/00</b>	<b>April-00</b>			<b>CO</b>
		<b>Deutsche Telecom MobileN</b>		<b>01/25/00</b>	<b>Sept-00</b>			<b>CO</b>
Siemens	SIEG.F	Infineon				August		CO
Mannesmann AG	MNNSY	Telecommunications		09/23/99	2000	October		SP
Scottish Power	SPLN	Telecommunications		09/17/99	2000	October		CO
CommerzBank	CBK.F, CRBZY.N	Com-Direct		6/10/99	2000	July		CO
National Power	NP	International Business		11/17/99	2000	December		SP
Thyssen Krupp	THAG	Steel Operation		11/ /99	2000	December		SP
Hyundai		Non-Semiconductor		10/14/99	2000	November		
Nova Nordisk	NVO.N	Enzymes and Health Care		09/09/99	2001	November		SP
ROCHE	ROHHY	Givauden		12/06/99	2000	January		1:1
Canal+	CNPLY	Canal NuMedia			2000	January		