



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

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Continuous Research on Corporate Spin-Offs

## SPIN-OFF RESEARCH

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## Tracking Stock Refresher

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Executing a restructuring plan can help a company enhance shareholder value, achieve appropriate market valuations, increase access to equity investors, reduce financing costs, create acquisition currency and provide tools for creating incentive compensation for key business unit employees. Traditional restructuring vehicles-such as spin-offs, initial public offering “carve outs” and divestitures- are commonly used. In addition, some companies utilize “Tracking Stock” as an alternative.

Call it Tracking, Targeted or Letter Stock, but only a handful of companies have issued it since General Motors Corp. launched the first issue in 1984. As the name implies, companies create these stocks to track the performance of key subsidiaries. We see one or two a year normally. Two years ago electronics retailer Circuit City (CC:NYSE) launched a Tracking Stock for its CarMax Group used-car superstore business (which has performed horribly). Last year Georgia-Pacific (GP:NYSE) issued “Tracking” stock that represents shares in its timber business (Timber Co.). **Recently, magazine publisher Ziff Davis (NYSE:ZD) announced plans to issue Tracking Stock in its subsidiary.** Companies issue Tracking Stock hoping to create a quasi “pure play” investment opportunity that allows equity investors to participate in the industry of their choice.

### What is Tracking Stock?

Tracking Stock is a separate class of a company’s common stock designed to provide a return to equity investors linked to the performance of a distinct business unit (or units) the “Targeted” business. In contrast to having a single class of common stock that reflects all business units of the company, under Tracking Stock each distinct business unit may be reflected in a unique class of common stock. Since Tracking Stock is common stock of the consolidated company, not of a subsidiary, no legal separation of the company’s assets or liabilities is required. As a result, no taxable event occurs and there is no change to the company’s tax posture or control over the Targeted business. In addition, Tracking stock should not affect a company’s credit rating or access to the debt markets since it continues to borrow funds as a consolidated entity. Overhead costs should be lower than if the two were separated completely, as in a spin-off. And if there are synergies between the parent and the subsidiary there are added benefits. In theory, Tracking stocks may provide expanded research coverage, increased shareholder value and more attractive incentive plans for management, and lead to a more efficiently valued company. Issuing Tracking Stock does not limit a company's future restructuring options. A Tracking business may be spun-off, sold in a public offering or divested. Or, the Tracking Stock structure may be “unwound” at any time, at the company's option.

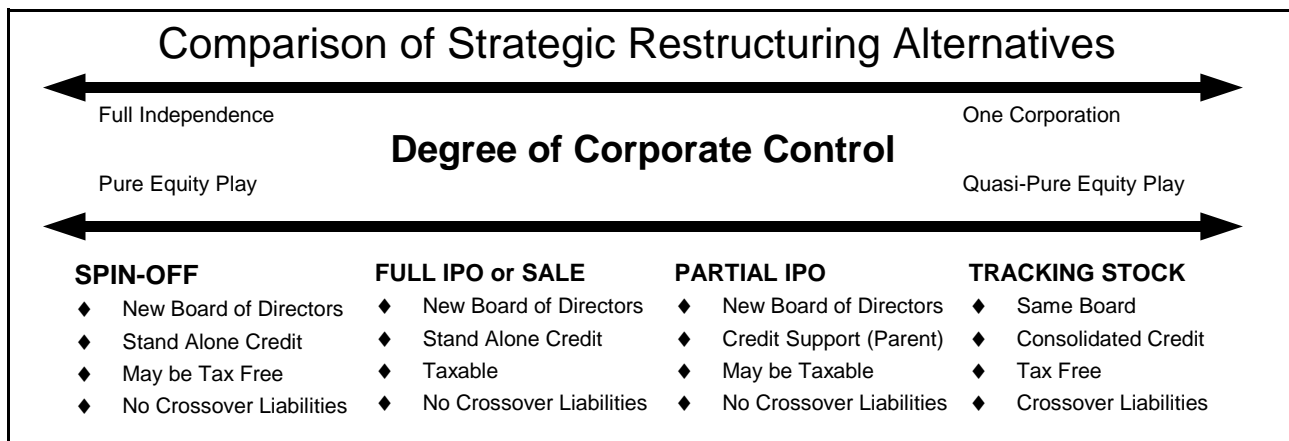
At first glance, these securities may seem appealing. Companies pitch them to investors as a way to create a “pure play” that can be valued higher by the market. The unit’s finances are reported independently of the parent. So, theoretically, if the subsidiary’s profits soar, so should the value of the Targeted stock. By separating the unit, analysts and investors can focus squarely on the subsidiary, thus rewarding it with a higher price.

**Sounds Like a Good Idea. But Beware of the Problems.** The rub with Tracking Stocks, is that they are not separate companies. The new entity is not really separate. Its finances are broken out independently, but holders of the Tracking Stock do not actually own the subsidiary. Legally, they have a piece of the overall company, just like the holders of parent company shares. The creation of Tracking Stock offers no promise of new management or additional wealth for the holders. This brings up conflict of interest issues. Rather than having its own board of directors and senior management that watch out for its interests, the subsidiary is still governed by the parent. **These are really "trust me" securities.** There is nothing to stop the parent from draining resources from the

PARENT	TRACKING STOCK	SYMBOL	DATE
General Motors	Electronic Data Sys.		10/84
General Motors	Hughes Electronics		11/85
USX Corp	Steel Group	X	5/7/91
	Marathon Group	MRO	5/7/91
Ralston Purina	Continental Baking		6/93
Pittston Co.	Mineral	PZM	7/9/93
Fletcher Challenge	Forrest	FFS	12/13/93
Genzyme Corp.	Genzyme Tissue	GENZL	12/16/94
CMS Energy Corp.	CMS Gas Group	CPG	7/21/95
US West Co.	US West Media (3)	UMG	10/27/95
Pittston Co.	Brinks	PZB	1/5/96
	Burlington Group	PZX	1/5/96
Fletcher Challenge	Building	FLB	3/26/96
	Paper	FLP	3/29/96
	Energy	FEG	5/25/96
Circuit City Stores	Carmax	KMX	2/7/97
Georgia Pacific	Timber Group	TGP	12/12/97
Sprint	PCS Wireless	PCS	11/24/98
Ziff-Davis	ZDNet		

subsidiary to prop itself up. Conflicts may arise in overlapping businesses that want to go after the same contract or customer. But as far as we are concerned, the biggest drawback with Tracking Stocks is that they are essentially immune from takeovers. The ingredients for value creation have not changed (management control and the tax structure of the earnings). To us, spinning off a business unit seems like a better alternative if you are interested in creating shareholder wealth.

Tracking Stock traces its history to 1984 when General Motors created the first security of this type, its Class E common stock, also known as Targeted or Letter Stock. GM Class E was created as currency in the acquisition of Electronic Data Systems to reflect EDS separately from the company's automotive and other businesses. It facilitated the stock acquisition of a high-multiple business given the low multiple of GM's predominately automotive common stock. Following the success of this transaction, GM issued another class of common stock in 1985, its Class H common stock, to facilitate the acquisition of Hughes Aircraft.



## 1998 New Issue Review

Although the number of new initial public offerings in 1998 was the lowest since 1990, the dollar amount raised was the fourth highest ever. The number of deals fell more than 40% in 1998, but the amount raised was roughly the same, due to several multi-billion carveouts such as Infinity Broadcasting, Fox Entertainment and Conoco. In all, \$42.8 billion was raised in 1998, compared to \$42.6 billion in 1997. In fact, we estimate that IPO carveouts totaled \$11.5 billion in 1998 accounting for almost 27% of all the IPO volume. Companies looking to make their name on the Internet received the lion's share of investor's attention and dollars. As you can see from our list of IPO winners, nine of 1998's top 10 IPO's are Internet stocks. Alone, these 10 IPO's offerings soared an average 473 percent. Two spin-off carveouts made the top 10 list last year. Online auction site, **UBid was the third best performing IPO**, with a stunning 611% return in only three weeks of trading. UBid was also the best performing spin-off in 1998. **Ticketmaster Online-CitySearch also made the top 10 list by appreciating 300% since making its debut in early December.** The company combines the business of Ticketmaster web site and CitySearch's City guide web sites. Recently the company announced the acquisition of CityAuction, an online community that wishes to compete against eBay and UBid. Another banner spin-off last year was **Cognizant Technology Solutions which came in twelfth on the winners list by climbing 204% since its carveout** by IMS Health (itself a spin-off of Dun&Bradstreet) in June.

The Fifteen Biggest IPO Winners of 1998							
Company	Symbol	IPO Date	Offering Price	Close 12/31/98	% Change		
eBay	EBAY	9/23/98	\$ 18.00	241 4/16	1240%		
Inktomi Corp	INKT	6/10/98	\$ 18.00	129 6/16	619%		
<b>uBid - Carveout*</b>	UBID	12/4/98	\$ 15.00	106 10/16	611%		
Broadcom	BRCM	4/17/98	\$ 24.00	120 12/16	403%		
Exodus Com.	EXDS	3/19/98	\$ 15.00	64 4/16	328%		
Broadcast.com	BCST	7/16/98	\$ 18.00	76 8/16	325%		
Verisign	VRSN	1/30/98	\$ 14.00	59 2/16	322%		
Digital River	DRIV	8/10/98	\$ 8.50	35 8/16	318%		
<b>TicketMaster Online-CitySearch -Carveout**</b>	TMCS	12/2/98	\$ 14.00	56	300%		
theglobe.com	TGLO	11/13/98	\$ 9.00	32 14/16	265%		
Bebe Stores	BEBE	6/17/98	\$ 11.00	35 6/16	222%		
<b>Cognizant Technology Sol. -Carveout***</b>	CTSH	6/19/98	\$ 10.00	30 6/16	204%		
Visual Networks	VNWK	2/6/98	\$ 12.50	37 8/16	200%		
Carrier Access	CACS	7/29/98	\$ 12.00	34 7/16	187%		
Terayon Communications	TERN	8/17/98	\$ 13.00	37	185%		

\* Carveout from Creative Computers  
 \*\* Carveout from USA Networks  
 \*\*\* Carveout from IMS Health

Below we have listed the five largest IPO's in 1998. Interestingly, 4 of the 5 companies listed were partial spin-offs or carveouts from other companies. We anticipate the carveout momentum to carry-over into 1999. We expect to see more "two-step" spin-offs (a partial IPO then a tax-free distribution to shareholders) as assess to relatively cheap capital is abundant. **We no doubt will see more companies attempt to characterize parts of their business as Internet plays and take them public as long as investors appetite for these stocks remain insatiable.**

News Issues of 1998		
Month	# of Issue	Volume (000,000)
January	12	\$ 1,411
February	41	\$ 3,188
March	35	\$ 3,235
April	39	\$ 3,860
May	43	\$ 6,040
June	52	\$ 6,253
July	40	\$ 4,449
August	16	\$ 1,323
September	3	\$ 223
October	4	\$ 5,297
November	9	\$ 4,018
December	13	\$ 3,533
Total >	307	\$ 42,830

### Performance of the Five Largest Capitalization IPOs 1998

Company	Symbol	IPO Date	Offering Price	Close 1/29/99	% Change
Infinity Broadcasting - Carveout from CBS	INF	12/10/98	\$ 20.50	27 6/16	34%
Fox Entertainment - Carveout from News Corp	FOX	11/11/98	\$ 22.50	26 12/16	19%
USEC Inc.	USU	7/22/98	\$ 14.25	14 8/16	2%
Republic Services - Carveout from Republic Ind.	RSG	6/30/98	\$ 24.00	21 6/16	-11%
Conoco - Carveout from Dupont	COC	10/22/98	\$ 23.00	19 10/16	-15%

### Breaking up a Firm into Separate Parts May Result in More and Better Analyst Coverage

Intuitively we have always believed this was the case, but now there is some academic evidence to support this belief. According to CFO Magazine (Jan 1999, p. 11), a report written by a group of Harvard Business School researchers confirms this theory with an analysis of 143 breakups of different varieties undertaken from 1990 to 1995.

The report, "Corporate Focus and the Benefits from More-Specialized Analyst Coverage," found that analyst coverage increased significantly overall after the spin-offs, equity carve-outs, and targeted stock offering in the sample the researchers used. Co-author Christopher Noe suggest "by breaking up a firm, the subsidiary becomes more focused, giving analysts the incentive to increase coverage, which eventually improves the quality of coverage." The study notes that 88.3 percent of analysts following the subsidiary in the first fiscal year had not previously covered the conglomerate. Further, the study suggests that the right coverage could lead to more-accurate earnings forecasts and improved asset valuation. It found that, on average, forecast accuracy increased by 25 percent to 40 percent following stock break-ups or spin-offs.

## Profiting From Corporate Divestiture

Efficient markets are characterized by the inability to earn abnormal rates of return over the long run. The US capital markets are efficient enough that returns above those dictated by the riskiness of the portfolio are elusive. However, hidden market inefficiencies do exist. Corporate spin-offs, for a variety of reasons, can be fertile ground to improve portfolio returns.

Spin-offs often **result in a higher aggregate value for the constituent pieces**. Many diversified companies are electing to spin-off parts of their business, having found this form of divestiture can lead to greater shareholder value. Many **notable companies such as CBS, DuPont, General Motors, Rockwell International and PepsiCo are embracing the spin-off technique**. What are spin-offs, why have they become increasingly popular and why are they attractive transactions for Corporate America?

**A spin-off is a tax-free transaction in which a parent corporation transfers the business to be spun off to a new subsidiary, and then pays a special dividend to its shareholders consisting of the shares of the new subsidiary.** After a spin-off the new firm is a separate publicly traded company, with a shareholder base identical to that of the parent corporation. The shareholders of the parent company receive the shares of the subsidiary on a prorata basis, without paying any additional consideration or incurring any tax liability.

**The foremost advantage of a spin-off is that it is tax efficient.** This is especially significant in situations where the assets to be divested have a low cost basis but a high market value. Generally when a company distributes assets, including subsidiary stock, the company recognizes a gain as though it had sold assets for their fair market value and the recipient shareholder recognizes dividend income on the receipt of the distribution. However, a spin-off that meets the requirements of Section 355 of the Internal Revenue Code is tax-free to the parent corporation and the receiving shareholders.

Spin-offs often help **satisfy shareholder demands to unlock hidden value and improve market performance**. Institutional investors are increasingly demanding management take specific actions to increase shareholder value. Spin-offs are often suggested as tonic for under performing diverse businesses. Many academic studies confirm that spin-offs on average have outperformed the general market (such as the S&P 500 Index) by a statistically meaningful margin.

From the point of view of the spun-off company, a spin-off can create an opportunity for improved operating performance under a highly focused management team with equity-based incentives. The spun-off business can better achieve a market valuation based on its own attributes unaffected by the business of its former parent. A spin-off can offer opportunities for the parent and subsidiary, particularly in cases where the two businesses have disparate operations or capital requirements. Spin-offs help management successfully facilitate strategic objectives, such as refocusing on "core competencies", or separating a leveraged capital intensive business from high growth operations. Divestitures can remove conflicts of interest between two companies that constrains growth. For example, AT&T spun off Lucent to enhance that division's ability to sell equipment to AT&T's competitors. This appears to have worked as Lucent has increased six-fold since being liberated. Similarly, a spin-off can separate regulated businesses from unregulated businesses, thereby providing greater diversification opportunities. Spin-offs have proven to be a tax-efficient and effective way to divest a business. They have evolved from being a technique to eliminate poor businesses, to becoming a means to unlock value. **We expect 1999 to be a record year for spin-offs in terms of number of actual spin-offs and total dollar volume.**

## SPIN-OFF CALENDAR

Announced					
Company	Symbol	Date	Spin-Off	Symbol	Trading
ADELPHIA COMMUNICATIONS	ADALC	5/05/98	HYPERION COMMUNICATIONS	HYPT	CO
<b>ALLEGHANY TELEDYNE</b>	<b>ALT</b>	<b>4/22/98</b>	<b>CONSUMER DIVISION / ELECTRONICS</b>		
AUTOMATIC DATA PROCESSING	AUD	12/18/98	PEACHTREE SOFTWARE	PEAC	
BINDLEY WESTERN	BDY	10/24/97	PRIORITY HEALTHCARE	PHCC	RW
CBS	CBS	8/27/98	INFINITY BROADCASTING	INF	CO
CBS / DATA BROADCASTING	DBCC	10/13/98	MARKET WATCH.COM	MKTW	CO
CINCINNATI BELL	CSN	4/27/98	CONVERGYS	CVG	RW
CITIZENS UTILITIES	CZN	5/18/98	TELECOMMUNICATIONS		
COLUMBIA / HCA	COL	7/29/98	LIFEPOINT HOSPITALS		
			TRIAD HOSPITALS		
<b>COMPAQ COMPUTER</b>	<b>CPQ</b>	<b>1/16/99</b>	<b>ALTAVISTA</b>		
CREATIVE COMPUTERS	MALL	7/6/98	uBID	UBID	
DUPONT	DD	5/11/98	CONOCO	COC	CO
ENERGY RESEARCH	ERC	8/11/98	EVERCEL, INC.		
ESSEF	ESSF	5/8/98	ANTHONY & SYLVAN POOLS	SWIM	
<b>EXECUTONE INFORMATION SYSTEMS</b>	<b>XTON</b>	<b>12/21/98</b>	<b>E-LOTTERY</b>		
FAIRCHILD CORPORATION	FA	7/6/98	FAIRCHILD FASTENERS		
FINGERHUT	FHT	10/9/97	METRIS	MTRS	RW
GENCORP	GY	12/17/98	SPECIALTY POLYMERS		
GENERAL MOTORS	GM	8/3/98	DELPHI UNIT	DPH	
HILTON HOTELS	HLT	6/30/98	PARK PLACE ENTERTAINMENT	PPE	RW
HOST MARRIOTT	HMT	4/17/98	CRESTLINE	CLJ	RW
<b>HRPT PROPERTIES</b>	<b>HRP</b>	<b>12/24/98</b>	<b>SENIOR HOUSING PROPERTY TRUST</b>	<b>SN</b>	
IMS HEALTH	RX	4/12/98	COGNIZANT TECHNOLOGY SOLUTIONS	CTSH	CO
IMS HEALTH	RX	11/12/98	GARTNER GROUP	IT	CO
JEFFERIES GROUP	JEF	3/18/98	INVESTMENT TECHNOLOGIES GROUP	ITGI	CO
KANSAS CITY SOUTHERN IND.	KSU	2/3/98	FINANCIAL SERVICES		
LSB INDUSTRIES	LSB	8/5/98	AUTOMOTIVE BUSINESS		
MEDITRUST (PAIRED STOCK)	MT	11/12/98	HEALTHCARE FINANCING BUSINESS		
MEDPARTNERS	MDM	11/11/98	PHYSICIAN PRACTICE MANAGEMENT		
NEWS CORP	NWS	6/29/98	FOX NEWS ENTERTAINMENT	FOX	CO
NEXSTAR PHARMACUEICALS	NXTR	10/14/98	ITEREX TECHNOLOGIES		
OLIN	OLN	7/30/98	ARCH CHEMICALS	ARJ	RW
PENNZENERGY (formerly Pennzoil)	PZE	4/15/98	PENNZOIL-QUAKER STATE	PZL	RW
PEPSICO	PEP	7/23/98	PEPSI BOTTLING GROUP	PBG	
<b>POMEROY COMPUTERS</b>	<b>PMRY</b>	<b>1/15/99</b>	<b>POMEROY SELECT</b>	<b>PSIS</b>	
PULITZER PUBLISHING	PTZ	5/26/98	PULITZER PUBLISHING	PTZ	
REPUBLIC INDUSTRIES	RII	5/13/98	REPUBLIC SERVICES	RSG	CO
ROCKWELL INTERNATIONAL	ROK	6/29/98	CONEXANT SYSTEMS	CNXT	RW
STAC	STAC	8/5/98	HI / FN	HIFN	RW
TELEPHONE & DATA SYSTEMS	TDS	12/21/98	AERIAL COMMUNICATIONS	AERL	CO
TORCHMARK	TMK	11/17/97	WADDELL & REED	WDR	RW
VARIAN ASSOCIATES	VAR	08/21/98	INSTRUMENTS, SEMICONDUCTORS		
WATTS INDUSTRIES	WTS	12/15/98	OIL AND GAS BUSINESS		
WESTERN WIRELESS	WWCA	10/27/98	VOICESTREAM		
WILLIAMS COMPANY	WMB	11/20/98	COMMUNICATIONS GROUP		

[RW] Regular Way

[CO] Carve-out

## Calendar Highlights

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### CHICAGO TITLE (CTZ)

Chicago Title will be hosting a quarterly **conference call for investors to discuss fourth quarter/year end results on Tuesday, February 9<sup>th</sup>**. The call will start at 2 p.m. (Central). To register for the call, contact Kasha Suk at FRB at 312-640-6684. The dial in number for the call is 800-521-5461. Chicago Title Corp., through its subsidiaries, provides title insurance, escrow and closing services, as well as property valuation, credit information, flood compliance, property information/inspections and default services through a network of more than 300 offices and approximately 3800 agents nationwide. Chicago Title is one of the largest providers of title insurance in the country. CTZ enjoys 21% of the title insurance market. We feel **Chicago Title is a high quality company that is not appreciated by investors as of yet**. The company is about to turn in their best year ever, and the outlook remains very strong. For the nine months ended September 30, 1998, net income from continuing operations amounted to \$83.4 million, or \$3.81 per basis and diluted share, exclusive of one-time spin-off and restructuring costs. Revenue for the first three quarters rose 33 percent to \$1.38 billion. Return on average equity amounted to 28% in the third quarter of 1998. Equity per share as of September 30, 1998 was \$20.34. CTZ pays a quarterly dividend of \$0.34 a share, which translates into a 3% dividend yield. CTZ has an exceptional balance sheet with only \$42 million in long-term debt. In addition, CTZ has \$600 million in liquid assets in the form of claim reserves, which represent nine years of losses. Their competitors First American and Land America have only two to three years in reserves. This amounts to \$27 1/2 per share in reserves. The mountain of reserves is due to former parent, Allegheny's ultra-conservative approach and has no relationship to losses historically experienced. The reality is that CTZ's economic earnings are greater than reported earnings because of excessive reserves being set aside. **If you add the approximately \$30 million in excess reserves being set aside (annually) for claims to CTZ's \$30 million in depreciation and amortization back into the book income, you realize that Chicago Title is trading at 4.5x EBITDA.** John Rau CEO of Chicago Title suggested that the company intends to "walk down" the reserves by 1/2 point per year. This translates into an additional \$10 million in reported earnings, or \$0.45 in incremental EPS. We also like that CTZ has a large investment portfolio of roughly \$1.2 billion that throws off \$40 to \$50 million each year in investment income. That is like starting each year with \$2 of earnings "in the bank". **We feel that this well-run company will reward investors at current levels.**

### COHESION TECHNOLOGIES (CSON)

Cohesion Technologies is dedicated to tissue repair and regeneration through the design, development and commercialization of innovative resorbable biomaterials, adhesives technologies and delivery systems. Cohesion's global market in surgical hemostats and sealants is estimated to top \$1 billion annually. **Cohesion is developing products to treat surgical bleeding with its CoStasis Surgical Hemostat, and to seal vascular and cardiovascular surgical sites with its CoSeal Surgical Sealant.** Cohesion received the CE Mark for CoStasis Surgical Hemostat in the fall of 1998 and is preparing to launch CoStasis throughout Europe imminently. Cohesion recently completed enrollment in its CoStasis clinical study in the U.S. (the company just published preliminary clinical findings from the U.S. study), during the current quarter. Cohesion plans to begin feasibility studies with CoSeal in Europe and will likely begin in pivotal clinical studies the following quarter. CoSeal is a sprayable surgical sealant for the use in preventing leakage of bodily fluids or gases through wounds or incisions. Cohesion was spun-out of Collagen Corporation to its shareholders on August 13, 1998, along with approximately \$80 million in Boston Scientific stock. Sales of stock are timed to coincide with research and development expenditures, and sale prices are largely set by virtue of an options collar. **Cohesion is well capitalized with approximately \$65 million in cash and marketable securities, a sum that is expected to be**

## Calendar Highlights

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**sufficient to bring both CoStasis and CoSeal to market and allow Cohesion to reach profitability.** Cohesion Technologies executives, David Foster, CEO, and Dr. Frank Delustro, President and Chief Operating Officer, are tentatively planning to be in the following cities during the week of February 22, 1999. (Boston 2/22, New York 2/23-24, Milwaukee/Chicago 2/25 and Los Angeles on Friday February 28<sup>th</sup>. If you would like to meet with management please contact Lisa Morgensai at 847 926-9733.

### GM (GM)

We like big clunky companies that start separating out assets and unlocking value. It looks like General Motors is about to do exactly that with its upcoming spin-off of Delphi Automotive, the world's largest autoparts supplier. That unit includes Delco Electronics. GM is the world's largest manufacturer of cars and trucks. **Delphi is currently doing a roadshow for their pending IPO of 100 million shares, that they hope to price between \$14 and \$18 per share.** The shares sold publicly will represent about 18% of stake in the company. GM will retain an 82% stake after the sale that GM plans to divest in 1999. Delphi's shares will trade on the NYSE under the symbol DPH. We are estimating that Delphi will account for \$13 to \$15 worth of each GM share. In addition, the company runs General Motors Acceptance Corp., which provides vehicle financing and insurance as well as other financial services. This unit probably worth at least \$20 per GM share. GM also has a transmission company, Allison, and Diesel and locomotive divisions. Those are worth another \$5 or \$6 per share. Lastly, GM has a current cash hoard of nearly \$20 per share. If you add these various parts up (about \$60 per share in estimated value), investors are paying about \$30 per share for the auto business.

### DELPHI AUTOMOTIVE (DPH)

### JEFFERIES GROUP (JEF)

Jefferies expects to complete the spin-off its 80.7% ownership of ITG by the end of March. They have not received a favorable tax ruling from the IRS yet. Assuming that IRS approval can be attained shortly, Jefferies will call a special shareholder meeting expected to be held on March 11<sup>th</sup> or 12<sup>th</sup> to vote on the spin-off. Jefferies Group is a securities brokerage holding company. Jefferies lines up large blocks of securities for off-exchange trading. It is also known for financing speculative junk bonds for new companies with less than stellar credit. Jefferies is a mid-sized investment bank that focuses on capital raising, research, mergers and acquisitions advisory and restructuring services for small-to mid sized companies.

### INVESTMENT TECHNOLOGY (ITGI)

**Investment Technology Group provides various products that help institutions access liquidity and execute trades more efficiently.** The company provides automated equity trading services to institutional investors and brokers using its POSIT electronic stock-crossing system. Posit trades millions of shares a day by trying to anonymously match large blocks of stock from institutional investors at the then prevailing price on the primary market for stock. Approximately 460 domestic and foreign customers (including pension plans, bank trusts, and mutual funds) use POSIT to confidentially trade stocks and equity security portfolios among themselves. Additional products include QuantEX, a decision-support and routing system; Electronic Trading Desk services; the PC-based routing system ITG Platform; and ISIS, a set of analytical tools for lowering transaction costs. ITG had a record year. They traded over 5.8 billion shares electronically in 1998. **ITG repaid \$212.2 million in revenues, a 55% increase over 1997 revenues of \$137 million.** Earnings for the year were \$43.4 million, an increase of 61% from \$26.9 million. Diluted EPS were \$2.25. The spin-off is being pursued because Jefferies believes that ITG will receive a higher valuation as an independent company. In addition, Jefferies Group wants to increase its capital base. The spin-off plan calls for a \$50 to \$70 million dividend

## Calendar Highlights

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to be paid from ITG. Jefferies originally carved out 17.7% of ITG in May of 1994 at \$13 per share. **Jefferies retained 15 million shares of ITG; thus, based on 23.9 million diluted shares expected at the time of the spin, each Jefferies shareholder should receive approximately 0.63 if a share of ITG. This suggests each share of Jefferies has \$38 of ITG embedded, implying a \$13 value for the Jefferies stub.** This is about the projected book value of Jefferies post spin (estimated equity of \$320 million). Jefferies earned \$36.2 million or \$1.58 without ITGI. So the stub is trading at about 8.3 the \$1.58 they earned in 1998.

### CREATIVE COMPUTERS (MALL)

### UBID (UBID)

First there was Onsale, then EBay. Now, the latest online craze is UBid Inc. UBid runs an auction site Web sit where customers can bid on leftover or refurbished computer hardware and consumer electronics. Until early December, the company was a unit of Creative Computers, a Torrance, California based direct marketer of PCs and software. Creative Computers carved UBid out on December 4<sup>th</sup>, selling 1.8 million or about 20% of the fledgling division. Initially priced at \$15, the stock skyrocketed 600 percent by year-end delivering the best performance of all 1998 spin-offs. UBid is using the bulk of the \$25 million from its public offering for marketing, branding and infrastructure. Despite the large losses expected for the next several years, investors have been clamoring for anything Internet related. UBid has 7.9 million shares outstanding for a market cap of nearly \$600 million.

UBid recently reported results for the fourth quarter and year ended December 1998. Revenues for the quarter were \$24.1 million, representing an increase of approximately 58% sequentially. Net loss for the quarter, excluding a non-cash charge for amortization of stock based compensation relating to the IPO, totaled \$1.9 million, or a loss of \$0.24 per share. It is possible that UBid can reach \$130 to \$140 million in sales this year, but we expect the company to lose nearly \$2 per share. Including the non-cash charge, net loss for the quarter amounted to \$7.2 million, for a loss of \$0.92 per share. During the quarter, traffic on the UBid site increased from 229,000 from 120,000 in the previous quarter. Page views averaged over 1 million per day in the December quarter. Repeat customers accounted for 69% of the company's orders, and the average order size increased by 5% from \$210. At the end of the quarter, uBid had cash equivalents of \$26.1 million.

**If you must own uBid, we would suggest buying Creative Computers as a cheaper way to have exposure to the company. The parent owns 7.138 million shares of uBid, so each Creative Computers share has 7/10<sup>ths</sup> of a share of uBid embedded inside it. This implies that Creative has \$54 worth of uBid value.** Creative is trading around \$35 a share, suggesting a nearly \$20 negative implied value for the parent. Theoretically, one could buy Creative Computers and short uBid and create the stub business for a negative \$20 per share. Thus, getting Creative's business as a "throw in". Creative Computers intends to spin off the balance of shares to its shareholders this summer.

## Calendar Highlights

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### CONVERGYS

On December 31, 1998, Cincinnati Bell completed the spin-off of its interest in the remaining 90 percent of Convergys' common shares. **Convergys Corporation is a leader in providing outsourced, integrated, customer care and billing services**, bringing together a broad range of resources and expertise to help clients transform customer relationships into a competitive advantage. **Convergys software produces more than one million bills each day and Convergys customer service representatives handle more than one million calls each day.** Convergys serves the top companies in a wide range of industries, including communications, technology, cable and broadband services, consumer products, financial services, utilities, healthcare, hospitality, and direct response. Headquartered in Cincinnati, Ohio, Convergys employs about 31,000 people at its more than 38 call centers, data centers, and other offices in the United States, Canada, and Europe.

**We believe Convergys will prove to an excellent investment.** CVG reported Q4 EPS of \$0.22 versus \$0.20. Revenues climbed 54%, mostly acquisitions, + 9% internal growth. Total 1998 EPS came in at \$0.75, versus \$0.80 in 1997. **We expect 25% long term EPS growth.** Revenues are expanding around 18% and profit margins are improving. CVG shares came under pressure with the overhang from the 137 million shares Cincinnati Bell distributed on January 1<sup>st</sup>. This appears to have dissipated, as CVG has been moving higher. **We suspect the stock will gravitate to \$30 a share or roughly 25x what we expect CVG to earn in 2000.** Convergys enjoys stable recurring revenue with blue chip clients such as cellular billing users such as AT&T, Ameritech, Sprint, and PrimeCo. Teleservices clients include AT&T, DirecTV, American Express and Lucent. Long term contracts are non-cancelable if change in client ownership changes. CVG is the market leader with a 30% share of the cellular billing market and 70% of the emerging PCS sector. Their share of the cable TV market is approaching 30%. Cash flow is high, almost double the reported earnings. CVG has very little debt. Convergys has 155 million shares outstanding and a market cap of \$2.8 billion.

## Fresh Spin-Off Situations

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### Olin to Distribute Arch Chemical to Shareholders

January, 22 Olin (NYSE:OLN) authorized the distribution to stockholders one share of Arch Chemical, common stock for every two shares of Olin common stock held at the close of business on the record date of February 1, 1999. The Arch stock has also been approved for listing on the New York Stock Exchange under the ticker symbol ARJ. **The distribution date of the Arch stock will be February 8, at which time Arch will officially begin business as a separate, independent company. Regular way trading of Arch stock will commence on February 9.** In July 1998 Olin's board approved a management plan to spin off the company's specialty chemical businesses to shareholders as Arch Chemicals, Inc. Arch will be comprised of three business segments: Microelectronic Chemicals, Water Chemicals and Performance Chemicals. In 1998, the businesses of Arch had combined revenues of approximately \$900 million. After the spin off, New Olin will have three divisions: Brass, Chlor Alkali Products and Winchester. These three divisions have approximately 6500 employees and in 1998 had combined revenues of approximately \$1.4 billion. Olin has been a diversified company throughout its history. In recent years management has made changes to improve focus including the spin-off of the defense business (Primex) as well as asset sales.

#### "New" Olin

The retained businesses of new Olin are cyclical, capital intensive, cash-flow generating commodity-type businesses that have low growth and little pricing leverage. In contrast, the specialty chemical businesses of Arch have better growth prospects. New Olin will receive a \$75 million dividend from Arch. Olin will have \$150 million in cash and about \$230 million in debt. Debt to Capital will be about 23%. Olin expects to earn \$0.50 this year, but intend to retain their \$0.80 per year annual dividend. So, investors holding both pieces of paper will receive the same total dividend. Management suggested earnings for the first quarter would be between 5 and 10 cents a share. Capex is expected to be \$80 million (about their level of depreciation).

#### Details on Arch

**Shareholder will receive 1 share of Arch for every two shares of Olin (or about 23 million shares).** Arch will assume \$75 million in debt (from a \$100 million credit facility). Arch dividend is expected to be \$.80 per share. Arch will start life with about \$900 million in sales and approximately \$60 million in operating income. On the earnings conference call Arch CEO, Mike Campbell, said he expects Arch to earn \$1.85 per share this year versus \$1.55 1998 pro forma. **Arch began trading "when-issued" on Friday January 29<sup>th</sup>, closing at \$15 1/16 a share (because of the spin ratio, this represents \$7 1/2 per Olin share). This price was lower than we had anticipated.** At this price, Arch is trading at a meaningful discount to its specialty chemical peers. The P/E multiple is 8x expected earnings. Price to book is approximately .70x, price is sales .4x, and **price to EBITDA is roughly 3.4x**. Initially the largest owners of Arch will be Franklin Resources (11%), Scudder, Kemper Investments (9.2%), FMR (8.5%) and T. Rowe Price (6.1).

**Arch Chemicals, Inc.****Combined Statements of Income <sup>(a)</sup>**

(In millions, except per share amounts)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	1998	1997	1998	1997
Sales	\$ 168.4	\$ 201.8	\$ 862.8	\$ 929.9
Cost of Goods Sold	128.3	150.5	622.0	676.3
Selling and Administration	39.7	35.2	167.6	153.5
Research and Development	3.1	5.6	16.2	21.1
Operating Income (Loss)	(2.7)	10.5	57.0	79.0
Equity In Earnings of Affiliated Companies	0.6	2.1	3.4	7.1
Interest Income (Expense), net	0.1	(0.1)	0.4	0.1
Income (Loss) Before Taxes	(2.0)	12.5	60.8	86.2
Income Tax Provision (Benefit)	(0.6)	4.3	20.8	29.9
Net Income (Loss)	\$ (1.4)	\$ 8.2	\$ 40.0	\$ 56.3

**Unaudited Pro Forma Financial Information (b):**

Interest Expense	\$ 1.2	\$ 1.4	\$ 6.3	\$ 6.5
Net Income (Loss)	\$ (2.3)	\$ 7.3	\$ 35.7	\$ 52.0
Basic Income (Loss) Per Share	\$ (0.10)	\$ 0.32	\$ 1.85	\$ 2.26
Common Stock Outstanding	23.0	23.0	23.0	23.0

<sup>(a)</sup> Unaudited

<sup>(b)</sup> Prior to the Distribution, the company will succeed to a credit facility established by Olin. Olin will borrow \$75 under the five-year facility prior to the Distribution, which liability will be assumed by the company. This represents the pro forma effects of borrowings assuming \$75 is outstanding under the five-year facility and that the company has seasonal weighted average borrowings related to the water chemicals segment of \$20 under the 364-day facility at an aggregate effective rate of 7%. Pro Forma common stock outstanding represents the assumed number of common shares to be issued at the distribution date and that such shares were outstanding for all periods prior to the distribution.

**Arch Chemicals, Inc.****Segment Information <sup>(a)</sup>**

(In millions)

	1998				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
<b>Sales:</b>					
Microelectronic Chemicals	\$ 62.4	\$ 59.0	\$ 55.1	\$ 51.1	\$ 227.6
Water Chemicals	71.1	120.5	66.4	32.3	290.3
Performance Chemicals	86.9	90.9	82.1	85.0	344.9
Total Sales	\$ 220.4	\$ 270.4	\$ 203.6	\$ 168.4	\$ 862.8
<b>Operating Income (Loss):</b>					
Microelectronic Chemicals	\$ 2.4	\$ 0.7	\$ (3.7)	\$ (3.5)	\$ (4.1)
Water Chemicals	6.7	18.0	(3.0)	(7.9)	13.8
Performance Chemicals	15.5	13.0	12.9	9.3	50.7
Total Operating Income (Loss) <sup>(b)</sup>	\$ 24.6	\$ 31.7	\$ 6.2	\$ (2.1)	\$ 60.4
	1997				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
<b>Sales:</b>					
Microelectronic Chemicals	\$ 55.3	\$ 60.8	\$ 63.8	\$ 62.7	\$ 242.6
Water Chemicals	82.5	109.0	62.1	33.3	286.9
Performance Chemicals	92.4	100.1	102.1	105.8	400.4
Total Sales	\$ 230.2	\$ 269.9	\$ 228.0	\$ 201.8	\$ 929.9
<b>Operating Income (Loss):</b>					
Microelectronic Chemicals	\$ 2.6	\$ 2.4	\$ 4.2	\$ 0.3	\$ 9.5
Water Chemicals	14.5	15.1	0.2	(3.3)	26.5
Performance Chemicals	9.7	13.4	11.4	15.6	50.1
Total Operating Income <sup>(b)</sup>	\$ 26.8	\$ 30.9	\$ 15.8	\$ 12.6	\$ 86.1

<sup>(a)</sup> Unaudited<sup>(b)</sup> Segment operating income includes the equity in earnings of affiliated companies.

**Arch Chemicals, Inc.**  
**Combined Statements of Cash Flows** <sup>(a)</sup>  
(In millions)

Years Ended December 31,	1998	1997
<b>Operating Activities:</b>		
Net Income	\$ 40.0	\$ 56.3
Earnings of Non-consolidated Affiliates	(3.4)	(7.1)
Depreciation and Amortization	47.4	47.4
Deferred Taxes	2.7	(5.2)
<b>Changes in:</b>		
Receivables	19.9	(13.7)
Inventories	0.2	(14.9)
Other Current Assets	1.4	0.7
Accounts Payable and Accrued Liabilities	(14.0)	(8.4)
Noncurrent Liabilities	(7.1)	17.4
Other Operating Activities	(1.6)	11.0
<b>Net Operating Activities</b>	<b>85.5</b>	<b>83.5</b>
<b>Investing Activities:</b>		
Capital Expenditures	(84.3)	(71.0)
Proceeds From Sales of Business	-	12.0
Investments and Advances - Affiliated Companies at Equity	0.1	(0.2)
Other Investing Activities	(1.4)	(0.2)
<b>Net Investing Activities</b>	<b>(85.6)</b>	<b>(59.4)</b>
<b>Financing Activities:</b>		
Long-Term Debt Borrowings	1.7	-
Short-Term Debt Repayments	(0.7)	(0.2)
Net Intercompany Activity	(2.2)	(21.4)
<b>Net Financing Activities</b>	<b>(1.2)</b>	<b>(21.6)</b>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(0.6)	1.0
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(1.9)</b>	<b>3.5</b>
Cash and Cash Equivalents, Beginning of Year	9.0	5.5
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 7.1</b>	<b>\$ 9.0</b>

<sup>(a)</sup> Unaudited

**Arch Chemicals, Inc.**  
**Combined Balance Sheets** <sup>(a)</sup>  
(In millions)

December 31,	1998	1997
<b>Assets:</b>		
Cash and Cash Equivalents	\$ 7.1	\$ 9.0
Accounts Receivable, Net	141.7	161.6
Inventories, Net	139.3	139.1
Other Current Assets	25.6	24.4
<b>Total Current Assets</b>	<b>313.7</b>	<b>334.1</b>
Investments and Advances - Affiliated Companies at Equity	21.1	21.1
Property, Plant and Equipment (Less Accumulated Depreciation of \$530.4 and \$499.6)	331.6	280.4
Goodwill	34.8	35.2
Other Assets	20.4	22.4
<b>Total Assets</b>	<b>\$ 721.6</b>	<b>\$ 693.2</b>
<b>Liabilities and Equity:</b>		
Current Debt	\$ 0.9	\$ 1.4
Accounts Payable	106.7	118.2
Accrued Liabilities	59.0	63.0
<b>Total Current Liabilities</b>	<b>166.6</b>	<b>182.6</b>
Long-Term Debt	7.0	5.5
Other Liabilities	43.5	49.5
Commitments and Contingencies		
Cumulative Translation Adjustment	(14.5)	(16.2)
<b>Equity</b>	<b>519.0</b>	<b>471.8</b>
<b>Total Equity</b>	<b>504.5</b>	<b>455.6</b>
<b>Total Liabilities and Equity</b>	<b>\$ 721.6</b>	<b>\$ 693.2</b>

<sup>(a)</sup> Unaudited

## Recently Announced Spin-Offs

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### Allegheny Teledyne to Split into Three Separate Entities

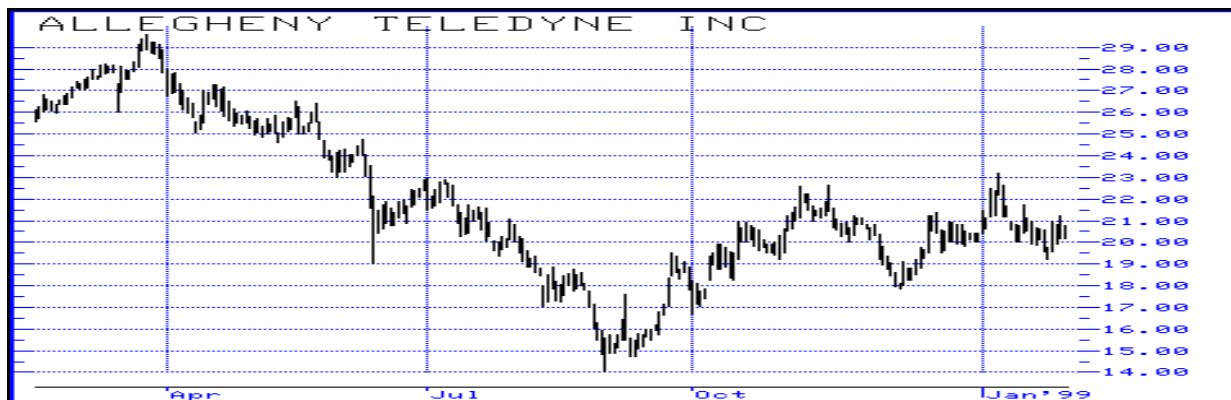
On January 19<sup>th</sup>, 1999, Allegheny Teledyne Inc. (NYSE:ALT) said it will spin off its aerospace and electronics businesses to shareholders as it restructures to concentrate on its core business of producing specialty metals. The Pittsburgh-based company said it would **spin off four aerospace and electronics businesses into a new public company**. The company also said it would **proceed with a previously announced plan to spin off its consumer businesses into an independent public company**. The restructuring should pare sales by about a third and leave it a focused producer of specialty metals. The candidates for divestiture accounted for about \$1.5 billion of Allegheny Teledyne's roughly \$4 billion in 1998 revenues. The company also will try to sell Ryan Aeronautical, Fluid Systems and the Specialty Equipment business. With this plan, Allegheny Teledyne returns to its roots as a specialty materials company. Company Chairman Richard P. Simmons said Wall Street's valuation of the company was a consideration in the spin-off plans. Shares of Allegheny Teledyne rose 37.5 cents to \$21.06 on the news. Separately, Simmons said the board began a search for his successor as chief executive officer, at his request. Simmons will remain chairman.

The result of a merger (1996) between diversified Teledyne and stainless-steel manufacturer Allegheny Ludlum, Allegheny Teledyne makes specialty metals and aerospace, electronics, and defense products. The company's specialty alloys and steels account for more than half of total sales. Its aviation and electronics business makes aircraft piston engines, microwave components, and remote sensors, among other products. Industrial products include forklifts, mining equipment, and valves. The company also makes dental lab equipment, air filters, and oral hygiene products (Water Pik) for consumers. Investors have speculated that the company would eventually divest non-metals units. If the potential transactions go through, the company will end up shedding many of the businesses that Allegheny Ludlum took on board in a merger with Teledyne

Assuming legal, tax, financial and other considerations can be resolved successfully, the anticipated transformation would include a tax-free spin-off of a new public company and a public offering of the new company's stock. The new company would be comprised of four former Teledyne companies in the Aerospace and Electronics Segment. The four businesses are Electronic Technologies, Brown Engineering, Continental Motors, and Cast Parts. Combined 1998 revenues of the businesses in the new company were approximately \$800 million. Plans are for Dr. Robert Mehrabian, executive vice president responsible for the Aerospace and Electronics and Industrial Segments and a director of Allegheny Teledyne, to be the chief executive officer of the new company headquartered in Los Angeles. The company is also proceeding simultaneously with the previously announced consideration of a spin-off and public offering of the Consumer Segment into a freestanding public company which also will be headquartered in the Los Angeles area. Annual revenues for the Consumer Segment were approximately \$250 million in 1998. The company plans to submit a request for a private letter ruling to the Internal Revenue Service with respect to the tax-free nature of these proposed spin-offs by the end of the first quarter.

After the spin-offs, Allegheny Teledyne will be one of the largest and most diversified specialty metals companies in the world with annual revenues of approximately \$2.5 billion in 1998. It will consist of Allegheny Ludlum/Rodney - a major specialty metals, stainless steel and titanium flat-rolled producer; Allvac - a major long products producer of nickel-based superalloys and titanium alloys; Oremet-Wah Chang - a diversified producer of zirconium, titanium and other specialty metals including niobium, tantalum and hafnium; Metalworking Products - a major producer of tungsten mill products, tungsten carbide materials and tungsten carbide cutting tools; Casting Service - a foundry specializing in large grey and ductile iron castings; and Portland Forge - a custom impression die forging company. The company also announced its intention to sell its Fluid Systems business, a manufacturer of nitrogen gas springs, pressure relief valves and vehicle control valves headquartered in Brecksville, Ohio, and its Specialty Equipment business which consists of two divisions - one division, located in Canada, is an assembler of hydraulic attachments for mining and construction equipment and the other is a manufacturer of transportable forklifts in the U.S. and the Netherlands. Combined revenues of the three businesses to be sold were nearly \$400 million in 1998.

<b>Price: 1/25</b>	\$20 1/4	<b>Debt To Cap.:</b>	22%
<b>1997 Sales:</b>	\$3,745.1 M	<b>Dividend:</b>	\$0.64
<b>1997 Net Inc:</b>	\$297.6 M	<b>Yield:</b>	3.1
<b>Shares Out:</b>	198 M	<b>Book/Share (Sep)</b>	\$6.75
<b>Market Cap.:</b>	4,010 M	<b>Consensus EPS 1998</b>	\$1.43



## Recently Announced Spin-Offs...

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### Compaq To Carveout AltaVista

The Internet is growing fast, and Compaq Computer is looking to cash in on the trend. On January 26, 1999, **Compaq announced plans to take its Internet search engine public** (later this year). The AltaVista Company, based in Palo Alto, is a wholly owned subsidiary of Compaq. AltaVista was acquired just last year in Compaq's purchase of Digital Equipment Corporation. Rod Schrock was named the President and CEO of the AltaVista Company. As Senior Vice President of Compaq's Consumer Product Group, Schrock firmly established Compaq as number one in the home PC market and launched Compaq's Presario Internet PCs featuring "Instant Internet" keyboard buttons (linked to AltaVista and e-commerce sites) which drive more than 20 million user visits to the AltaVista destination per month. Compaq expects to boost AltaVista's electronic-commerce offering by combining the search engine with Shopping.com, an online retailer recently purchased by Compaq for \$220 million. By combining Shopping.com with AltaVista, Compaq hopes to turn the spin-off into a gateway to the web. To date, AltaVista lags behind Yahoo, Excite, Lycos and several other "portals". **The news sent Compaq shares up 2 9/16 to close at \$49 1/4.**

Compaq also announced an Internet technology agreement with Microsoft to share communication and community capabilities between AltaVista and the Microsoft Network (MSN). Under the agreement AltaVista will make available to its users an AltaVista-branded version of Microsoft's Hotmail service as well as future Microsoft instant messaging technology. In addition, the companies agreed to work together on a range of other future Web-based communications and community building services. Microsoft has also agreed that AltaVista will be the primary search engine powering the Microsoft Network.

The announcement comes at a time when valuations for Web-based companies are soaring. AtHome announced plans to acquire Web portal company Excite in a stock deal valued at \$6.7 billion. Yahoo's market capitalization is approaching \$35 billion. Clearly, AltaVista should have little trouble raising a significant amount in an IPO. AltaVista is capitalized (by Compaq) to fund operations for the first year. Proceeds from an IPO will be used for acquisitions and to finance future operations. AltaVista should have negative earnings for the next two years. On the conference call Rod Schrock (CEO) suggested the business model for AltaVista will resemble a hybrid between Amazon.com and Yahoo.

#### **What is Alta Vista Worth?**

Given the company's aggressive growth strategy and intention to invest in the brand, AltaVista should have negative earnings for the next two years. So, like other Internet companies, AltaVista's will be valued on a multiple of revenues. If we ballpark 1999 revenues at \$100 million (which seems reasonable on Q498's run rate), and arbitrarily assign a 10x price-to-sales ratio, we would expect a market capitalization of at least \$1.0 billion. Compaq has a market capitalization of \$85 billion. **Clearly, AltaVista does not represent a meaningful part of Compaq on a per share basis (estimated \$1B market cap/ 1.7 billion Compaq shares = \$0.58 per share).**

Compaq Computer, a Fortune Global 100 company, is the second largest computer company in the world and the largest global supplier of computer systems. Compaq develops and markets hardware, software, solutions, and services, including industry-leading enterprise computing solutions, fault-tolerant business-critical solutions, networking and communication products, commercial desktop and portable products and consumer PCs.

## Recently Announced Spin-Offs...

### Executone Information Systems Announces Spin-Off of eLottery

On December 21<sup>st</sup>, 1998, Executone Information Systems Inc. (NASDAQ:XTON) scrapped a planned rights offering of its UniStar gaming division. Instead, Executone has simplified the planned spin-off and has changed the name of UniStar to eLottery. Executone plans to distribute 85 percent of the common equity of eLottery to shareholders and to exchange the rest for outstanding Executone Series A and Series B preferred shares. Executone Information Systems has received approval of the terms of the spin-off from its preferred shareholders, eliminating a need for a proxy solicitation, a special shareholder meeting and the prospect of a material dilution in the ownership of Executone common shareholders. **The distribution of eLottery shares will be a taxable transaction.**

eLottery has created an Internet-based gaming system used by the National Indian Lottery, run by the Coeur d'Alene tribe of Idaho. An Idaho judge ruled in December that state laws against gaming apply to transactions over the telephone. If upheld, the decision would severely limit eLottery's ability to manage the telephone and Internet operations of the National Indian Lottery. This decision may actually benefit eLottery because the Indian National Lottery was a direct competitor to the 39 state lotteries currently in operation. By eliminating this conflict-of-interest, eLottery will now be able to expand its sales presence to state lotteries with proven technology.

eLottery provides systems, applications and services to facilitate the electronic sale of new and existing lottery products worldwide via Internet, Intranet and telephone networks. The Company believes that the electronic distribution of lottery tickets through these systems will increase sales for lotteries because they make the purchase of tickets more easily accessible and because they make use of technology to enhance and enliven the lottery gaming experience. The Company believes it is well positioned to capitalize on the growth in non-traditional lottery sales with its ability to offer lotteries its new Internet and Intranet based lottery products worldwide.

Executone Information Systems, Inc. develops, markets and supports voice and data communications systems. Products and services include telephone systems, voice mail systems, inbound and outbound call center systems, and specialized healthcare communications systems. Executone's products and services are sold under the EXECUTONE, INFOSTAR, IDS, LIFESAVER, and INFOSTAR/ILS brand names.

Executone has engaged the services of Jefferies & Company, Inc. to assist them in the proposed spin-off of its eLottery subsidiary. Executone and eLottery have entered into an agreement with Jefferies pursuant to which Jefferies will deliver a valuation letter to eLottery. Executone intends to use the letter in its response to a request from the NASDAQ Stock Market for an independent valuation of eLottery.

#### Executone Information Systems (NASDAQ: XTON)

<b>Price: 1/26</b>	\$2 1/2	<b>Debt To Cap.:</b>	23%
<b>1997 Sales:</b>	\$156.4 M	<b>Dividend:</b>	\$0.00
<b>1997 Net Inc:</b>	(\$.22) M	<b>Institutional Held</b>	45%
<b>Shares Out:</b>	49.8 M	<b>Book/Share (Sep)</b>	\$1.34
<b>Market Cap.:</b>	124.5 M	<b>Consensus EPS 1998</b>	\$0.12

## Recently Announced Spin-Offs...

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### HRPT Properties Trust Announces IPO of Senior Living Properties

On Dec 24<sup>th</sup>, 1999, HRPT Properties (NYSE: HRP) announced the filing of a registration statement for the IPO and spin-off of its Senior Housing Properties Trust (Proposed NYSE: SN). One third of the shares will be IPO'd, one third will be distributed to shareholders on a one for ten basis, and the remaining one third will be retained by HRP. **The distribution will be treated as a taxable event.**

HRPT owns approximately \$3 billion of real estate, including \$850 million of senior housing, congregate communities, assisted living properties and nursing homes. Approximately \$625 million will be contributed to the subsidiary or about eighty-four senior living properties. The IPO is expected to raise \$200 million (based on 131 million shares outstanding of HRPT) or about \$15.00 per share. The capital raised by the IPO is to be used to purchase fourteen new senior living communities to be leased to Marriott International (NYSE: MAR).

Upon completion of the transaction:

- HRPT will own 137 office properties valued at \$2.2 billion, 13.2 million shares of Senior Housing Properties valued at \$170 million, and will sell 38 healthcare properties valued at \$225 million.
- Senior Housing Properties will own 84 senior living and healthcare properties acquired from HRPT valued at \$625 million and 14 senior living properties to be acquired with the proceeds from the IPO.

If the proposed spin-off is completed, shareholders will own two fast growing, targeted REITs with a combined dividend that is expected to be greater than HRPT's current dividend. However, there are a number of factors that must be approved prior to the spin-off:

- SEC Review and approval
- Concluded negotiations with Marriott International
- Favorable market conditions for the IPO

<b>Price: 1/26</b>	\$14 1/4	<b>Debt To Cap.:</b>	34%
<b>Rental Inc. *: \$</b>	239 M	<b>Dividend:</b>	\$1.52
<b>Shares Out:</b>	131.5 M	<b>Book/Share (Sep)</b>	\$13.98
<b>Market Cap.:</b>	1,906 M	<b>Consensus EPS 1998</b>	\$1.75

\* First 9 months of 1998.

## Recently Announced Spin-Offs...

### Pomeroy Computer Resources to IPO its Computer Services Division

On January 15<sup>th</sup>, 1999, Pomeroy Computer Resources announced the filing for a IPO of its Computer service division. The new company will be called Pomeroy Select Integration Solutions, Inc. (Proposed NASDAQ:PSIS), and is expected to offer 2.3 million shares and raise an estimated \$57 million. The proceeds will be used to pay down debt, working capital and capital spending. Pomeroy Computers will retain 81% voting interest.

Pomeroy Select is a single-source provider of integrated desktop management and network services that help corporate clients manage their information technology assets. Pomeroy Select provided IT services to more than 2,100 customers in the nine months ended October 5, 1998. Clients generally range from mid-sized organizations to Fortune 500 companies in a wide variety of industries. Pomeroy Select services nationally through over 900 technical and engineering personnel located in 30 offices. Over the four-year period ended January 5, 1998, revenue grew at a compounded annual growth rate of 51.0% and for the nine-month period ended October 5, 1998, revenue grew by 61.1% over the comparable nine-month period for the prior year.

It appears that the main catalyst for the IPO is that the higher margin service business does not appear to be valued within the parent. Pomeroy Select is estimated to have \$100 million in revenues for 1998. Other service computer providers trade at an average 2.5x revenues representing a valuation of \$250 million. However, the parent currently trades at a market valuation of \$240 million, not included estimated 1998 revenues from its computer hardware of \$600 million. As of the period ending October 5, 1998, the computer hardware division had \$406 million in revenues and net income of \$10.2 million.

#### Competition

Pomeroy Select competes, directly and indirectly, with a variety of national and regional service providers, including services organizations of established computer product manufacturers, value added resellers, systems integrators, internal corporate MIS staffs and, to a lesser extent, consulting firms. In addition, competition for quality technical personnel has continued to intensify, resulting in increased personnel costs. Furthermore, barriers to entry are relatively low, which enable new competitors to offer competing services.

#### Select Data:

<b>Pomeroy Computer Resources</b>		<b>Pomeroy Select Integration Solutions</b>	
<b>1998 Sales*:</b>	\$406.43 M	<b>1998 Sales*:</b>	\$51.4 M
<b>Shares Out:</b>	11.74 M	<b>Shares Out:</b>	12.3 M (after IPO)
<b>1998 Net Inc*:</b>	\$10.18 M	<b>1998 Net Inc*:</b>	\$4.5 M
<b>Market Cap**:</b>	\$228 M (1/27/99)	<b>Market Cap:</b>	\$250 M(est.)

\* Based on nine months ending 10/5/98, and as if each company was independent.

\*\* Current market capitalization of Pomeroy Computer Resources includes the value of Pomeroy Select.

## Recently Announced Spin-Offs...

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### Ziff Davis Files Registration Statement for Tracking Stock Offering

On December 22, 1998, Ziff-Davis Inc. (NYSE: ZD), magazine publisher and trade show firm, announced the filing of a registration statement with the Securities and Exchange Commission for an **initial public offering of a new series of common stock intended to track the performance of ZDNet**, the Company's Internet business division. All of the shares will be issued by the company and represent new financing. ZDNet Group is publisher Ziff-Davis' entry into the online derby. A subsidiary of Ziff-Davis, the #2 US computer magazine publisher, ZDNet offers an online community where visitors can access a wide range of information. ZDNet.com features more than 25 channels where Web surfers can find games, financial tips, and more than 800 news stories each month. ZDNet offers readers links to Ziff-Davis magazines (such as *PC Magazine*), and members can access bulletin boards, chat rooms, e-mail, and online forums. After a planned IPO, Japan's SOFTBANK will retain its 72% stake in the firm.

ZDNet estimates that its Web sites served more than 185 million page views during October 1998, up from 105 million in October 1997. ZDNet delivered approximately 386 million ad-bearing pages during the third quarter of 1998, up from 182 million during the same period of 1997. ZDNet derives benefits from its relationship with ZD, including the ability to leverage the ZD brand, access content from ZD publications and cross-market ZD's platforms. ZDNet's revenue has grown from \$13.6 million in 1995 to \$32.2 million in 1997 and was \$37.6 million in the first nine months of 1998. In its publishing business, the company principally competes for advertising and circulation revenue with publishers of other computer technology publications. It also faces broad competition from media companies that produce general interest magazines and newspapers. According to Media Metrix, through October 1998 ZDNet ranked first among all web sites in the news, information and entertainment category for 26 of the last 28 months, and the number of unique visitors averaged 7.6 million per month during the 1998 third quarter.

#### ZIFF DAVIS

Ziff-Davis is the #2 US computer magazine publisher (after International Data Group) and a leading worldwide provider of technology information through magazines, trade shows, online services, TV, newsletters, and computer-training courseware. Ziff-Davis publishes more than 80 publications including industry leader *PC Magazine* and *PC Week*. Its ZDNet.com Web site offers computer-related news, entertainment, and information. (The company is spinning off its online operations.) Other products and services include online content, computer-related newsletters, and market research. It also operates ZDTV, a 24-hour cable news channel that focuses on computers and the Internet. Ziff-Davis is controlled by Japanese computer company SOFTBANK. Softbank has positions in many Internet ventures. They are the largest single shareholder of Yahoo, with about 30% of the stock. Ziff Davis went public in April of 1998 at \$15 1/2 per share.

Ziff-Davis is trying to raise cash by way of a "bastardized" spin-off of its Internet operations via a "tracking stock" IPO. **Proceeds from the offering will be advanced to Ziff-Davis to reduce debt.** The prospectus, while not containing specific offering share and price information, indicates that a 20% interest will be sold for a maximum aggregate price of \$100 million, suggesting a value for ZDNet of \$500 million. **We are not big fans of "tracking" stocks, also known as targeted or letter stock.** As a group, tracking stocks have not performed well. Tracking stocks are created by issuing a class of stock that represents an equity interest in the whole corporation as shown on the company's balance sheet, but is somehow intended to "track" the performance of a particular operation. Some investors think they have a stake in that segment or division alone, but you don't. Tracking stock involves no legal separation of the company. The issuance of tracking stock does not affect legal title to such assets or responsibility for such liabilities. The upshot is tracking stocks do not act like spin-offs. For example, in February 1997, electronics retailer Circuit City Stores set up a tracking stock for its used car business (CarMax) at \$20 per share. Those shares are now selling for about \$5 1/2.

	Year ended Dec. 31			9 mos. to Sep.30	
	1998E	1997	1996*	1998	1997
Revenues (\$million)	55	32.2	19.1	37.6	21.3
Net Income (\$million)	( 8)	(21.2)	(17.9)	(7.6)	(18.5)

\*Pro forma as if the acquisition of the company's predecessor on 2/29/96 had occurred 1/1/95



## Potential Spin-Offs?

After the eye-popping success of recent Internet public offering, we expect a number of companies to liberate their E-Commerce operations by taking them public. In the February 1<sup>st</sup> issue of *Business Week*, *Inside Wall Street* columnist Gene Marcial offered two such spin-off candidates. One company he suggested is preparing for such a move **International Microcomputer Software (NASDAQ: IMSI)**. International Microcomputer Software, Inc. (IMSI) makes business productivity, computer-aided design, utility, and visual content software. Its software (including TurboCAD, WinDelete, and MasterClips) expands basic PC functions with features including precision drawing, project management, and voice recognition. The company also sells mouse input devices and software that enables recipe and menu planning. IMSI sells its software directly and through retailers and distributors worldwide. It primarily targets small to midsized businesses and consumers. The company produces and sells its visual content and graphics software in 13 languages and in more than 60 countries worldwide. IMSI also has web sites receiving more than 1.3 million visitors each month. IMSI owns several Web sites including ArtToday.com, a subscription based on-line provider of visual content, offering 750,000 photos, clip-art items, and fonts. The site has more than 50,000 subscribers, paying up to \$29.95 a year for unlimited access to the art images. **There is speculation that IMSI may spin-out the ArtToday.com operations through an IPO.**

International Microcomputer Software			
<b>Fiscal Year-End:</b>	<b>June</b>	<b>Debt/Cap</b>	<b>11%</b>
<b>1998 Sales</b>	<b>\$62.5</b>	<b>52 Week Range</b>	<b>3 - 18</b>
<b>1998 Net Income</b>	<b>(\$0.1)</b>	<b>Price/Sales</b>	<b>1.20</b>
<b>Share Out.</b>	<b>5.676 M</b>	<b>First Call EPS E FY99</b>	<b>\$ -0.97</b>
<b>Market Cap.</b>	<b>73 M</b>	<b>Book Value</b>	<b>\$ 2.18</b>

### Hanover Direct

The same article intimated that Hanover Direct (AMEX:HNV) may be considering a spin off of its internet operations. **Hanover Direct is a direct specialty retailer** whose catalogs offer home decorating fashions, general merchandise, gifts, and apparel. Home fashion catalogs include Domestications and The Company Store, which sell towels, comforters, sheets, and other items. Merchandise catalogs sell safety, kitchen, and home-improvement items. Apparel catalogs include Silhouettes (clothing for larger women), Tweeds (European women's fashions), International Male (men's clothing), and Austad's (golf wear and gear). The company is attempting to shift their 25 million customers away from catalogs to Internet shopping. Hanover and Excite recently formed an E-commerce alliance that adds Hanover's catalogs to Excite's online site. Swiss conglomerate Compagnie Financiere Richemont owns about 51%. Regan Parters holds 17%.

### PLA

In December, shares of **Playboy (NYSE:PLAA) rose on rumors of a potential Internet spin-off**. The company touched 52 week highs after the adult entertainment company said it's exploring a spin-off of its Internet business. Playboy's World Wide Web site premiered in 1994. The site, playboy.com features items such as the company's catalog of products, which includes music, videos, lingerie, T-shirts, and other consumer products. Playboy.com had roughly 774,000 visitors in September. Overall, Playboy's entertainment unit, which includes television channels and video, is driving earnings growth, as opposed to the lower-margin print business.

**DLJ**

On January 21, 1999, **Donaldson, Lufkin & Jenrette said it is contemplating a spin-off of its online unit, DLJ Direct.** Donaldson, Lufkin & Jenrette (DLJ), one of the US's top investment firms, operates in three areas. The Banking Group includes investment and merchant banking and provides funding for companies through direct investment. It also manages and underwrites securities. DLJ's Capital Markets Group provides research, securities trading, and sales services to institutional clients, and the Financial Services Group provides brokerage, investment management, and trust services to the wealthy. Other businesses include its Pershing Division (clearing services) and Autranet (research and investment materials). DLJ is 73 percent owned by Equitable (NYSE:EQ), which is 60% owned by France's Axa SA, the worlds largest insurer. Employees of the firm own 10% of the company, leaving only 17 percent in the hands of outside investors. DLJ went public in October of 1995. DLJ was founded primarily as an institutional equity research firm in 1959. Today, in our view, the full values of these assets are not fully reflected in the company's stock price.

Online brokers' stocks have soared as trading over the Internet grew more than 30 percent in the fourth quarter. E\*Trade Group, the second largest online broker was up nearly 4 fold since November. DLJ Direct was the seventh largest online broker in terms of daily trades in the third quarter. The unit earned record revenue of \$117.9 million in 1998, up 61 percent from the prior year. Client assets doubled to \$8.9 billion and the average number of trades per day rose 87 percent to 11,400. **What might DLJ Direct be worth? E\*Trade and Ameritrade are trading for about 16x and 10x revenues, suggesting DLJ Direct's \$118 million in sales could warrant a value of \$1.2 billion to \$1.9 billion if seperated.**

<b>DLJ Price</b>	<b>\$48 1/8 (1/28)</b>	<b>Dividend:</b>	<b>\$0.25</b>
<b>1998 Sales:</b>	<b>\$5,407.0</b>	<b>Yield:</b>	<b>0.56%</b>
<b>1998 Net Income:</b>	<b>\$370.8</b>	<b>Book/Share</b>	<b>\$20 1/2</b>
<b>Shares Out:</b>	<b>\$134 M</b>	<b>Price/Book</b>	<b>2.35x</b>
<b>Market Cap:</b>	<b>\$ 6432 M</b>		

**Chancellor Media**

On January 20, 1999, **Chancellor Media (Nasdaq: AMFM) said it may sell or spin off all or part of its businesses in an effort to raise its share value.** Chancellor Media is one of the largest radio station owners in the US, with about 105 stations in 22 major markets. Its purchase of Capstar Broadcasting will makes Chancellor the top US radio owner with 465 stations in 105 markets. It owns spot-advertising seller Katz Media Group and AMFM Radio Networks, which provides programming to its stations in cities including Chicago, Los Angeles, and New York. Chancellor also owns more than 36,000 billboards and outdoor displays in 37 states. Its TV holdings include ownership of seven network affiliated stations, and local marketing agreements with another four in seven states. Buyout firm Hicks, Muse, Tate & Furst owns about 15% of Chancellor Media. Hicks Muse formed Chancellor last year by combining its Chancellor Broadcasting and Evergreen Media. Chancellor's stock price, now trading about 17x 1998 broadcast cash flow lags behind Infinity Broadcasting and Clear Channel Communications who trade at 25x and 27x cash flow respectively. Chancellor has hired investment bank BT Alex Brown to help it consider strategic alternatives, including a possible spin-off.

## Implied Value of Stubs

Parent: Subsidiary:	Symbol	Shares Held by Parent	# of Average Shares	Price Close 1/29/99	Market Capitalization	Stub Implied Value	Carve-Out Value
Adelphia Comm.	ADLAC		30,700,000	60.25	\$ 1,875,900,000	\$ 55.50	\$ 4.75
Hyperion Telecom	HYPT	6,970,000	22,300,000	13.25	\$ 94,095,000		
ARC International	ATV		14,135,000	1.9375	\$ 27,386,563	\$ (0.94)	\$ 2.87
Ballantine of Omaha	BTN	3,179,290	13,823,000	10.4375	\$ 33,183,839		
Cabletel Comm.	TTV	3,312,450	6,495,000	2.25	\$ 7,453,013		
AMR Corp.	AMR		182,396,000	58.75	\$ 10,715,765,000	\$ 32.76	\$ 25.99
Sabre Group	TSG	107,420,000	131,000,000	44.125	\$ 4,739,907,500		
Citizens Utility	CZN		252,300,000	7.8125	\$ 1,971,093,750	\$ 6.36	\$ 1.45
Electric Lightwave	ELIX	41,151,600	49,700,000	8.875	\$ 365,220,450		
IMS Health	RX		342,000,000	36.625	\$ 12,525,750,000	\$ 32.32	\$ 4.31
Cog Tech Solutions	CTSH	7,290,400	9,113,000	38.875	\$ 283,414,300		
Gartner Group	IT	49,578,420	105,486,000	24	\$ 1,189,882,080		
Flowers Ind.	FLO		88,600,000	24.0625	\$ 2,131,937,500	\$ 3.83	\$ 20.23
Keebler	KBL	49,445,000	89,900,000	36.25	\$ 1,792,381,250		
Ford	F		1,142,100,000	61.625	\$ 70,381,912,500	\$ 58.32	\$ 3.31
Hertz	HRZ	86,904,000	108,630,000	43.4375	\$ 3,774,892,500		
Jefferies Group	JEF		20,000,000	52.4375	\$ 1,048,750,000	\$ 6.75	\$ 45.68
Investment Tech.	ITGI	14,978,600	18,200,000	61	\$ 913,694,600		
Kansas City South.	KSU		111,500,000	47.5	\$ 5,296,250,000	\$ 36.22	\$ 11.28
DST Systems	DST	20,300,000	50,000,000	61.9375	\$ 1,257,331,250		
Pittway cIA,B	PRY		21,250,000	27.3125	\$ 580,390,625	\$ 23.12	\$ 4.19
US Satellite Broadcast	USSB	3,772,440	89,820,000	15.625	\$ 58,944,375		
Cylink	CYLK	8,610,000	28,700,000	3.5	\$ 30,135,000		
RJR Nabisco	RN		324,813,000	27	\$ 8,769,951,000	\$ (0.59)	\$ 27.59
Nabisco	NA	213,019,100	264,620,000	42.0625	\$ 8,960,115,894		
Republic Industries	RII		453,500,000	34	\$ 15,419,000,000	\$ 31.76	\$ 2.24
Republic Services	RSG	49,253,214	73,953,775	20.625	\$ 1,015,847,539		
Boise Cascade	BCC		56,300,000	34	\$ 1,914,200,000	\$ 19.70	\$ 14.30
Boise Office products	BOP	53,438,490	65,730,000	15.0625	\$ 804,917,256		
Dupont	DD		1,131,660,000	34	\$ 38,476,440,000	\$ 25.98	\$ 8.02
Conoco	COC	455,000,000	646,450,000	19.9375	\$ 9,071,562,500		
News Corp	NWS		1,058,800,000	34	\$ 35,999,200,000	\$ 19.60	\$ 14.40
Fox Corp	FOX	547,000,000	632,000,000	27.875	\$ 15,247,625,000		
CBS	CBS		721,000,000	34	\$ 24,514,000,000	\$ 7.12	\$ 26.88
Infinity Broadcasting	INF	700,000,000	835,000,000	27.6875	\$ 19,381,250,000		
Creative Computers	MALL		10,246,000	34.5	\$ 353,487,000	\$ (18.43)	\$ 52.93
Ubicid	ubicid	7,136,000	8,909,000	76	\$ 542,336,000		
Telephone & Data Sys.	TDS		61,200,000	53.25	\$ 3,258,900,000	\$ (4.83)	\$ 58.08
U.S. Cellular	USM	70,700,000	87,400,000	44.9375	\$ 3,177,081,250		
Aerial Comm.	AERL	58,100,000	71,700,000	6.5	\$ 377,650,000		

## Spin-Off Calendar by Date

Parent	Symbol	Spin-Off	Symbol	Date	Spin-Off	Ratio
				Announced	Date	
Republic Industries	RII	Republic Services Group	RSG	5/7/98	7/1/98	IPO
Fingerhut	FHT	Metris	MTRS	10/9/97	9/25/98	1:3.14
Forward Air (Formerly Landair Services)	FWRD	Landair Corporation	LAND	7/10/98	9/23/98	1:1
American Medical Security Group	AMZ	United Wisconsin	UWZ	4/22/98	9/25/98	1:1
DuPont	DD	Conoco	COC	5/11/98	10/22/98	IPO
Torchmark	TMK	Waddell & Reed	WDR	11/17/97	11/6/98	.0569:1 A .2447:1 B
News Corp	NWS	Fox Entertainment	FOX	6/29/98	11/11/98	IPO
Creative Computers	MALL	uBid	UBID	7/6/98	12/4/98	IPO
CBS	CBS	Infinity Broadcasting	INF	8/27/98	12/9/98	IPO
Stac	STAC	Hi/fn	HIFN	8/5/98	12/15/98	1:3.9
PennzEnergy	PZE	Pennzoil-Quaker State	PZL	4/15/98	12/30/98	1:1
Hilton Hotels	HLT	Park Place Entertainment	PPE	6/30/98	12/31/98	1:1
Grand Casinos	GND	Lakes Gaming	LACO	6/30/98	12/31/98	1:4
Cincinnati Bell	CSN	Convergys	CVG	4/27/98	12/31/98	1:1
Bindley Western	BDY	Priority Healthcare	PHCC	10/24/98	12/31/98	.46:1
Rockwell International	ROK	Conexant Systems	CNXT	6/29/98	12/31/98	1:2
Host Marriott	HMT	Crestline Capital Corporation	CLJ	4/17/98	12/29/98	1:10
CBS / Data Broadcasting	DBCC	Marketwatch.com	MKTW	10/13/98	1/19/99	IPO
<b>Olin</b>	<b>OLN</b>	<b>Arch Chemicals</b>	<b>ARJ</b>	<b>7/30/98</b>	<b>2/9/99</b>	<b>1:2</b>
<b>General Motors</b>	<b>GM</b>	<b>Delphi Unit</b>	<b>DPH</b>	<b>8/3/98</b>	<b>February</b>	<b>IPO</b>
Pulitzer Publishing	PTZ	Pulitzer Inc.	PTZ	5/26/98	Early March	1:1
Jefferies Group	JEF	Investment Technologies Group	ITGI	3/18/98	March	
Columbia/HCA	COL	LifePoint Hospitals		7/29/98	April	
Varian Associates	VAR	Instruments, Semiconductors		8/21/98	April	
IMS Health	RX	Gartner Group	IT	11/12/98	2nd qtr 1999	
Citizens Utilities	CZN	Telecommunications		5/18/98	3rd Qtr 1999	
PepsiCO	PEP	Pepsi Bottling Group		7/28/98	1999	
PLM International	PLM	American Finance Group	AFGC	5/7/98	1999	IPO
LSB Industries	LSB	Automotive Business		8/5/98	1999	
Fairchild Corp.	FA	Fairchild Fasteners		7/6/98	1999	
Energy Research	ERC	Evercel Inc.		8/11/98	1999	
Odetics	ODETA	Intelligent Transportation Unit		5/4/98	1999	IPO
Meditrust	MT	Health Care Financing Business		11/12/98	1999	
MedPartners	MDM	Physician Practice Management		11/12/98	1999	
Williams Co.	WMB	Communications Group		11/20/98	1999	
Watts Industries	WTS	Oil and Gas Business		12/15/98	1999	
Gencorp	GY	Specialty Polymers		12/17/98	1999	
Telephone & Data Systems	TDS	Aerial Communications	AERL	12/21/98	1999	
Automatic Data Processing	AUD	Peachtree Software	PEAC	12/18/98	1999	IPO
Essef Corp.	ESSF	Anthony & Sylvan Pools	SWIM	5/8/98	Filed	IPO
Kansas City Southern Industries	KSU	Financial Services		2/3/98	Postponed	
Pomeroy Computers	PMRY	Pomeroy Select	PSIS	1/15/99	1999	
Executone Information Systems	XTON	E-Lottery		12/21/98	1999	
HRPT Properties	HRP	Senior Living	SN	12/24/98	1999	IPO, 1:10
Compaq Computer	CPQ	AltaVista		1/26/99	1999	IPO
Advanced Lighting Technologies	ADLT	Microsun Technologies		5/5/98	Cancelled	
Tenneco	TEN	Container Board		7/21/98	Sold	

## Spin-off Statistics

Spin-Off Name	Symbol	Business	Parent	Symbol	Spin-Off Date	Spin-Off Price	CLOSING	Spin-Off	S + P 500
							PRICE 01/29/99	% Change	% Change
A.C. Nielson	ART	Market Research	Dun and Bradstreet	DNB	11/13/96	18 12/16	22 14/16	22%	75%
Allegiance	AEH	Health Care Products / Cost Mgmt	Baxter International	BAX	9/24/96	8 2/16	45 12/16	463%	86%
Aztec Technology Partners	AZTC	Computer Solutions	U.S. Office Products	OFIS	6/10/98	11	4 4/16	-61%	15%
Bally Fitness Corp.	BFT	Healthclubs	Bally Entertainment	BLY	1/10/96	4 14/16	22 13/16	368%	108%
Billing Information Concepts	BILL	Billing Processing	U.S. Long Distance	HSLD	8/2/96	10 8/16	10 1/16	-4%	93%
Chicago Title Corp.	CTZ	Title Insurance	Alleghany	Y	6/18/98	46 12/16	43 6/16	-7%	16%
ChoicePoint	CPS	Risk Management	Equifax, Inc.	EFX	8/7/97	35 12/16	54 8/16	52%	35%
Cognizant Technology Sol.	CTSH	Software Solutions	IMH Health	RX	6/19/98	10	38 14/16	289%	16%
Cohesion Technologies	CSON	Medical Devices, Sealant	Collagen Asthetics	CGEN	8/19/98	5	5 13/16	16%	17%
Commscope	CTV	Coaxial Cable	General Instrument	GIC	7/28/97	15 12/16	19 7/16	23%	37%
Conoco	COC	Energy Exploration	DuPont	DD	10/22/98	24 14/16	19 15/16	-20%	19%
Convergys	CVG	Billing processing	Cincinnati Bell	CSN	8/12/98	16 10/16	18	8%	19%
Corn Products International	CPO	Canned fruit & vegetables	Best Foods (CPC Intl.)	BFO	1/2/98	30	26 9/16	-11%	31%
Covance	CVD	Research org. to Biotechnology	Corning Inc.	GLW	1/14/97	19 12/16	31 8/16	59%	73%
Fox Entertainment	FOX	Entertainment	News Corp	NWS	11/11/98	24 4/8	27 14/16	14%	14%
General Instrument	GIC	Communication	General Instrument	GIC	7/28/97	20 3/16	35 8/16	76%	37%
General Semiconductor	SEM	Discrete Semiconductors	General Instrument	GIC	7/28/97	14 12/16	8 4/16	-44%	37%
Hussman Corp.	HSM	Refrigeration systems	Whitman Corp.	WH	2/2/98	13 10/16	16 12/16	23%	31%
Imation	IMN	Data storage and Imaging	Minnesota Mining	MMM	7/16/96	23 14/16	15 9/16	-35%	102%
IMS Health	RX	Healthcare Information Systems	Nielsen Media research	NMR	7/1/98	31 8/16	36 10/16	16%	11%
Keebler Foods	KBL	Food products	Flowers	FLO	1/29/98	26 13/16	36 4/16	35%	30%
Land Air Corporation	LAND	Trucking	Forward Air	FWRD	9/24/98	6	6 12/16	13%	23%
Lucent Technologies	LU	Telecommunication systems	AT&T	T	4/3/96	15 3/16	112 9/16	641%	86%
Meritor Automotive	MRA	Automotive accessories	Rockwell International	ROK	10/1/97	23 14/16	17 8/16	-27%	42%
Midas	MDS	Automotive Repair	Whitman Corp.	WH	2/2/98	16 1/16	33 15/16	111%	31%
Midway Games	MWY	Interactive Entertainment	WMS Industries	WMS	10/30/96	20	8	-60%	82%
Navigant International	FLYR	Travel Services	U.S. Office Products	OFIS	6/10/98	8 2/16	6 10/16	-18%	15%
NCR	NCR	Data, Transaction Processing	AT&T	T	1/2/97	33 12/16	48 12/16	44%	74%
Octel	OTL	Specialty Chemical	Great Lakes Chemical	GLK	5/26/98	22 12/16	13 5/16	-41%	17%
Penton Media	PME	Publishing	Pittway	PRY	8/10/98	16 12/16	21	25%	18%
Penwest Pharmaceuticals	PPCO	Pharmaceuticals	Penford Corp.	PENX	8/10/98	16 12/16	8 4/16	-51%	29%
Primex Technologies	PRMX	Defense and Aerospace	Olin	OLN	1/7/97	16 12/16	44 8/16	166%	73%
RCN Corp.	RCNC	Voice, Video processing	C-Tec Corporation	CTEX	10/1/97	15 14/16	27 2/16	71%	34%
Republic Service Group	RSG	Waste Management	Republic Industries	RII	7/1/98	25 8/16	20 10/16	-19%	11%
School Specialty	SCHS	Educational Supplies	U.S. Office Products	OFIS	6/10/98	15 14/16	24 2/16	52%	15%
Sonosight	SONO	Handheld Ultrasound devices	ATL Ultrasound	ATLI	4/7/98	13 6/16	11 8/16	-14%	15%
Solutia	SOI	Chemicals	Monsanto	MTC	9/3/97	19 3/16	19 4/16	0%	42%
Tricon Global Restaurants	YUM	Restaurants	Pepsi Corp.	PEP	10/7/97	31 2/16	47 9/16	53%	33%
Unova	UNA	Manufacturing Technology	Western Atlas	WAI	11/3/97	18 6/16	18 15/16	3%	42%
United Wisconsin	UWZ	Health, HMO	American Medical Group	AMZ	9/28/98	7 3/16	8 10/16	20%	22%
US West	USW	Communications	US West	USW	6/12/98	50 8/16	61 12/16	22%	18%
Vencor (New)	VC	Healthcare	Vencor	VC	5/2/98	12 8/16	3 1/16	-76%	14%
Vlassic	VL	Food products	Campbell Soup	CPB	3/30/98	25 12/16	20 4/16	-21%	17%
Waddell & Reed	WRD	Asset Management	Torchmark	TMK	3/5/98	26 7/16	21 2/16	-20%	24%
Workflow Management	WORK	Print Management	US Office	OFIS	6/10/98	9	6 14/16	-24%	15%