



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

January 1999  
Volume III Issue 1

Continuous Research on Corporate Spin-Offs

## SPIN-OFF RESEARCH

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## Forget the Mergers and IPOs, Look for More Corporate Divorce

After this years avalanche of corporate marriages-- including American Online's proposed acquisition of Netscape and Deutsche Bank's bid for Bankers Trust-- it may be surprising for some shareholders to learn that a recent study by management consultants A.T. Kearney found that more than half of mergers fail to create substantial returns for shareholders. The merger process is often easier said than done. Lack of goals, leadership and poor communication can make the desired synergies elusive. A.T. Kearney examined 115 multibillion-dollar mergers worldwide and across all major industries between 1993 and 1996. **The research suggested that 58 percent of mergers did not bring "substantial returns"**, in the form of dividends and stock appreciation to shareholders. It also found that mergers of equals are less successful than acquisition of smaller companies. This makes sense to us, as we have suggested that there is more money to be made investing in corporate divorce (spin-offs) rather than marriage (mergers).

According to a recent Barron's, many of 1998's new stock issues performed poorly. According to Securities Data Company 337 stocks went public through December 4, raising approximately \$32 billion. **The average IPO in '98 is up only 6.5%, and 53 stocks have actually fallen 50% from their offering price.** This pales in comparison to the nearly 20% returns enjoyed by the S&P 500 year-to-date. The stars of the 1998 IPO class have been the Internet related issues, which raised \$5.94 billion and returned an average 124% to the chosen few fortunate enough to participate at the initial offering price.

### Big Year for Spin-Offs and Carveouts

We tracked **45** spin-offs in 1998, which was about equal to the number of spin-offs in 1997, but they are getting bigger. The **three largest IPO's in 1998 were partial spin-offs or "Carveouts"** from other publicly traded companies. The largest IPO in 1998 was DuPont's spin-off of **Conoco (NYSE-COC)** in late October, which raised \$4.4 billion, making it the biggest domestic IPO ever. Plummeting oil prices have diminished investor interest in Conoco, which now trades below the \$23 offering price. The following month News Corp carved out a portion of **Fox Entertainment (NYSE-FOX)**, raising \$2.81 billion. In December, **Infinity Broadcasting (NYSE-INF)** moved into third place by raising \$2.87 billion. The radio and outdoor advertising division of CBS used a staggering 22 investment banks (generating roughly 135 million in fees) to place the stock of Infinity. The nation's second-biggest radio network was well received it its first day of trading, finishing at \$23 1/16, up more than 13% from its initial pricing of \$20 1/2. We are not overly excited about Infinity at these prices. We acknowledge that Infinity has a strong track record with no debt and radio assets in top markets such as New York, Los Angeles and Chicago, but the IPO was priced at 27x the nine month cash flow multiple.

### The Five Largest IPOs were all Carveouts

Company	IPO Date	Amount Raised	Parent
Conoco (COC)	10/22/98	\$4.4 billion	DuPont (DD)
Lucent (LU)	04/04/96	\$3.0 billion	AT&T (T)
Infinity (INF)	12/10/98	\$2.8 billion	CBS (CBS)
Fox (FOX)	11/11/98	\$2.8 billion	News Corp. (NWS)
Allstate (ALL)	06/03/93	\$2.1 billion	Sears (S)

Source: Bloomberg News

## 1998 Carve-outs

There were a number of smaller IPO carveouts this year as well. **We tracked 14 new carveouts in 1998.** This subset of the spin-off universe has two issues that may warrant investor attention. **Convergys** (NYSE-CVG), which was entirely separated from Cincinnati Bell on December 31<sup>st</sup>, 1998, and **Waddell & Reed** (NYSE-WDR), separated from Torchmark in November. Convergys is the #1 provider of both out-sourced billing to the wireless telecommunications industry. Convergys will continue to benefit from the trend to outsource non-core business activities. We feel growth investors will covet the likely 25% earnings growth we expect for the next several years. Waddell & Reed Financial, is one of the oldest mutual fund companies in the country. They sell investment products through a virtually exclusive sales force of 2,200 financial advisors. We believe that Waddell & Reed has solid growth prospects and a distinctive distribution strategy. The stock is trading at slightly less than the \$23 IPO price it was taken public at back in March of 1998. We expect steady and methodical appreciation in the stock as assets under management continue to grow.

<u>Carveout/Parent</u>	<u>Offer Date</u>	<u>Net Proceeds</u>	<u>IPO Price</u>	<u>12/31 Price</u>	<u>Change</u>
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**Banco Santander**

<b>Puerto Rico (SBP)/</b> <i>Banco Santander Spain (STD)</i>	11/20	67M	\$21.50	\$21 15/16	2%
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**1997 Sales (mil.):** \$470.7

**1997 Net Inc. (mil.):** \$67.7

**1-Yr. Net Inc. Growth:** 49.2%

**Banco Santander Puerto Rico**, which is 80% owned by Spain's largest banking group Banco Santander, is the second-largest bank in Puerto Rico (Banco Popular is the largest). The bank has nearly 80 branches on the island and one in New York offering retail-banking services. Banco Santander Puerto Rico also operates Santander Securities, an investment brokerage, and Santander Overseas Bank, an international banking facility. The bank has been operating in Puerto Rico for over 20 years and has \$6.2 billion in assets. Parent company Banco Santander owns approximately 78.3% of the outstanding common shares. The bank sold about 21.7% to the public in November. There is 38.6 million shares outstanding implying a market capitalization of about \$835 million. The new spin is trading at 2.2x tangible book value.

<u>Carveout/Parent</u>	<u>Offer Date</u>	<u>Net Proceeds</u>	<u>IPO Price</u>	<u>12/31 Price</u>	<u>Change</u>
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<b>Cognizant Technology Solutions (CTSH)/</b> <i>IMS Health (RX) formerly Cognizant</i>	6/19	29.2M	\$10.00	\$30 3/8	203%
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**1997 Sales (mil.):** \$24.7

**1997 Net Inc. (mil.):** \$1.0

**Cognizant Technology Solutions** provides software development services, application management, computer date corrections (Y2K) and currency conversion. Nearly 60% of its sales come from Dun & Bradstreet's current or former divisions, a percentage Cognizant is working to reduce. IMS Health controls 95% of the voting power of CTS. **Cognizant Technology Solutions has been the best performing spin-off of 1998, returning nearly 120% to shareholders since going public in June. We expect that as this business matures that IMS Health will spin it off to shareholders.**

<u>Carveout/Parent</u>	<u>Offer Date</u>	<u>Net Proceeds</u>	<u>IPO Price</u>	<u>12/31 Price</u>	<u>Change</u>
<b>Conoco</b> (COC)/ <i>DuPont</i> (DD)	10/21	3963.1M	\$23	\$20 13/16	-9.5%

**1997 Sales (mil.):** \$20,447.0

**1997 Net Inc. (mil.):** \$1,097.0

**Conoco**, spun off from chemical giant DuPont in October raised \$4.4 billion in the largest domestic IPO ever. COC has operations in 40 countries. It explores for petroleum in 15 countries (with proved reserves of 3.1 billion barrels of oil equivalent), runs about 6,500 miles of US pipeline, and has four refineries in the US, one in the UK, and interests in four others in the Czech Republic, Germany, and Malaysia. It sells gas and other products through 7,900 outlets in Asia, Europe, and the US. DuPont owns about 70% of Conoco (and 92% of the voting power). DuPont intends to "split-off" the remaining ownership to shareholders within 12 months of the IPO.

<u>Carveout/Parent</u>	<u>Offer Date</u>	<u>Net Proceeds</u>	<u>IPO Price</u>	<u>12/31 Price</u>	<u>Change</u>
<b>Convergys</b> (CVG)/ <i>Cincinnati Bell</i> (CSN)	8/12	156M	\$15	\$22 3/8	49%

**1997 Sales (mil.):** \$987.5

**1997 Net Inc. (mil.):** \$86.6

**Convergys**, a mid-August carveout of Cincinnati Bell, provides outsourced billing and customer-management services through its CBIS and MATRIX Marketing subsidiaries. This outsourcing specialist plans to capitalize on the trend toward outsourcing non-core business activities. Convergys is a one-stop shop for billing, marketing and related services. CBIS provides billing and information services for such wireless communications firms as PCS Group, PrimeCo, and AT&T Wireless. MATRIX's customer-management services include customer service, technical support, and sales account management. A contract with AT&T makes up 40% of revenues and does not expire until 2001. The company also has agreements with Ameritech, 360 Communications and Sprint, as well as non-telecom companies including American Express, Microsoft, FedEx and Time Warner. We feel Convergys is capable of growing earnings at 25% for the next several years on revenue growth of 15%. The stock is trading at 20x the \$1.00 we believe Convergys will earn in 1999.

<u>Carveout/Parent</u>	<u>Offer Date</u>	<u>Net Proceeds</u>	<u>IPO Price</u>	<u>12/31 Price</u>	<u>Change</u>
<b>Fox Entertainment</b> (FOX)/ <i>News Corp</i> (NWS)	11/10	2386.8M	\$22.50	\$25 1/2	13%

**1998 Sales (mil.):** \$7,023.0

**1998 Net Inc. (mil.):** \$176.0

**Fox Entertainment**, which is 81% owned by Rupert Murdoch's News Corporation, is one of the largest entertainment conglomerates in the world. It produces, develops, and distributes TV and motion picture programming (including *Ally McBeal*, *The X-Files*, and *Titanic*) through its Fox Filmed Entertainment and Twentieth Century Fox units. It also owns the Fox Television Network as well as 22 TV stations across the US. In addition, Fox Entertainment has interests in cable TV channels and major league sports teams. FOX was the fourth largest IPO ever, raising \$2.81 billion.

<u>Carveout/Parent</u>	<u>Offer Date</u>	<u>Net Proceeds</u>	<u>IPO Price</u>	<u>12/31 Price</u>	<u>Change</u>
<b>Hyperion (HYPT)/ Adelphia Communications (ADLAC)</b>	5/4	160M	\$16	\$15 1/8	-5%

**1998 Sales (mil.):** \$13.5

**1998 Net Inc. (mil.):** (\$69.1)

**Hyperion Telecommunications** provides local telecommunications services over 20 fiber-optic networks. The company partners with local cable or utility providers to offer dedicated access, switched local dial tone, long distance, and enhanced data services, including high-speed Internet access and videoconferencing. Hyperion has a current market capitalization of approximately \$600 million. The company is 73%-owned by Adelphia Communications.

<u>Carveout/Parent</u>	<u>Offer Date</u>	<u>Net Proceeds</u>	<u>IPO Price</u>	<u>12/31 Price</u>	<u>Change</u>
<b>Infinity Broadcasting (INF)/ CBS (CBS)</b>	11/10	2870.0M	\$20.50	\$27 7/16	34%

**1997 Sales (mil.):** \$1,691.5

**1997 Net Inc. (mil.):** \$177.6

Radio broadcaster **Infinity Broadcasting** is #2 in the country in terms of sales. The company has more than 160 radio stations in 34 US markets. Almost all of Infinity Broadcasting's stations are in the US's top 50 radio markets. Subsidiary TDI Worldwide sells outdoor advertising space (including billboards and kiosks) in more than 10 US markets as well as in the UK and Ireland. CBS owns 83% of the company (and 96% of the voting power). We do not see much upside near term in Infinity due to the rich valuation (\$19 billion market cap.). In fact, each share of CBS at current levels is 80% comprised of Infinity implied value.

<u>Carveout/Parent</u>	<u>Offer Date</u>	<u>Net Proceeds</u>	<u>IPO Price</u>	<u>12/31 Price</u>	<u>Change</u>
<b>Keebler Foods (KBL)/ Flowers Industries (FLO)</b>	1/29	223.5M	\$24	\$37 13/16	57%

**1997 Sales (mil.):** \$2,065.2

**1997 Net Inc. (mil.):** \$57.0

**Keebler Foods** is the #2 cookie and cracker baker in the US (behind #1 Nabisco). They make Cheez-It, Club, Hi-Ho, Hydrox, Town House, Wheatables, and other snacks under the Keebler and Sunshine labels. Keebler also imports Carr's crackers, makes private-label cookies and most of the Girl Scout cookie lineup, presses out pie crusts and ice-cream cones. Keebler also supplies other marketers of brand-name foods with custom-baked products. Baking company Flowers Industries owns about 55% of Keebler.

<u>Carveout/Parent</u>	<u>Offer Date</u>	<u>Net Proceeds</u>	<u>IPO Price</u>	<u>12/31 Price</u>	<u>Change</u>
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**Navigant**

<b>International (FLYR)/ US Office Products (OFIS)</b>	6/9	18M	\$9	\$7 11/16	-15%
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**1998 Sales (mil.):** \$120.4**1998 Net Inc. (mil.):** \$3.4

**Navigant International**, one of four companies spun off by U.S. Office Products, provides corporate travel management services in the US, Canada, and the UK. Created by the consolidation of 12 regional travel agencies, Navigant International provides reservations, ticketing, accounting, information and management reporting, trip planning, and travel management consulting services, primarily for corporations. The company has about 430 regional travel agencies and on-site customer travel operations. It also operates over 270 million satellite ticket printers in customers' offices and books more than two-and-a-half million airline tickets annually.

<u>Carveout/Parent</u>	<u>Offer Date</u>	<u>Net Proceeds</u>	<u>IPO Price</u>	<u>12/31 Price</u>	<u>Change</u>
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**Republic**

<b>Services (RSG)/ Republic Industries (RII)</b>	6/30	1056.0	\$24	\$18 1/4	-24%
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**1997 Sales (mil.):** \$1,127.7**1997 Net Inc. (mil.):** \$116.2

Auto dealer and car rental company Republic Industries spun off its **Republic Services** subsidiary, one of the top solid-waste collection and disposal companies in the country, in an IPO. Republic Services provides waste disposal services for commercial, industrial, municipal, and residential customers in 28 states. The company also operates 42 landfills. Wayne Huizenga, who found gold in trash as Chairman of Waste Management, (formerly CEO of Blockbuster Entertainment and then of Republic Industries), is also chairman of Republic Services. Parent company Republic Industries retains firm control over Republic Services via super voting power.

<u>Carveout/Parent</u>	<u>Offer Date</u>	<u>Net Proceeds</u>	<u>IPO Price</u>	<u>12/31 Price</u>	<u>Change</u>
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**School**

<b>Specialty (SCHS)/ US Office Products (OFIS)</b>	6/9	32.9M	\$15.50	\$21 6/16	38%
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**1998 Sales (mil.):** \$310.5**1998 Net Inc. (mil.):** \$5.2

**School Specialty** was spun off by U.S. Office Products in June of 1998. School Specialty is the US's #1 distributor of non-textbook school supplies. Its School Specialty and Re-Print brand supplies include classroom and art supplies, instructional materials, educational games, forms, physical education and audiovisual equipment, furniture, and indoor and outdoor equipment. Its specialty brands include Childcraft Education, Sax Arts & Crafts (art instruction materials), and Gresswell (library-related products and services). Most of its products are made by third-party manufacturers.

<u>Carveout/Parent</u>	<u>Offer Date</u>	<u>Net Proceeds</u>	<u>IPO Price</u>	<u>12/31 Price</u>	<u>Change</u>
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**Ticketmaster****Online-CitySearch**

(TMCS)/ USA Networks (USAI)	12/2	98M	\$14	\$57	307%
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**1997 Sales (mil.):** \$15.5**1997 Net Inc. (mil.):** (\$86.2)

Barry Diller's USA Networks merged its Ticketmaster Online company with online cultural guide CitySearch (purchased by USA in 1998). After withdrawing its SEC registration in August, CitySearch, an online city guide, was bought by USA Networks for \$260 million and subsequently merged with the online division of ticket seller Ticketmaster, only to reregister the combined entity at the end of September. On December 2, the company offered 7 million shares of Class B common stock which closed at \$40.25 on its first trading day. USA Networks owns 61% of the company. Currently, Ticketmaster/Online enjoys a \$2.5 billion market capitalization (not bad for \$15 million in revenues). I guess I should throw out my Graham/Dodd book.

<u>Carveout/Parent</u>	<u>Offer Date</u>	<u>Net Proceeds</u>	<u>IPO Price</u>	<u>12/31 Price</u>	<u>Change</u>
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UBid (UBID)/ Creative Computers (MALL)	12/3	23.7M	\$15	\$108	620%
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UBid, like recent IPO moonshot eBay, is a live Internet auction house where businesses and consumers bid on excess or refurbished merchandise. The company specializes in selling computers and consumer electronics, which typically sell at significant discounts to prices found at traditional retailers. The Internet mania caused the shares of Creative Computers (the parent and vendor of computer gear) to soar from under \$10 last summer to \$63 by early October as investors bid up the stock as a way to garner exposure to uBid. Since the 18% IPO carveout in early December, Creative Computers trades at a significant discount to its intrinsic value. Creative Computers plans to spin-off the rest of uBid to its own shareholders sometime in 1999.

<u>Carveout/Parent</u>	<u>Offer Date</u>	<u>Net Proceeds</u>	<u>IPO Price</u>	<u>12/31 Price</u>	<u>Change</u>
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**Waddell &**

<b>Reed Financial (WDR)/</b> Torchmark (TMK)	3/4	399.3	\$23	\$23 10/16	3%
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**1997 Sales (mil.):** \$253.1**1997 Net Inc. (mil.):** \$70.3

**Waddell & Reed Financial**, a spin-off of Torchmark Corporation, is the exclusive underwriter and distributor of about 36 mutual fund portfolios. Its mutual fund portfolios consist of United Group of Mutual Funds, Waddell & Reed Funds, and TMK/United Funds. The firm also underwrites Torchmark variable annuities and distributes life insurance products to its customers. It has about 560,000 customers and distributes its funds and other financial products through a network of 2,200 financial advisers throughout the US. They also distribute Torchmark underwritten variable annuities and life insurance as part of its financial planning services. On November 6<sup>th</sup>, 1998, Torchmark distributed Waddell & Reed shares to Torchmark shareholders, ending formal corporate ties between the two companies. Waddell & Reed has about 68 million shares outstanding suggesting a market capitalization of \$1.5 billion. The company manages about \$25 billion in assets. At the end of the third quarter, WDR asset mix was split 88% mutual fund and 12% institutional assets. About 71% of the mutual fund assets are in equities, 17% in fixed income, 3% in money market funds and the remaining 9% in variable insurance products.

## Carve-Outs Create Value Too

**An equity carve-out occurs when a parent company sells shares in a subsidiary in an initial public offering (IPO).** Usually, the parent retains a significant ownership position. Often, less than 20 percent is sold by the parent in order to retain the option of doing a tax-free spin-off at a later date. Carve-outs are playing an important role in IPO and divestiture market. Like "pure spin-offs", carve-outs are used to clarify lines of business and/or highlight value. A *Business Week* article titled "*When A Carve-Out is a Good Deal*" (September 21, 1998 p. 132) explored the various dynamics of carve-out investing. A study by a trio of professors -Heather Hulbert of West Virginia University and James Miles and J. Randall Woodridge of Pennsylvania State University was summarized in the article. The professors found both carved-out units and the parent companies' shares returned more on average than industry rivals' shares. The professors describe how they examined 83 carve-out deals from 1981 to 1990. They found that those companies on average saw faster growth in sales, operating income, capital expenditures, and assets than their industry peers, producing higher return on assets and sales. While an equity carve-out does not result in a full parent-subsiary separation, it often begins the process that leads to a full spin-off and increases disclosure and information about the carved-out entity.

We believe that the high carve out volume observed in the last five years reflects several factors, including a major bull market, and the market's continued push toward more focus (pure plays). We estimate that there was roughly \$9 billion in equity carve-out volume in 1997 versus about \$14 billion in 1996 (there were a number of sizable carve-outs including Lucent in 1996). **This years' 14 carve-outs totaled approximately \$11.5 billion in volume.** We have compiled a sample list of carve-outs from the last 5 years that we have tracked, which suggests that carve-outs normally do not remain partially public for very long. The ownership profile changes often within several years. Some of the carve-outs are eventually spun-off, sold or reacquired by the parent company.

### 1998 Spin-Off Summary

We Tracked:

61 Spin-Offs announced  
5 Were cancelled  
 56 Net new spin-offs announced in 1998

45 Spin-offs started trading in 1998  
 14 (of those spin-offs) were carve-outs or partial IPO's

## 5 Years of Carve-outs

Carve-out	Symbol	Offer		Symbol	Years	Net
		Date	Parent		Trading	Proceeds (\$mm)
Infinity Broadcasting	INF	12/10/98	CBS	BS	0.0	\$2,870
uBid	UBID	12/04/98	Creative Computers	MALL	0.1	\$24
Ticket Master Online-City Search	TMCS	12/02/98	USA Networks	USAI	0.1	\$98
Banco Santander Puerto Rico	SBP	11/20/98	Banco Santander Spain	STD	0.1	\$67
Fox	FOX	11/11/98	News Corp.	NWS	0.1	\$2,387
Conoco	COC	10/22/98	DuPont	DD	0.2	\$3,963
Convergys	CVG	08/12/98	Cincinnati Bell	CSN	0.4	\$156
Republic Service Group	RSG	07/01/98	Republic Industires	RII	0.5	\$1,056
Cognizant Technology Solutions	CTSH	06/19/98	IMS Health	RX	0.5	\$29
Navigant International	FLYR	06/09/98	US Office Products	OFIS	0.5	\$18
School Specialty	SCHS	06/09/98	US Office Products	OFIS	0.5	\$33
Hyperion Telecom	HYPT	05/05/98	Adelphia Communications	ADLAC	0.6	\$160
Waddell & Reed	WDR	03/05/98	Torchmark	TMK	0.8	\$399
Keebler Foods	KBL	01/29/98	Flowers	FLO	0.9	\$223
Dollar Thrifty Automotive	DTG	12/16/97	Chrysler		1.0	\$461
Electric Lightwave	ELIX	11/24/97	Citizens Utilities	CZN	1.1	\$102
Priority Healthcare	PHCC	10/24/97	Bindley Western	BDY	1.2	\$29
Avis-Rent-A-Car	AVI	09/23/97	HFS		1.3	\$265
Hartford Life	HLI	05/21/97	Hartford Financial Services	HIG	1.6	\$520
Ocwan Asset Investment	OAC	05/14/97	Ocwen Financial	OCN	1.6	\$240
Hertz	HRZ	04/24/97	Ford Motor	F	1.7	\$439
Ba Merchant Services	BPI	12/18/96	BankAmericia	BAC	2.0	\$174
Moneygram Payment Systems		12/11/96	First Data	FDC	2.1	\$139
Monterey Resources		11/13/96	Santa Fe Energy Resources	SFR	2.1	\$95
Midway Games	MWY	10/30/96	WMS Industries	WMS	2.2	\$102
Metris Companies	MTRS	10/25/96	Fingerhut	FHT	2.2	\$45
Sabre group Holdings	TSG	10/11/96	AMR	AMR	2.2	\$436
Abercrombie & Fitch	ANC	09/25/96	Limited	LTD	2.3	\$90
Houston Exploration	THX	09/19/96	Brooklyn Union Gas		2.3	\$96
National Processing	NAP	08/08/96	National City	NCC	2.4	\$107
Ryerson Tull	RT	06/20/96	Inland Steel Industries	IAD	2.5	\$67
Metromail		06/13/96	RR Donnelley		2.6	\$197
American States Financial		05/22/96	Lincoln National	LNC	2.6	\$184
Associates First Capital	AFS	05/07/96	Ford Motor	F	2.7	\$1,652
American Portable Telecom		04/25/96	Telephone and Data Systems	TDS	2.7	\$167
Compuserve		04/18/96	H&R Block	HRB	2.7	\$384
Lucent Tech.	LU	04/03/96	AT&T	T	2.8	\$2,647
First USA Paymentech		03/21/96	First USA		2.8	\$86
Sterling Commerce	SE	03/08/96	Sterling Software	SSW	2.8	\$240

## 5 Years of Carve-outs

Carve-out	Symbol	Offer		Symbol	Years	Net
		Date	Parent		Trading	Proceeds (\$mm)
Ascent Entertainment Group	GOAL	12/12/95	COMSAT	CQ	3.1	\$75
DST Systems	DST	10/31/95	Kansas City Southern Ind.	KSU	3.2	\$370
Donaldson Lufkin & Jenrette	DLJ	10/24/95	Equitable Companies	EQ	3.2	\$199
Intimate Brands	IBI	10/23/95	Limited	LTD	3.2	\$578
Diamond Offshore Drilling	DO	10/11/95	Loews	LTR	3.2	\$250
Union Pacific Resources	UPR	10/10/95	Union Pacific	UNP	3.3	\$622
Hospitality Properties Trust	HPT	08/16/95	Health and Property Trust		3.4	\$188
Integrated Measurement Systems		07/20/95	Cadence Design Systems Inc.	CDN	3.5	\$30
Computer Learning Centers	CLCX	07/06/95	General Atlantic Corp.		3.5	\$18
Borders Group	BGP	05/24/95	Kmart	KM	3.6	\$416
Amerigas Partners	APU	04/12/95	UGI Corp.	UGI	3.8	\$328
PMI Group	PMA	04/10/95	Allstate	ALL	3.8	\$655
Boise Cascade Office	BOP	04/06/95	Boise Cascade	BCC	3.8	\$93
Commonwealth Aluminum		03/10/95	Comalco		3.8	\$109
Toy Biz Inc.	TBZ	02/23/95	Marvel Entertainment Corp.	MVL	3.9	\$54
HCIA Inc.	HCIA	02/22/95	Ambac Inc.		3.9	\$25
Congoleum Corp.	CGM	02/01/95	American Biltrite	ABL	3.9	\$53
Nabisco Holdings	NA	01/19/95	RJR Nabisco	RN	4.0	\$882
Guidant	GDT	12/14/94	Eli Lilly		4.1	\$144
Sports Authority	TSA	11/17/94	Kmart	KM	4.2	\$187
Capital One Financial	COF	11/15/94	Signet Banking		4.2	\$91
OffixeMax	OMX	11/02/94	Kmart	KM	4.2	\$504
Vastar Resources	VRI	06/27/94	Atlantic Richfield	ARC	4.6	\$350
Case	CSE	06/24/94	Tenneco	TEN	4.6	\$249
Sante Fe Pacific Gold		06/15/94	Sante Fe Pacific		4.6	\$168
Centex Construction products	CXP	04/12/94	Centex	CTX	4.8	\$114
AES China Generating		02/23/94	AES	AES	4.9	\$128
Western National		02/08/94	Conseco	CNC	4.9	\$330
Interim Services	IS	01/27/94	H&R Block	HRB	5.0	\$160
PacTel (Airtouch)	ATI	12/02/93	Pacific Telesis Group		5.1	\$966
Talbots	TLB	11/18/93	JUSCO		5.2	\$168
Vesta Insurance Group	UTA	11/10/93	Torchmark	TMK	5.2	\$180
Transnational Re		11/02/93	Phoenix Reinsurance		5.2	\$100
Paul Revere		10/26/93	Textron	TXT	5.2	\$163
Belden	BWC	09/29/93	Cooper Industries	CBE	5.3	\$239
Motor Coach Industries		08/05/93	Dial	DL	5.5	\$208
AT&T Capital		07/28/93	American Telephone & Telegraph	T	5.5	\$86
Libbey	LBY	06/17/93	Owens-Illinois Group	OI	5.6	\$156
Allstate	ALL	06/02/93	Sears Roebuck	S	5.6	\$1,850
Sonat Offshore Drilling	SNT	05/27/93	Sonat	SNT	5.7	\$273
Geon Company	GON	04/29/93	BF Goodrich		5.7	\$187
Tig Holdings	TIG	04/20/93	Transamerica	TA	5.8	\$800
Dean Witter Discover		02/22/93	Sears Roebuck	S	5.9	\$695
Paragon Trade Brands	PTB	01/26/93	Weyehaeuser	WY	6.0	\$152
Williams Coal Seam Gas Royalty	WTU	01/13/93	Williams Companies	WMB	6.0	\$104

## Spin-off Performance (6 Months or Less )

Spin-Off Name	Sym.	Spin-Off Date	Spin-Off Price	CLOSING PRICE 12/31/98	YEARS SINCE SPIN-OFF	Spin-Off % Change	S+P 500 % Change	Shares (000)	Market Cap (000)
<b>uBid</b>	<b>UBID</b>	<b>12/4/98</b>	<b>48</b>	<b>108</b>	<b>0.1</b>	<b>125%</b>	<b>5%</b>	<b>9,210</b>	<b>994,680</b>
LandAir Services (New)	LAND	9/24/98	6	7.5	0.3	25%	18%	6190	46,425
Ticketmaster Online-CitySearch	TMCS	12/2/98	40.25	57	0.1	42%	5%	69.5	3,962
Convergys	CVG	8/12/98	16 10/16	20.75	0.4	25%	14%	154,000	3,195,500
IMS Health / COGNIZANT	RX	7/1/98	63	76.25	0.5	21%	7%	171,000	13,038,750
United Wisconsin	UWZ	9/28/98	7 3/16	8.6875	0.3	21%	17%	16,500	143,344
Penton Media	PME	8/10/98	16 12/16	20.1875	0.4	21%	14%	21,000	423,938
Infinity Broadcasting	INF	12/10/98	23 1/8	27.4375	0.1	19%	6%	835,000	22,910,313
Hi/fn	HIFN	12/17/98	20 4/8	23.625	0.1	15%	4%	6,000	141,750
Fox	FOX	11/11/98	24 4/8	25.5	0.2	4%	10%	632,000	16,116,000
Pennzoil-Quaker State	PZL	12/31/98	15 1/8	15.0625	0.0	0%	0%	77,600	1,168,850
Crestline Capital	CLJ	12/30/98	15 3/8	14.9375	0.0	-3%	0%	20,400	304,725
Banco Santander P. R.	SBP	11/20/98	22 7/8	21.9375	0.2	-4%	6%	14400	315,900
Dun & Bradstreet	DNB	7/1/98	34 7/16	31.5625	0.5	-8%	7%	171,000	5,397,188
Leap Wireless	LWIN	9/24/98	8	7.1875	0.3	-10%	18%	17500	125,781
Conoco	COC	10/22/98	24 7/8	20.8125	0.2	-16%	14%	646,456	13,454,366
Penwest Pharmaceuticals	PPCO	8/31/98	7 10/16	6.0625	0.4	-20%	24%	11250	68,203
<b>Cohesion Technologies</b>	<b>CSON</b>	<b>8/19/98</b>	<b>5</b>	<b>3.625</b>	<b>0.4</b>	<b>-28%</b>	<b>12%</b>	<b>8,900</b>	<b>32,263</b>
Republic Service Group	RSG	7/1/98	25 8/16	18.25	0.5	-28%	7%	73,953	1,349,642

### Cohesion Technologies

A stock from this list that looks intriguing is Cohesion Technologies. The company was spun-off from Collagen Aesthetics (NASDAQ:CGEN) on August 18th, 1997. Cohesion is focusing on the commercial development of hemostatic and sealant products for cardiothoracic surgery. Market projections for these products are estimated at \$2.4 billion worldwide.

The first product shipments to Europe of CoStasis is expected this month, and the US debut is expected in the second half of 1999. Cohesion anticipates \$500 thousand in product sales for the 3rd quarter of 1999 and anticipates a quarterly loss of seven million until breakeven occurs in 2001. Currently, Cohesion has an estimated sixty-eight million in liquid assets in the form of publicly traded securities. Cohesion currently trades at a negative value based on these holdings.

	Symbol	Shares Held	Price	Market Capitalization of Ownership	Difference	Cohesion Implied Value (Less-Carveout)	Holdings Value
Cohesion Technology	CSON	8,900,000	3 3/8	\$ 30,037,500	\$ (30,039,902)	\$ (3.38)	\$ 6.75
Boston Scientific*	BSX	196,702,000	26 13/16	\$ 52,791,750			
Pharming N.V.**	PHAR	838,000	4.24	\$ 3,555,152			
Medarex	MEDX	288,000	3 1/16	\$ 882,000			
Innovative Devices	IDEA	844,000	3 3/8	\$ 2,848,500			

\*Cohesion owns an estimated 900,000 shares of Boston Scientific, of which 88% is hedged at \$63.

\*\*Pharming N.V. is traded on the Frankfurt exchange and has been converted into US Dollars.

The latest developments include the completion of a European clinical study and the closing of enrollment for US clinical trials. The US trial is expected to be completed in April and is the last step before receiving FDA approval. **Cohesion will have their US debut at the Society of Thoracic Surgeons Conference in San Antonio, TX, the week of January 25th.**

## Spin-off Performance (7 Months to 2 years )

Spin-Off Name	Sym.	Spin-Off Date	Spin-Off Price	CLOSING PRICE 12/31/98	YEARS SINCE SPIN-OFF	Spin-Off % Change	S+P 500 % Change	Shares (000)	Market Cap (000)
<b>Cognizant Technology Solu.</b>	<b>CTSH</b>	<b>6/19/98</b>	<b>10</b>	<b>30.25</b>	<b>0.6</b>	<b>203%</b>	<b>12%</b>	<b>9,113</b>	<b>275,668</b>
Midas	MDS	1/30/98	16 1/16	31.0625	0.9	93%	26%	17,533	544,629
ChoicePoint	CPS	8/7/97	35 12/16	64.5	1.4	80%	29%	14,800	954,600
General Instrument (Nextlevel Systems)	GIC	7/28/97	20 3/16	33.75	1.5	67%	31%	141,000	4,758,750
Tricon Global Restaurants	YUM	10/7/97	31 2/16	49.5	1.3	59%	28%	153,000	7,573,500
BJ's Whole Sale Club	BJ	7/29/97	29 6/16	46.3125	1.5	58%	31%	38,602	1,787,755
Keebler Foods	KBL	1/29/98	26 13/16	37.8125	0.9	41%	25%	89,900	3,399,344
Hussman	HSM	1/30/98	13 10/16	18.875	0.9	39%	26%	52,600	992,825
School Specialty	SCHS	6/10/98	15 14/16	21.375	0.6	35%	11%	12,760	272,745
US West	USW	6/12/98	50 8/16	64.75	0.6	28%	13%	482,100	31,215,975
US Media	UMG	6/12/98	36 8/16	46.5	0.6	27%	13%	606,100	28,183,650
Solutia	SOI	9/3/97	19 3/16	22.125	1.4	15%	37%	118,320	2,617,830
RCN Corp.	RCNC	10/1/97	15 14/16	17.5	1.3	10%	29%	60,964	1,066,870
Cresendo Pharmceuticals	CNDO	10/1/97	12 8/16	13.5313	1.3	8%	29%	4,964	67,169
Commscope	CTV	7/28/97	15 12/16	16.1875	1.5	3%	31%	47,000	760,813
Corn Products Int.	CPO	1/2/98	30	30	1.0	0%	26%	35,851	1,075,515
Chicago Title Corporation	CTZ	6/18/98	46 12/16	46.125	0.6	-1%	11%	21,900	1,010,138
Unova	UNA	11/3/97	18 6/16	18	1.2	-2%	36%	53,800	968,400
Navigant International	FLYR	6/10/98	8 2/16	7.6875	0.6	-5%	10%	9,600	73,800
Vlassic	VL	3/30/98	25 11/16	23.625	0.8	-8%	13%	46,700	1,103,288
Waddell & Reed	WDR	3/5/98	26 7/16	23.625	0.8	-11%	19%	21,700	512,663
Meritor Automotive	MRA	10/1/97	23 14/16	21.25	1.3	-11%	37%	72,233	1,534,958
Hyperion Telecom	HYPT	5/5/98	17 6/16	15.125	0.7	-13%	10%	12,500	189,063
Agribands	AGX	4/1/98	35 14/16	30.5	0.8	-15%	11%	10,200	311,100
Marriott International	MAR	3/27/98	36 12/16	30.0625	0.8	-18%	12%	250,000	7,515,625
"New" Grace	GRA	4/8/98	19 13/16	15.6875	0.8	-21%	12%	56,100	880,069
LNR Properties	LNR	11/3/97	25 3/16	19.9375	1.2	-21%	36%	26,020	518,774
Sonosight	SONO	4/7/98	13 6/16	10.375	0.8	-22%	11%	4,700	48,763
BEI Technologies	BEIQ	9/29/97	12 8/16	9.375	1.3	-25%	29%	7,195	67,453
Amsurg	AMSGB	12/4/97	9	6.75	1.1	-25%	26%	4,738	31,982
Valero Energy (New)	VLO	8/1/97	28 13/16	21.375	1.4	-26%	29%	44,190	944,561
Workflow Management	WORK	6/10/98	9	6.625	0.6	-26%	11%	12,800	84,800
Octel	OTL	5/26/98	22 12/16	14.125	0.6	-38%	12%	14,900	210,463
General Semiconductor	SEM	7/28/97	14 12/16	8.1875	1.5	-44%	31%	35,250	288,609
Sunburst	SNB	10/15/97	9 8/16	4.1875	1.2	-56%	27%	19,920	83,415
"New" OMI	OMM	6/18/98	8 3/16	3.1875	0.6	-61%	11%	42,914	136,788
Vencor	VC	5/2/98	12 8/16	4.4375	0.7	-65%	10%	69,800	309,738
Aztec Technology Partners	AZTC	6/10/98	11	3.75	0.6	-66%	10%	19,200	72,000

## Spin-off Performance (2 years to 3 Years)

Spin-Off Name	Sym.	Spin-Off Date	Spin-Off Price	CLOSING PRICE	YEARS SINCE SPIN-OFF	Spin-Off % Change	S+P 500 % Change	Shares (000)	Market Cap (000)
<b>Lucent Technologies</b>	<b>LU</b>	<b>4/4/96</b>	<b>15 5/16</b>	<b>110.313</b>	<b>2.8</b>	<b>620%</b>	<b>79%</b>	<b>1,190,000</b>	<b>131,271,875</b>
Earthgrains	EGR	3/26/96	7 10/16	30.8125	2.8	304%	90%	43,112	1,328,389
Allegiance	AEH	9/24/96	16 4/16	46.1875	2.3	184%	79%	57,977	2,677,813
Primex Technologies	PRMX	1/7/97	16 12/16	42.5	2.0	154%	66%	4,990	212,075
Dial Corporation	DL	8/16/96	13 2/16	28.8125	2.4	120%	85%	95,961	2,764,876
Newport News Shipbuilding	NNS	12/12/96	16	32.875	2.1	105%	69%	34,837	1,145,266
A.C. Nielson	ART	11/1/96	15 10/16	28.1875	2.2	80%	68%	57,000	1,606,688
Echelon International	EIN	12/9/96	12 8/16	22.3125	2.1	79%	68%	6,760	150,833
Payless ShoeSource	PSS	5/9/96	28 12/16	47.125	2.7	64%	92%	39,535	1,863,087
Associates First Capital	AFS	5/8/96	29	43 1/16	2.7	48%	92%	726,000	31,263,375
Covance	CVD	1/14/97	19 12/16	29	2.0	47%	66%	57,500	1,667,500
Sabre Reservations System	TSG	10/11/96	31 10/16	44.375	2.3	40%	77%	23,414	1,038,996
NCR	NCR	1/2/97	33 12/16	41.375	2.0	23%	67%	101,000	4,178,875
Cuno	CUNO	9/11/96	15	16.25	2.3	8%	84%	17,999	292,484
Quest Diagnostics	DGX	1/14/97	17 12/16	17.8125	2.0	0%	66%	28,800	586,800
Deltic Timber	DEL	1/2/97	22 4/16	20.375	2.0	-8%	66%	12,800	260,800
Choice Hotel International	CHH	11/4/96	15 2/16	13.5	2.2	-11%	74%	62,587	844,925
Millennium Chemical	MCH	10/2/96	23	19.875	2.3	-14%	77%	77,325	1,536,834
Imation	IMN	7/16/96	23 14/16	17.1875	2.5	-28%	94%	42,395	728,664
<b>Midway Games</b>	<b>MWY</b>	<b>10/30/96</b>	<b>20</b>	<b>10.75</b>	<b>2.2</b>	<b>-46%</b>	<b>75%</b>	<b>38,500</b>	<b>413,875</b>
Billing Information Concepts	BILL	8/2/96	21	11.0625	2.5	-47%	86%	15,032	166,292
Union Pacific Resources	UPR	10/11/95	22	9	3.3	-59%	75%	253,780	2,284,020
Tupperware	TUP	5/31/96	46	16.4375	2.6	-64%	84%	61,598	1,012,517
Unisource Worldwide	UWW	1/2/97	20 2/16	7.125	2.0	-65%	67%	66,900	476,663
TCI Satellite Entertainment	TSATA	12/5/96	12 10/16	1.53125	2.1	-88%	65%	58,000	88,813

We think **Midway Games may be worth a look this year**. Insiders at Midway Games (MWY), maker of video games for coin-operated machines and home players such as Sony, Nintendo, and Sega systems, are making significant bets on their own stock. With Midway trading around 11 - down from last year's high of 26, insiders, including CEO Neil Nicastro and CFO Harold Bach, and Sumner Redstone (CEO of Viacom) have been big buyers. Sumner Redstone bought 399,000 shares from October 23 to December 17 at \$9.25 - \$11 each, increasing their holdings to 9,245,626 shares (24.8%). We think Midway will earn \$1.10 or so in fiscal 1999 (June), suggesting a p/e multiple of 10 versus a p/e of 15 for its peers. Midway's NFL Blitz was a big hit this Christmas. Other games in its stable include Mortal Kombat (which has sold more than 15 million copies), Doom and Pacman.

## SPIN-OFF CANDIDATES

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**The tobacco industry could see several spin-offs announced this year.** The recent \$206 billion tobacco settlement removes the industry's largest legal threat and potential for bankrupting jury awards. This could permit companies such as RJR, Phillip Morris, and Loews Corp. to spin off non-tobacco assets without fear that plaintiffs lawyers would sue to block such a corporate restructuring. Under the deal, tobacco ads will disappear from billboards and stadiums. Cigarette makers have promised not to market to kids. Retail prices will rise between 50 cents and \$1 per pack. **RJR (NYSE-RN), could spin-off its 80.5 percent stake in Nabisco Holdings Corp.**, the country's largest cookie and cracker company. By spinning off Nabisco, RJR would permit investors to apply separate valuations for its tobacco and food assets. We believe such a move could bring RJR shares closer to \$40, up from \$28 1/8 now. Investor Carl Icahn, who staged a failed proxy fight against the company two years ago, has amassed a stake in RJR of 13 million shares last summer and has been lobbying for a separation.

**Philip Morris (NYSE-MO)**, is the world's largest tobacco business; it controls about half of the US tobacco market, and its Marlboro is one of the world's most valuable brands. The company also makes such brands as Virginia Slims and Benson & Hedges. Philip Morris gets almost half of its revenues (but only one-third of its profits) from food and beer subsidiaries that include Kraft (the US's largest food company and marketer of such leading brands as Jell-O, Oscar Mayer, and Post cereals) and Miller Brewing (ranked #2 among US beer makers).

**Loews (NYSE-LTR)** too, could benefit from a tobacco spin-off. Loews trades at a substantial discount to the value of its components. A spin-off of its Lorillard tobacco division would likely create value for shareholders. Lorillard is the most profitable U.S. cigarette maker on a per-pack basis and sells the No. 2 brand, Newport. The company is controlled by the Tisch family, which owns 35% of its 113.7 million shares. Loews Corporation's main business is insurance, through its 84% interest in publicly traded subsidiary CNA Financial. Other holdings include tobacco (the Kent, Newport, and True US cigarette brands, through subsidiary Lorillard Tobacco Company); 14 hotels in the US, Canada, and Monaco (through subsidiary Loews Hotels); watchmaker Bulova; and contract oil-drilling subsidiary Diamond Offshore Drilling, which operates 46 oil rigs. The company also owns stakes in crude-oil transportation company Hellepont. **We believe Lorillard could be worth perhaps \$50 a share on a stand-alone company, based on its estimated \$5.00 per share plus in profits in 1998.**

**SABRE Group Holdings' (NYSE-TSG)** computer reservation system dominates the travel reservation industry. Almost 150,000 travel agency terminals around the world use SABRE -- one of the world's largest real-time computer networks -- to book airline reservations, car rentals, hotel rooms, cruises and tours. The company's easySABRE and Travelocity services allow consumers to book their own reservations via the Internet and online services. Travelocity recently reached \$7 million in sales in one week, tops in the online travel-reservation industry. American Airlines' parent AMR, which developed SABRE and carved out the company in 1996, owns 82% of the firm and could spin-off the rest of the shares. Separating SABRE, which alone enjoys a \$5 billion market cap, would highlight the value in AMR.

## SPIN-OFF CALENDAR

Announced					
Company	Symbol	Date	Spin-Off	Symbol	Trading
ADELPHIA COMMUNICATIONS	ADALC	5/05/98	HYPERION COMMUNICATIONS	HYPT	CO
ADVANCED LIGHTING TECHNOLOGY	ADLT	5/5/98	MICROSUN TECHNOLOGIES		
ALLEGHANY TELEDYNE	ALT	4/22/98	CONSUMER DIVISION		
<b>AUTOMATIC DATA PROCESSING</b>	<b>AUD</b>	<b>12/18/98</b>	<b>PEACHTREE SOFTWARE</b>	<b>PEAC</b>	
BINDLEY WESTERN	BDY	10/24/97	PRIORITY HEALTHCARE	PHCC	RW
CBS	CBS	8/27/98	INFINITY BROADCASTING	INF	CO
<b>CBS / DATA BROADCASTING</b>	<b>DBCC</b>	<b>10/13/98</b>	<b>MARKET WATCH.COM</b>	<b>MKTW</b>	
CINCINNATI BELL	CSN	4/27/98	CONVERGYS	CVG	RW
CITIZENS UTILITIES	CZN	5/18/98	TELECOMMUNICATIONS		
COLLAGEN	CGEN	10/6/97	COHESION TECHNOLOGIES	CSON	RW
COLUMBIA / HCA	COL	7/29/98	LIFEPOINT HOSPITALS TRIAD HOSPITALS		
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	
FAIRCHILD CORPORATION	FA	7/6/98	FAIRCHILD FASTENERS		
FINGERHUT	FHT	10/9/97	METRIS	MTRS	RW
<b>GENCORP</b>	<b>GY</b>	<b>12/17/98</b>	<b>SPECIALTY POLYMERS</b>		
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
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 PHARMACUETICALS	NXTR	10/14/98	ITEREX TECHNOLOGIES		
OLIN	OLN	7/30/98	SPECIALTY CHEMICALS		
PENNZENERGY (formerly Pennzoil)	PZE	4/15/98	PENNZOIL-QUAKER STATE	PZL	
PEPSICO	PEP	7/23/98	BOTTLING OPERATIONS		
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
<b>TELEPHONE &amp; DATA SYSTEMS</b>	<b>TDS</b>	<b>12/21/98</b>	<b>AERIAL COMMUNICATIONS</b>	<b>AERL</b>	<b>CO</b>
TENNECO	TEN	7/21/98	PACKAGING AND AUTOMOTIVE		
TORCHMARK	TMK	11/17/97	WADDELL & REED	WDR	RW
AMERICAN MEDICAL SECURITY GROUP	AMZ	4/22/98	UNITED WISCONSIN	UWZ	RW
US WEST	USW	10/27/97	US MEDIA GROUP	UMG	RW
VARIAN ASSOCIATES	VAR	08/21/98	INSTRUMENTS, SEMICONDUCTORS		
<b>WATTS INDUSTRIES</b>	<b>WTS</b>	<b>12/15/98</b>	<b>OIL AND GAS BUSINESS</b>		
WESTERN WIRELESS	WWCA	10/27/98	VOICESTREAM		
WILLIAMS COMPANY	WMB	11/20/98	COMMUNICATIONS GROUP		

[RW] Regular Way

[CO] Carve-out

[WI] When Issued

## Spin-Offs Expected This Quarter

<b>Columbia/HCA (NYSE: COL)</b>							
<b>Recent Price:</b>	\$24 3/4	<b>Spin-Off:</b>	LifePoint / Triad Hospitals				
<b>Shares Outstanding (000):</b>	624,510	<b>Date Announced:</b>	7/29/98				
<b>Market Cap. (000):</b>	\$15,456,622	<b>Expected Distribution:</b>	Late 1st Qtr.				
Year End	Revenues (000)	Earnings per share*	Price / Earnings	EBITDA (000)	Return On Equity	Return On Assets	Debt to Equity
12/97	18,819,000	0.28	123.4x	2,783,000	-3.85%	0.84%	129.77%
12/96	18,786,000	2.17	18.7x	4,041,000	19.13%	7.13%	81.10%
<b>Company Description:</b>							
<p>Columbia/HCA Healthcare operates 345 hospitals and surgery centers nationwide. It also has operations in Spain, Switzerland, and the UK. Columbia/HCA also offers rehabilitation and home health care. There is a wide-ranging federal investigation into its Medicare and patient-referral procedures, causing several top executives to leave the company. Columbia/HCA has halted the aggressive expansion responsible for its growth, as it tries to cope with the inquiry as well as the changing hospital market. It has sold its prescription benefit management unit and plans to sell its home care operations, about one-third of its hospitals, and some of its surgery centers.</p> <p>The company plans to spin off dozens of its facilities into two new hospital companies called LifePoint and Triad Hospitals. LifePoint and Triad Hospitals will operate independently as publicly traded corporations. LifePoint will operate about 22 mostly rural hospitals; Triad, will run 42 hospitals, 11 of which may be sold, and 19 surgery centers. The spin-offs are expected to be completed by the end of the first quarter pending approval by the IRS of their tax-free status and a SEC review. Columbia wishes to shrink itself to 230 hospitals from 345 at its peak.</p> <p>Lifepoint, formerly America Group, is comprised of 22 non-urban hospitals and non-consolidated joint ventures with revenues year-to-date of about \$366 million, Columbia/HCA said. LifePoint hospitals are in Alabama, Florida, Georgia, Kansas, Kentucky, Louisiana, Tennessee, Utah and Wyoming.</p> <p>Triad, formerly Pacific Group, has 42 hospitals, one non-consolidating joint venture and 19 surgery centers with revenues for the nine months ended Sept. 30 of about \$1.4 billion. Triad hospitals are primarily located in the Southwestern United States, with about three-quarters in small cities. The rest are in larger urban areas.</p>							

\* Excludes extraordinary items.



## Spin-Offs Expected This Quarter...

### Delphi Automotive Systems

Delphi is being carved-out of GM in February of 1999. It is expected that Delphi will sell 100 million shares (or 18% of the company) in an initial public offering. The filing estimates the shares will sell in range between \$14 and \$18 per share. At the midpoint of expectations, Delphi would raise \$1.6 billion. If the deal prices at \$16 Delphi would have a market capitalization of \$9 billion. GM will retain an 82% stake after the IPO, but will divest those shares later in 1999. Delphi's shares will trade on the New York Stock Exchange under the symbol DPH. Delphi Automotive Systems, the world's largest maker of auto parts, is being split-off from General Motors (NYSE-GM).

Delphi and its Delco Electronics division make almost everything mechanical or electrical that goes into a car, including the chassis, engine, and electrical and steering systems. Delphi operates 170 manufacturing plants, 40 joint ventures, and 27 technical centers, and would have ranked in 1997 as the U.S. 's 25<sup>th</sup> largest industrial company on an independent basis. The supplier of components will take about one-third of GM's employees with it when it goes public. The lion's share of Delphi's business comes from GM. Non-GM sales were 18.3% of total sales in 1997. We expect that other vehicle manufacturers will be much more likely to consider Delphi as a parts supplier once the separation is complete. The company is striving to increase sales by 2002 to customers other than GM (North America only) to at least 50% from the 35% level in 1997.

As the largest supplier of parts to the automotive industry in the world, Delphi will be favorably positioned to capture non-General Motor business once it is split-off from GM. Its global sourcing and manufacturing capability will enable Delphi to drive costs lower in response to pricing pressure. The trend to increase the amount of electronics per car bodes well for the company as well. Delphi operates in 36 countries around the world. Sales by product line in 1997 were dynamics and propulsion 42.6%, safety, thermal & electrical architecture 39.9%, and electronics and mobile communications 16.5%. Sales in the replacement parts market, largely through GM's service and parts organization, were 5.1% of total sales. International operations accounted for about 28%.

Proceeds from the public offering will be used for working capital, as anticipated working capital needs are expected to expand due to changes in Delphi's relationship with GM. Drawings on a \$5 billion third party revolving credit facility will likely replace financing arrangements with GM. Delphi expects to start paying a quarterly dividend (unspecified at this time) starting in July.

The two big issues with Delphi are price erosion in the automotive parts industry and labor issues. Delphi is well positioned as the largest company in the industry to respond to price pressures. Labor relations are strained. The company has experienced work stoppages in each of the past three years, including this past summer's strike. Two of the company's three primary domestic labor contracts expire in 1999. Labor is upset about the separation of Delphi from GM because the pension fund is under funded, and would be more secure as part of GM. This has prompted speculation of massive retirements prior to the separation. This would be a mixed bag for Delphi. While high wage workers would presumably be replaced by workers of a lower pay scale (a long-term positive), their lower productivity could possibly result in higher total costs.

**We would expect the market to value Delphi in the \$15 billion range, or about 11 times our estimate for earnings of \$1.3 billion, and roughly 0.5 times revenues.**

Expected IPO date: February 1999

	*1997	1998E	1999E
Sales:	\$31.45 B	28.7 B	\$31 B
Net Income:	\$ 215 M	175M	\$ 1.3 B
EBITDA	\$ 2.8 B		

Proforma to reflect adjustments as if Delphi was an independent company.

## Spin-Offs Expected This Quarter..

Pepsico (NYSE: PEP)							
<b>Recent Price:</b>	\$40 7/8	<b>Spin-Off:</b>	Bottling Operation				
<b>Shares Outstanding (000):</b>	1,467,230	<b>Date Announced:</b>	7/28/98				
<b>Market Cap. (000):</b>	\$59,973,026	<b>Expected Distribution:</b>	Late 1st Qtr.				
Year End	Revenues (000)	Earnings per share	Price / Earnings	EBITDA (000)	Return On Equity	Return On Assets	Debt to Equity
12/97	20,917,000	.98	37x	4,058,000	32%	7.0%	71%
12/96	20,337,000	.60	35x	3,689,000	16%	4.0%	123%
<b>Company Description:</b>							
<p>On November 13th, PepsiCo's announced its intention to take its \$7 billion bottling unit public in the spring. That move was meant to help focus its drink unit on brand building under a more simplified business structure. The spin is not a surprise to us. We speculated in the February (1998) issue of <i>Spin-Off Research</i> that the stage was being set for Pepsi-Cola Bottling Co. (PCBC) to merge with Whitman (NYSE:WH), which operates Pepsi-Cola General Bottlers and handles roughly 12% of Pepsi's U.S. volume. (Pepsi General is 20% owned by PepsiCo Inc. ) Combined, the two would control about 70% of Pepsi's U.S. volume an unprecedented marketing and distribution reach in Pepsi's largest domestic markets. Combined, the two would be on par with Coca-Cola Enterprises (CCE).</p> <p>We believe the spin should help unlock shareholder value. We would guess that PepsiCo will maintain a significant equity interest in the bottling operations, but probably less than 50% so as to avoid consolidated reporting for this entity. It is also likely that the bottling spin-off would dividend a meaningful amount of cash back to PepsiCo (perhaps \$4 or 5 billion). We estimate that Pepsi-Cola Bottling Company could generate roughly \$7 billion in revenues in 1998 and perhaps \$900 million in EBITDA. Based on these ballpark estimates we feel the spin-off could command an enterprise value of \$9 billion, based on 10X EBITDA. This suggests that the North American bottling operations could be worth \$6 or \$7 per PepsiCo share.</p>							



## Recently Announced Spin-Offs

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### Hilton Spins-Off Park Place Entertainment

Park Place is a new gaming company formed from Hilton Hotel's recent gaming spin-off and its concurrent merger with Grand Casinos' Mississippi gaming business. The company will be the world's largest gaming company operating 17 casinos in 5 states and 3 countries. These include six casinos in Nevada, two in New Jersey, four in Mississippi, two in both Louisiana and Missouri, two in Australia and one casino in Uruguay. Park Place operates casinos such as Bally, Flamingo, Grand and Hilton.

**Park Place began trading regular way on Monday, January 4, 1999.** Hilton completed the separation of its gaming lodging businesses in a tax-free distribution of its gaming business (Park Place), on December 31, 1998. Hilton distributed one share of Park Place and one share of Hilton Lodging (about 260 million shares) for every one share of Hilton Hotels owned by shareholders of record as of December 23, 1998. Park Place also distributed an additional 42.3 million shares to Grand Casinos shareholders to consummate the merger. Park Place has an experienced management team consisting of Stephen Bollenbach will serve as the Chairman of the Board of Park Place Entertainment and Arthur Goldberg who is President and CEO of the new company.

#### Gaming Stocks Out of Favor

There is some uncertainty surrounding Las Vegas these days, as business conditions have been difficult. Hotel occupancies and average daily room rates (ADRs) are soft in a highly competitive market, which has resulted from overcapacity in room supply. The environment in Las Vegas may worsen as nearly 18,000 new rooms are expected to open by 2000. The competitive landscape is difficult elsewhere too. In Atlantic City, where the company operates the Atlantic City Hilton and Bally's Park Place competitive pressures have squeezed margins. Park Place, like all gaming stocks, depends on the discretionary income of their customers. The company faces significant exposure in the event of significant downturn in the economy or recession.

#### Valuation

At \$7 per share, Park Place has a market capitalization of about \$ 2.17 billion. We estimate the number of fully-diluted shares of the new gaming company to be about 310 million (303 million primary shares assuming roughly 261 million shares for Hilton and 42 million for Grand using a 1-to-1 exchange ratio). Adding an estimated \$2.1 billion in long term debt suggests an enterprise value of \$ 4.27 billion. We believe the company could generate about \$670 million in EBITDA. This indicates that Park Place is trading at an enterprise value of about 6.4 times EBITDA. We would ballpark earnings for 1998 in the 40 - 45 cent per share range suggesting a p/e multiple of 17. This valuation strikes us as about right, considering the current competitive issues facing the gaming industry. We would anticipate that Park Place could trade modestly higher in 1999, perhaps in the \$9 to \$10 range by the end of the year.

## Recently Announced Spin-Offs

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### Automatic Data Processing to Carveout Peachtree Software

December 18, 1998, Peachtree Software, Inc. a wholly-owned subsidiary of Automatic Data Processing, Inc., filed a registration statement with the Securities and Exchange Commission as part of a proposed initial public offering of its common stock. Peachtree is a leading provider of financial and accounting software for small business. ADP, with over \$4.5 billion in revenue and over 425,000 clients, is one of the largest independent computing service firms in the world. Peachtree Software, acquired in 1994 by Automatic Processing, filed for an initial stock offering that could raise as much as \$140 million. The company did not specify how many shares it would sell or their expected price range. The Georgia-based company specializes in financial and accounting software for small businesses. **Peachtree had \$52.2 million in revenue in its 1998 fiscal year.** Peachtree has applied to trade on the NASDAQ under the symbol "PEAC".

Peachtree has won numerous major awards in the financial and accounting software industry. Peachtree sells packaged software primarily through the retail distribution channel and is represented in thousands of retail software locations nationwide. Peachtree derives a majority of its revenue from direct aftermarket sales to its existing customers of upgrades, payroll tax services, business forms and support services. Peachtree's base of registered customers includes over one million small businesses, with the majority of those having five or more employees. Peachtree's extensive software product line provides a total financial and accounting solution for small businesses of various sizes and complexity. Peachtree has been a technology leader and innovator with many retail software industry firsts, including the first DOS accounting package, the first Windows accounting package, the first widely available accounting application seamlessly integrated with Microsoft Office and, most recently, the first widely available Windows 98-certified accounting platform. Peachtree was acquired by ADP in 1994 and has since operated as a wholly owned subsidiary of ADP. Peachtree has continued to invest in its marketing, sales and development, expanded its product offerings, both through internal development and through selective acquisitions.

#### Competition

Peachtree currently competes on the basis of the quality and value offered by its products and services, including ease of use, features, reliability, performance and price, the quality of its sales and marketing network and the quality of its service and technical support. Peachtree believes that it currently competes favorably overall with respect to these factors. Peachtree faces different competitors and potential competitors with respect to its different products and services. For example, Peachtree's packaged software products compete directly with those from Intuit Inc., which has the largest market share in the packaged financial and accounting software market. Various other companies are competitors or potential competitors in the financial and accounting software market, including ACCPAC International, Inc. (a subsidiary of Computer Associates International, Inc.), Clarus Corporation, Great Plains Software, Inc., M.Y.O.B. Inc., Platinum Software Corporation, The Sage Group PLC and Solomon Software, Inc. Competitors or potential competitors in the financial and accounting software market include a very large number of other national, regional and niche players, as well as manual and paper-based accounting systems, accounting professionals and "personal finance" software, such as Intuit's Quicken product.

**Automatic Data Processing (ADP)** is the largest payroll and tax-filing processor in the world, with over 400,000 accounts. Its payroll and tax processing services account for about half of revenues; ADP files taxes for more than 285,000 clients. The Brokerage Services unit, which provides front-office quotation workstations and back-office record keeping, order entry, and proxy services for brokerage firms, serves more than 1,600 clients worldwide.

## Recently Announced Spin-Offs...

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### **CBS to CARVEOUT MarketWatch in Partial IPO**

San Francisco-based MarketWatch.com, the financial website of CBS, plans to sell 2.75 million shares in a range between \$10 and \$12 in an IPO. The company indicated it might raise a maximum of \$33 million when its stock goes on sale to the public. In its October 13 SEC filings, the company also noted that it intends to use at least \$5 million from the offering for marketing activities during 1998 and 1999, and an additional \$3 million will go to repay all outstanding indebtedness to its co-owner, Data Broadcasting Corp. CBS Corp. and Data Broadcasting Corp., each currently own 50 percent of MarketWatch.com, but with the IPO representing 26.4 percent of the company, the parent companies' stakes will slide to 38.3 percent after the sale. MarketWatch will list its shares on the NASDAQ National Market, under the symbol "MKTW". After the offering there will be outstanding 11,750,000 shares of Common Stock. There will be 12,162,500 shares outstanding if the Underwriters' over-allotment option is exercised in full.

MarketWatch.com is a Web-based provider of comprehensive, real-time business news, financial programming and analytic tools. The CBS.MarketWatch.com Web site also offers several tiers of paid subscription products, personal finance commentary and data, community features and other services designed to provide a "one-stop-shop" for its audience's financial information needs. A staff of over 40 professional journalists creates in-depth, up-to-the-minute business and financial commentary and analysis throughout the trading day and its correspondents often appear on CBS Television and CBS Radio News. MarketWatch.com has strategic relationships with its principal stockholders, CBS Broadcasting Inc. and Data Broadcasting Corporation (DBC). It believes that its focus on original and authoritative content and access to a national media audience through the CBS relationship, combined with the interactive qualities of the Internet, will allow it to create a strong brand for real-time business news and financial programming on the Web. In October 1998, the MarketWatch Web site attracted nearly 2.2 million visitors, who generated more than 48 million page views, as compared with approximately 785,000 visitors, who generated approximately 40 million page views in March 1998.

The company competes for advertisers, users and content providers with the following types of companies: publishers and distributors of traditional media (such as television, radio and print), such as The Wall Street Journal, CNN and CNBC; general purpose consumer online services such as America Online and Microsoft Network; online services or Web sites targeted to business, finance and investing needs (such as TheStreet.com and Motley Fool); and Web retrieval and other Web portal companies (such as Excite, Inc., InfoSeek Corporation, Lycos, Inc., Yahoo! Inc., and Netscape Communications Corporation).

## Recently Announced Spin-Offs...

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### GenCorp to Create Two Companies With Spin-Off of Polymer Products Businesses

On December 17, GenCorp (NYSE: GY) announced a plan to spin off its Performance Chemicals (formerly Specialty Polymers) and Decorative & Building Products businesses to GenCorp shareholders as a separate publicly traded polymer products company. Following the spin-off, GenCorp would continue to operate Aerojet, its existing aerospace, defense, and fine chemicals segment, and its automotive Vehicle Sealing business unit. The plan is subject to approval by GenCorp shareholders, the receipt of a favorable ruling from the Internal Revenue Service, as well as market conditions at the time of the spin-off. GenCorp intends to seek a ruling from the Internal Revenue Service to confirm that the transaction would be tax-free to the company and its shareholders. The transaction is expected to be finalized in the second half of 1999. GenCorp's current chief executive, John Yasinsky, will lead the new spin-off. Robert Wolfe, currently president of Aerojet, will become chairman and chief executive of the ongoing GenCorp. GenCorp believes that the faster growing performance chemical and decorative and building products spin-off will garner a richer multiple as a stand-alone company.

Headquarters for the new polymer products company will be located in the Akron, Ohio area, where headquarters for its Performance Chemicals and Decorative & Building Products business units, along with its Corporate Technology Center will remain. Headquarters for GenCorp would ultimately move closer to its primary aerospace, defense, and fine chemicals businesses located in California. Under the spin-off plan, all shares of the new, as yet unnamed, polymer products company would be distributed to shareholders of GenCorp stock. GenCorp expects to assign approximately one-half of its debt to the new company. The resulting debt level and cash flow for both GenCorp and the new polymer products company is expected to allow each to continue to invest in future growth.

In a separate announcement, the Company released fourth quarter 1998 earnings of \$0.77 per diluted share, and earnings from operations before unusual items and a tax refund of \$0.66 per diluted share, compared to \$0.52 per diluted share in the fourth quarter of 1997. For the Company's fiscal year ending November 30, 1998, earnings per diluted share totaled \$1.99. Earnings from operations before unusual items and a tax refund were \$1.88, an increase of 9% compared to \$1.72 per diluted share in 1997.

#### Business Description

GenCorp is a diversified manufacturing company with three segments: Aerospace & Defense (propulsion & sensor systems), Automotive (sealing systems), and Polymer Products. The performance chemicals unit makes latex coatings and adhesives used in the paper, carpet, and packaging industries. The decorative and building products unit makes wall coverings, laminates, coated fabrics, and roofing materials. The vehicle sealing unit makes rubber seals. Subsidiary Aerojet-General produces rocket-propulsion systems and defense electronics.

Price (12/21):	\$24 1/8	Revenue (1998):	1.7B
Shares out:	42.1 M	EPS (1998):	\$1.88
Market Cap:	1.1 B	Div. Yield:	2.5%
ROE (98)	25%	Book Value:	\$8.21/sh
Debt/Capital	52%	P/E 1998:	12.7X

## Recently Announced Spin-Offs...

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### **TDS to Withdraw Tracking Stock Offers: Will Pursue Spin-Off of Aerial Communications**

Last month, Telephone & Data Systems (AMEX-TDS) dropped 10% after the company abandoned a restructuring plan involving two publicly traded subsidiaries. On December 18<sup>th</sup>, TDS fell \$4 1/2, to \$42 3/4. Shares of subsidiary U.S. Cellular (AMEX-USM) declined \$2.69, to \$37 1/4; but stock of Aerial Communications (NASDAQ-AERL), which will now be spun off, advanced 5/16, to \$4 3/8 a share. The firms, all based in Chicago, began negotiations last spring over terms of a plan that would give minority shareholders in U.S. Cellular and Aerial shares of non-voting "tracking" stock in place of their shares in the two companies. Through its business units, U.S. Cellular, TDS Telecom and Aerial, TDS operates primarily in cellular, local telephone and PCS markets around the country. TDS is withdrawing its offers to exchange tracking stocks for the outstanding shares of United States Cellular and Aerial Communications. The tracking stock proposal, which was announced in December 1997 and approved by shareholders in April 1998, was part of a restructuring designed to unlock for shareholders the value of TDS's three principal business units. The restructuring would have created three new classes of common stock, commonly known as "tracking stocks," which were intended to separately reflect the performance of U.S. Cellular, Aerial, and TDS Telecom, the Company's cellular, personal communications services (PCS) and landline telephone businesses.

TDS announced that it is pursuing a tax-free spin-off of its 82.3% interest in Aerial, as well as reviewing other alternatives. TDS intends to ask the Internal Revenue Service (IRS) to rule on the tax-free status of such a spin-off. Prior to any spin-off, it is expected that Aerial will seek additional financing so that Aerial would have the appropriate capitalization to operate as a stand-alone entity. In connection with such financing, it is anticipated that a substantial amount of Aerial's debt to TDS may be converted into equity. We do not know how much of the debt owed to TDS (about \$484 million as the end of Q3 98) will be equitized. Given the share price of Aerial, it will take a substantial number of shares to equitize this debt. TDS did not indicate what percentage of the TDS debt would be converted. TDS intends to seek shareholder approval to distribute Aerial Series A Common Shares, on a pro-rata basis, to holders of TDS Series A Common Shares and Aerial Common Shares, on a pro-rata basis, to holders of TDS Common Shares. The AERL spin-off should help improve TDS's EPS going forward.

TDS owns 81 percent of U.S. Cellular, a cellular telephone firm that manages operational systems serving 143 markets with a population of more than 25 million, making it the nation's eighth-largest cellular company. Minority shareholders have complained that TDS management has run its wireless companies without regard to their interest in raising share price. The company is now considering spinning off its 82 percent interest in Aerial to TDS shareholders. TDS has no plans to pursue any other strategies for ownership in U.S. Cellular. Founder Roy Carlson and his family own slightly more than half of TDS's stock.

TDS trades at a discount to the sum of its parts. The company has suffered from a Carlson family control discount. In 1998 the company again disappointed shareholders by declining by 3.5%. The last two years, shareholders have pressured TDS, demanding a change in TDS's capital structure. Judging from the drop in price of TDS, clearly investors are not impressed with the spin of only Aerial. A year

ago, TDS announced its tracking stock proposal for Aerial, TDS Telecom, and US Cellular. Aerial Communications Special Committee voted to reject TDS's tracking stock proposal on April 15<sup>th</sup>, 1998. The tracking stock proposal was approved by TDS in April, but they were forced to pull the IPO of TDS Telecom in June due to market conditions. So, it has taken a year for the company to decide to spin-off Aerial (in 6 to 9 months from now) which represents only \$4 1/2 per TDS share (or 10% of the public value). Investors were expecting a more substantive move by TDS. Telephone and Data Systems is one of the largest non-Bell phone companies in the US, with more than three million customers in 37 states. Its TDS Telecommunications subsidiary provides wire line service to customers in 28 states. TDS' United States Cellular Corp. offers cellular phone service. Aerial Communications (NASDAQ-AERL) offers personal communications services.

If the company becomes more shareholder friendly going forward and restructures (spins off USM, or IPO's TDS Telecom) we expect the stock to perform. It is possible to create the TDS "stub" at a deep discount to the value of its parts. To synthetically create the stub TDS business now, one should buy TDS (parent) and sell TDS's publicly traded subsidiaries (USM and AERL). Using the 1998 year-end prices for the three companies suggests that the market is ascribing a negative value of \$4.72 to TDS.

<b>Creating Stub Telecom Business</b>					
	Shares Out	Shares owned by TDS	Ratio: TDS/Sub	Price 12/31/98	Value/ TDS shares
Buy TDS (Parent)	61 M	61M	1.00	\$45	\$45
Sell USM (sub)	87.4 M	70.7	1.16	\$38	\$ (44.08)
Sell AERL (sub)	71.7 M	58.1	.96	\$5.875	<u>( 5.64)</u>
		Value of TDS ownership in USM and AERL			\$ (49.72)
Implied Market Value of TDS's Telecom "stub" (not separately traded)					\$ ( 4.72)

<b>Value of the Stub Telecom</b>		<b>Enterprise Value of TDS</b>	
	<u>MM</u>		
TDS TTM EBITDA	\$201	TDS share price 12/31/98	\$45
Assume EBITDA	<u>9X</u>	Shares outstanding	61
Enterprise Value	1,809	Market Capitalization	2745
+ Cash	60	Cash	-60
+Notes receivables	290	Notes Receivable	-290
-Debt	- 760	Debt	760
-Preferred stock	<u>- 325</u>	<u>Preferred Stock</u>	<u>325</u>
Equity Value of Stub	1,074	Enterprise Value	\$3480
Equity Value of Telecom/TDS	\$17.54		

So those of you that are closet arbitrageurs may wish to take advantage of this situation by getting long TDS and shorting the two publicly traded subsidiaries. Thus creating TDS Telecom at a cost of negative \$4.72 per share. This is in contrast to our estimated TDS Telecom valuation of \$17.54 per share.

Gabelli Funds et al., a larger shareholder in TDS, made net purchases of 653,495 shares from November 24, to December 18, at \$41.43 - \$45.30 per share. That increased their holdings to 6,283,055 shares (11.5%).

## Recently Announced Spin-Offs...

### Watts Industries to Spin Oil and Gas Business

On December 15, 1998 Watts Industries (NYSE:WTS) announced plans to separate its Industrial, Oil and Gas business from its Plumbing and Heating and Water Quality business. Watts will continue its existing Plumbing and Heating and Water Quality business and will transfer the Industrial, Oil and Gas business to a new subsidiary. Watts will then spin-off the new subsidiary to the Watts stockholders in the form of a pro rata stock dividend. Upon the spin-off, Timothy P. Horne will remain Chairman and Chief Executive Officer of Watts. David A. Bloss, Sr., currently President and Chief Operating Officer of Watts, will be appointed Chief Executive Officer of the new Industrial, Oil and Gas company. Completion of the spin-off will be subject to certain conditions, including receipt from the Internal Revenue Service of a private letter ruling as to the tax-free treatment of the spin-off, necessary governmental approvals and any required consents of third parties. The spin-off will be completed following receipt of the private letter ruling, which Watts currently expects to receive in the third quarter of 1999. Management likely feels that the spin should take away the energy valuation discount (due to low oil prices).

Watts makes valves designed to safely relieve gas, steam, and liquid pressure. Its valves are used in plumbing, heating, water quality, water flow control, industrial, and oil and gas applications. Products include ball valves, safety relief valves, pressure regulators, float valves, and drainage products. Watts' plumbing, heating, and water quality products generate 61% of sales (\$730 million in fiscal 98'). Customers include plumbing and heating wholesalers, do-it-yourself stores, and OEMs. The company has acquired around 40 companies since it began pursuing an acquisition strategy in fiscal 1985. Watts operates 26 manufacturing plants and four foundries worldwide.

Price (12/21):	\$17 15/16	Revenue (98 FY June):	\$730 M
Shares out:	27.17 M	EPS (98 FY June):	\$1.94
Market Cap:	489 M	52 Wk Range	\$31 - 16.50
ROE (98)	15%	Book Value:	\$15.78/sh
Debt/Capital	75%	P/E 1998:	9.27 X



## Spin-Off Calendar by Date

Parent	Symbol	Spin-Off	Symbol	Date	Spin-Off	Ratio
				Announced	Date	
WMS Industries Inc.	WMS	Midway Games	MWY	8/11/97	4/7/98	1.2:1
Vencor	VC	Ventas	VTR	2/2/98	5/1/98	1:1
Great Lakes Chemical	GLK	Octel	OTL	7/17/97	5/22/98	1:4
Limited	LTD	Abercrombie & Fitch	ANF	2/19/98	5/15/98	.86:1
U.S. Office Products	OFIS	Navigant International	FLYR	1/13/98	6/10/98	1:10
		School Specialty	SCHS	1/13/98	6/10/98	1:9
		Workflow Management	WORK	1/13/98	6/10/98	1:7.5
		Aztec Technology Partners	AZTC	1/13/98	6/11/98	1:5
US West	USW	Media One	UMG	2/27/97	6/12/98	1:1
Alleghany	Y	Chicago Title & Trust	CZT	12/17/97	6/17/98	3:1
Nielsen Media Research (Formerly Cognizant)	NMR	Cognizant Technology Solutions	CTSH	4/12/98	6/19/98	IPO
Nielsen Media Research (Formerly Cognizant)	NMR	IMS Health	RX	1/15/98	6/30/98	1:1
Dun & Bradstreet	DNB	Reuben H. Donnelley	RHD	12/17/97	7/1/98	1:1
Republic Industries	RII	Republic Services Group	RSG	5/7/98	7/1/98	IPO
Collagen	CGEN	Cohesion Technologies	CSON	10/6/97	8/19/98	1:1
Pittway	PRY	Penton Media	PME	12/1/97	8/7/98	1:1
Penford Corp.	PENX	Penwest Pharmaceuticals	PPCO	10/9/98	8/31/98	3:2
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
Qualcomm	QCOM	Leap Wireless	LWIN	5/27/98	9/23/98	1:4
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
<b>PennzEnergy</b>	<b>PZE</b>	<b>Pennzoil-Quaker State</b>	<b>PZL</b>	<b>4/15/98</b>	<b>12/30/98</b>	<b>1:1</b>
<b>Hilton Hotels</b>	<b>HLT</b>	<b>Park Place Entertainment</b>	<b>PPE</b>	<b>6/30/98</b>	<b>12/31/98</b>	<b>1:1</b>
<b>Grand Casinos</b>	<b>GND</b>	<b>Lakes Gaming</b>	<b>G30</b>	<b>6/30/98</b>	<b>12/31/98</b>	<b>1:4</b>
<b>Cincinnati Bell</b>	<b>CSN</b>	<b>Convergys</b>	<b>CVG</b>	<b>4/27/98</b>	<b>12/31/98</b>	<b>1:1</b>
<b>Bindley Western</b>	<b>BDY</b>	<b>Priority Healthcare</b>	<b>PHCC</b>	<b>10/24/98</b>	<b>12/31/98</b>	<b>.46:1</b>
<b>Rockwell International</b>	<b>ROK</b>	<b>Conexant Systems</b>	<b>CNXT</b>	<b>6/29/98</b>	<b>12/31/98</b>	<b>1:2</b>
<b>Host Marriott</b>	<b>HMT</b>	<b>Crestline Capital Corporation</b>	<b>CLJ</b>	<b>4/17/98</b>	<b>12/29/98</b>	<b>1:10</b>
CBS / Data Broadcasting	DBCC	Marketwatch.com	MKTW		January / February	IPO
Pulitzer Publishing	PTZ	Pulitzer Inc.	PTZ	5/26/98	January . February	1:1
General Motors	GM	Delphi Unit	DPH	8/3/98	February	IPO
Jefferies Group	JEF	Investment Technologies Group	ITGI	3/18/98	1st qtr 1999	
Columbia/HCA	COL	LifePoint Hospitals		7/29/98	1st qtr. 1999	
		Triad Hospitals		7/29/98		
IMS Health	RX	Gartner Group	IT	11/12/98	2nd qtr 1999	
Citizens Utilities	CZN	Telecommunications		5/18/98	3rd Qtr 1999	
Advanced Lighting Technologies	ADLT	Microsun Technologies		5/5/98	March-99	
PepsiCO	PEP	Bottling Operation		7/28/98	1999	
Olin	OLN	Specialty Chemicals		7/30/98	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
Varian Associates	VAR	Instruments, Semiconductors		8/21/98	1999	
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	
Unocal	UCL	Non-Oil Exploration		6/3/98	Under Review	
Tenneco	TEN	Split into two companies		7/21/98	Under Review	Split

## Spin-off Statistics

Spin-Off Name	Symbol	Business	Parent	Spin-Off Symbol	Spin-Off Date	Spin-Off Price	CLOSING	Spin-Off	S. P 500
							PRICE 12/31/98	% Change	% Change
Agribands	AGX	Animal feeds and agricultural products	Ralston Purina	RAL	4/1/98	35 14/16	30 1/16	-16%	11%
Allegiance	AEH	Health Care Products / Cost Mgmt.	Baxter International	BAX	9/24/96	8 2/16	45 5/16	458%	79%
Aztec Technology Partners	AZTC	Computer Solutions	U.S. Office Products	OFIS	6/10/98	11	3 13/16	-65%	10%
Bally Fitness Corp.	BFT	Healthclubs	Bally Entertainment (Merged)	BLY	1/10/96	4 14/16	24 8/16	403%	100%
Billing Information Concepts	BILL	Billing clearinghouse to Tele-Comm.	U.S. Long Distance	HSLD	8/2/96	10 8/16	11 4/16	7%	86%
Chicago Title Corp.	CTZ	Title Insurance	Alleghany	Y	6/18/98	46 12/16	45 5/16	-3%	11%
ChoicePoint	CPS	Risk Management	Equifax, Inc.	EFX	8/7/97	35 12/16	63 10/16	78%	30%
Cognizant Technology Solutions	CTSH	Software Solutions	IMH Health	RX	6/19/98	10	29 10/16	196%	12%
Cohesion Technologies	CSON	Medical Devices, Sealant	Collagen Aesthetics	CGEN	8/19/98	5	3 6/16	-33%	12%
Commscope	CTV	Coaxial Cable	General Instrument	GIC	7/28/97	15 12/16	16 6/16	4%	32%
Conoco	COC	Energy Exploration	DuPont	DD	10/22/98	24 14/16	20 10/16	-17%	14%
Convergys	CVG	Billing processing to Tele-Comm.	Cincinnati Bell	CSN	8/12/98	16 10/16	19 8/16	17%	15%
Corn Products International	CPO	Canned and preserved fruit & veg.	Best Foods (CPC Intl.)	BFO	1/2/98	30	29 13/16	-1%	26%
Covance	CVD	Research org. to Biotechnology	Corning Inc.	GLW	1/14/97	19 12/16	26 3/16	33%	66%
Cresendo Pharmaceuticals	CNDO	Pharmaceuticals	ALZA Corp.	AZA	10/1/97	12 8/16	13 10/16	9%	29%
Fox Entertainment	FOX	Entertainment	News Corp	NWS	11/11/98	24 4/8	23 10/16	-4%	10%
General Instrument (Next Level)	NLV	Communication	General Instrument	GIC	7/28/97	20 3/16	33 12/16	67%	32%
Highland Insurance Services	HIC	Insurance	Halliburton Co.	HAL	1/24/96	21 2/16	12 9/16	-41%	60%
Hussman Corp.	HSM	Refrigeration sytems	Whitman Corp.	WH	2/2/98	13 10/16	18 9/16	36%	26%
IMS Health	RX	Healthcare Information Systems	Nielsen Media research	NMR	7/1/98	63	74 5/16	18%	7%
Keebler Foods	KBL	Produces and distributes food products	Flowers	FLO	1/29/98	26 13/16	36 13/16	37%	25%
Land Air Corporation	LAND	Trucking	Forward Air	FWRD	9/24/98	6	7 1/16	18%	18%
Leap Wireless	LWIN	Wireless Telecommunications	Qualcomm	QCOM	9/24/98	8	6 12/16	-16%	18%
Lucent Technologies	LU	Telecommunication systems	AT&T	T	4/3/96	15 3/16	108 10/16	615%	79%
"New" Marriott International	MAR	Lodging and Senior Living Services	Sodexo Marriott	SDH	3/27/98	36 12/16	30	-18%	12%
Meritor Automotive	MRA	Automotive accessories	Rockwell International	ROK	10/1/97	23 14/16	20 13/16	-13%	37%
Midas	MDS	Automotive Repair	Whitman Corp.	WH	2/2/98	16 1/16	31 11/16	97%	26%
Midway Games	MWY	Interactive Entertainment	WMS Industries	WMS	10/30/96	20	10 12/16	-46%	76%
Navigant International	FLYR	Travel Services	U.S. Office Products	OFIS	6/10/98	8 2/16	8 5/16	2%	10%
NCR	NCR	Data, Transaction Processing	AT&T	T	1/2/97	33 12/16	41 2/16	22%	67%
Octel	OTL	Specialty Chemical	Great Lakes Chemical	GLK	5/26/98	22 12/16	14 1/16	-38%	13%
Penton Media	PME	Publishing	Pittway	PRY	8/10/98	16 12/16	20	19%	14%
Penwest Pharmaceuticals	PPCO	Pharmaceuticals	Penford Corp.	PENX	8/10/98	16 12/16	6 1/16	-64%	24%
Quest Diagnostics	DGX	Diagnostic Testing	Corning Inc.	GLW	1/14/97	17 12/16	17 14/16	1%	66%
RCN Corp.	RCNC	Voice, Video and interactive process	C-Tec Corporation	CTEX	10/1/97	15 14/16	18 4/16	15%	29%
Republic Service Group	RSG	Waste Management	Republic Industries	RII	7/1/98	25 8/16	18 8/16	-27%	7%
School Specialty	SCHS	Educational Supplies	U.S. Office Products	OFIS	6/10/98	15 14/16	21	32%	11%
Sonosight	SONO	Handheld Ultrasound devices	ATL Ultrasound	ATLI	4/7/98	13 6/16	10 4/16	-23%	11%
Solutia	SOI	Chemicals	Monsanto	MTC	9/3/97	19 3/16	22 4/16	16%	37%
Tricon Global Restaurants	YUM	Restraunts	Pepsi Corp.	PEP	10/7/97	31 2/16	50 10/16	63%	28%
Union Pacific Resources	UPR	Domestic energy exploration	Union Pacific	UNP	10/16/96	21	8 15/16	-57%	75%
Unisource Worldwide	UWW	Dist. Paper/Plastic Sanitary Maint.	Alco Standard Corp.	ASN	1/2/97	20 2/16	6 4/16	-69%	66%
Unova	UNA	Information and Manu. Technology	Western Atlas	WAI	11/3/97	18 6/16	17 10/16	-4%	36%
Media One	UMG	Cable operations	US West	USW	6/12/98	36 8/16	45 3/16	24%	14%
United Wisconsin	UWZ	Health, HMO	American Medical Group	AMZ	9/28/98	7 3/16	8 10/16	20%	17%
US West	USW	Communications	US West	USW	6/12/98	50 8/16	64 7/16	28%	14%
Valero Energy (New)	VLO	Refining and Marketing	Valero Energy	VLO	8/1/97	28 13/16	20 15/16	-27%	29%
Vencor (New)	VC	Healthcare	Vencor	VC	5/2/98	12 8/16	4 7/16	-65%	10%
Vlassic	VL	Food products	Campbell Soup	CPB	3/30/98	25 12/16	23	-11%	13%
Waddell & Reed	WRD	Asset Management	Torchmark	TMK	3/5/98	26 7/16	23 11/16	-10%	19%
Workflow Management	WORK	Print Management	US Office	OFIS	6/10/98	9	6 13/16	-24%	11%

Spin-Off price is adjusted for stock splits.