

## Spin Count

by Robert W. Wood • San Francisco

Amid the Congressional changes to spinoffs (see “Amended Spinoff Law: How Bad Is It?” at p. 1, this issue), there is still a significant volume of spinoff activity in one stage or another. For example, WMS Industries, Inc. has approved a spinoff of its interest in Midway Games, Inc. As is so often the case, the planned spinoff is conditioned on a ruling from the IRS. See “WMS Will Spin Off Remaining 87% Stake in Midway Games, Inc.,” *Wall Street Journal*, August 12, 1997, p. C23. Nomura Holding America, Inc. also announced it would partially spin off its real estate division. Nomura Holding is the US securities unit of Japan’s Nomura Securities Company. See “Nomura Plans to Spin Off Key Division,” *Wall Street Journal*, August 1, 1997, p. A3.

Some recent spinoffs have been incredibly lucrative. After the long-awaited announcement about PepsiCo, Inc.’s spinoff of its fast food units (and the curious name “Tricon Global” for the spinoff), there was even more press. See “Spinoff of Fast-Food Units to be Called Tricon Global,” *Wall Street Journal*, June 27, 1997, p. B4. When Pepsi unveiled the financial details of the spinoff of these fast food restaurants, the price tag was staggering. PepsiCo revealed that it would received \$4.5 billion from the newly-created company.

An IRS ruling has reportedly been issued allowing the spinoff to be tax-free to PepsiCo and its shareholders. Shareholders will receive one share in the new restaurant company, Tricon Global Restaurant, Inc., for every ten shares they own of PepsiCo. See “PepsiCo to Receive \$4.5 Billion in Spinoff of Fast-Food Business,” *Wall Street Journal*, August 15, 1997, p. B4. The last press on this deal, however, was not so positive. See “Pepsi’s Fast-Food Spinoff May Cause Some Indigestion,” *Wall Street Journal*, Sept. 17, 1997, p. C1.

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Other spinoffs have also been in the news. Monsanto Co. announced it expects to spin off its chemical businesses. See "Spinoff of Chemical Line is Planned for Next Month," *Wall Street Journal*, August 13, 1997, p. B4. And, Great Lakes Chemical Corp. announced it plans to spin off its petroleum additive business. See "Great Lakes Chemical Corp. Plans are Set to Spin Off Petroleum-Additive Unit," *Wall Street Journal*, July 18, 1997, p. C16. Comsat Corp. also announced it had finished its spinoff of Ascent Entertainment Group, Inc. See "Spinoff from Comsat Corp. Finished, Executives Named," *Wall Street Journal*, July 1, 1997, p. C17. Also, Rockwell International, Inc. announced that Meritor Automotive, Inc. will be the name of its automotive unit after it is spun off to shareholders. See "Meritor Automotive Spinoff to Trade on Big Board Oct. 1," *Wall Street Journal*, August 15, 1997, p. B4. The cost of Rockwell's spinoff is \$456 million, a whopping dividend to the parent company. (See "Rockwell Unit Sets Spinoff Cost At \$456 Million," *Wall Street Journal*, September 8, 1997, p. A5A.)

**ITT, Too**

But one of the largest and most interesting spinoffs discussed over the past months has certainly been ITT's. Initially, ITT Corp. announced plans to split into three companies. The idea was to spin off its hotel and gambling operations and its technical schools, leaving its overseas yellow page businesses as the core of the old company. See "ITT Plans to Split Into Three Companies," *Wall Street Journal*, July 17, 1997, p. A3.

Then, in August, the plan apparently did not look quite as good. See "Outlook for ITT Shares Dims Amid Scrutiny of Split-Up Plan," *Wall Street Journal*, August 4, 1997, p. C1. Interestingly, the latter article concerning the dimming prospects for ITT reported that ITT is not seeking an Internal Revenue Service ruling.

The article says that this means that ITT need not wait, and could spin off the business prior to the annual meeting. It is relying upon the opinion of Cravath, Swain & Moore, which says the spinoff "will qualify" as tax-free. The *Wall Street Journal* notes, quite correctly, that a tax opinion (even from

Cravath, Swain & Moore!) is not as strong as the IRS' ruling would be (even assuming one were available in time). The article also notes the uncertainty created by the anti-*Morris Trust* provision in the then-pending tax bill. See "Outlook for ITT Shares Dims in its Scrutiny of Split-Up Plan," *Wall Street Journal*, August 4, 1997, p. C1. (On *Morris Trust*, see this issue, p. 1.)

And just maybe, spinoff activity will even increase as a result of this most recent Congressional scrutiny. For example, Campbell Soup Co. announced spinoffs of certain of its underperforming businesses. See "Campbell Net Rise; Spinoffs Expected To Be Announced," *Wall Street Journal*, Sept. 9, 1997, p. C16. A total of seven "nonstrategic" business lines are to be shed to focus on more profitable soup, sauce and biscuit lines. See "Campbell to Spin Off Seven Businesses And Focus on Its More-Profitable Lines," *Wall Street Journal*, Sept. 10, 1997, p. B4. ■

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