

Spins Continue in the News

by Robert W. Wood • San Francisco

Spinoff transactions involving public companies, and even the importance of IRS rulings on the subject, continue to crop up in the popular press. After concern over Viacom's long delayed plan to shed its cable operations in a spinoff (a \$2.3 billion transaction!), the IRS ruling became critical. One report in June indicated that the IRS ruling had not been issued and that it was becoming a greater concern for investors as the June 24 deadline for achieving a ruling approached. See "Viacom Has Yet to Receive IRS Ruling; Stock Falls as Cable-Deal Deadline Nears," *Wall Street Journal*, June 11, 1996, p. B6. Interestingly, the report indicated that Viacom had been waiting for nearly 12 months for the ruling. Then, a short time later, Viacom announced that the IRS had issued a favorable ruling just in advance of the June 24 deadline. See

Continued on Page 5

SPINS CONTINUE

Continued from Page 4

“Viacom Gets Long-Awaited Clearance from IRS to Spin Off its Cable Systems,” *Wall Street Journal*, June 18, 1996, p. B7.

Other long ago announced spins also finally seem to be coming to fruition. Minnesota Mining and Manufacturing Co. has said that directors finally gave formal approval to a spinoff of 3M’s data-storage and imaging-systems businesses to shareholders, as originally announced last year. See “Minnesota Mining Approves the Spinoff of Data-Storage Line,” *Wall Street Journal*, June 20, 1996, p. C22. A short time before, but still about five months after it announced the spinoff, 3M had unveiled the name of its new data-storage and imaging company. The new entity, beginning business July 1, is Imation Corp. See “3M Reveals Name of Its Spinoff,” *Wall Street Journal*, April 17, 1996, p. A22.

Another large transaction is the General Motors spinoff of its Electronic Data Systems unit. See “GM to Receive \$500 Million Dividend as Part of Plan to Spin Off EDS Unit,” *Wall Street Journal*, April 2, 1996, p. B8. Following in the footsteps of Marriott, Security Capital is entering the fray, too, with its spin of its extended stay hotel operation. Security Capital Pacific Trust, a real estate investment trust with a market capitalization of \$1.6 billion, plans its Homestead Village hotel chain as a separate company. See “Security Capital’s Long-Stay Hotel Unit to be Spun Off,” *Wall Street Journal*, May 22, 1996, p. A6.

Lab testing has even entered the spinoff field, with Corning, Inc. having failed to sell its laboratory testing division and instead deciding to spin it off to shareholders. See “Corning Will Spin Off Its Lab-Testing Division,” *Wall Street Journal*, May 15, 1996, p. B4. After months of talks about potential sale, the spinoff of the lab testing division to shareholders seems a logical solution. Corning also plans to spin off its \$400 million pharmaceutical services business into another separate company. *Id.*

Technophiles

But the real glut of the spins these days seem to be in technology companies, especially communications. Cable giant Telecommunications, Inc. is planning to spin off its direct-broadcast

satellite unit into a separate public company by the end of this year. The idea, according to TCI’s releases, is to give shareholders more flexibility to invest in the individual assets of what is admittedly a far-flung telecommunications empire. At the same time, the spin will allow the satellite subsidiary to raise the massive capital required to build a high-powered direct broadcasting satellite business. See “TCI Sets Plan to Spin Off Satellite Unit,” *Wall Street Journal*, June 20, 1996, p. B8.

Against all of the hype about how attractive it is to invest in separate companies, and how much more on an aggregate basis separate company shares can be worth, it is interesting that when the AT&T spinoff Lucent Technologies came out, few underwriters gave it top ratings. See “Lucent’s Underwriters Bathe AT&T Spinoff in Mostly So-So Ratings Despite Big Run-Up,” *Wall Street Journal*, April 30, 1996, p. C2. Since tax professionals will often find themselves making the argument that the spinoff is necessary to attract separate capital and to enhance shareholder value, this is interesting indeed.

Back in April—but it was not an April Fool joke—Pacific Telesis Group and SBC Communications, Inc. announced a \$16.7 billion agreement to combine these two Baby Bell companies. It was April Fool’s Day in 1994 that Pacific Telesis Group formally spun off its cellular phone business. The cellular company is now called AirTouch Communications. AirTouch has done quite well, but Pacific Telesis has been reeling from declining earnings and dragging stock price virtually ever since the spin. The ostensible hurry-up marriage of Pacific Telesis may seem somewhat amusing in light of the constant spinoff rote that separate companies always fare better. *Id.*

Another technology entrant is Security First Network Bank, an all Internet banking operation that was spun off from Cardinal Bancshares, Inc. See “Spinoff of Security First to Include Public Offering,” *Wall Street Journal*, May 23, 1996, p. B6. This transaction had been delayed several times. See “Expiration Date Connected to Spinoff Delayed Again,” *Wall Street Journal*, April 2, 1996, p. B6.

Stores and Cigarettes

That spinoffs can involve retail stores as well as

Continued on Page 6

SPINS CONTINUE

Continued from Page 5

consumer products is evident from two recent discussions, one involving Woolworth, and the other involving RJR Nabisco Holdings. The Woolworth Corp. situation involved the defeat of a shareholder proposal to break apart the company. Some shareholders had pushed for Woolworth to separate its profitable and growing units, including Foot Locker and Chance, from some sluggish units, especially Kinney Shoe Stores and the F.W. Woolworth flagship stores. See "Woolworth is Expected to Announce Defeat of Plan to Spin Off Sports Stores," *Wall Street Journal*, June 13, 1996, p. B5.

As to RJR Nabisco Holdings, Carl Icahn announced that he was considering calling a special meeting of RJR shareholders to propose a slate of directors who would push for a spinoff of the food and tobacco company's remaining interest in Nabisco Holdings Corp. See "Icahn Considers Calling RJR Meeting to Push for a Spinoff of Nabisco's Stake," *Wall Street Journal*, June 7, 1996, p. A4.

Finally, Dial Corp. has been heading toward its separation into two companies. Dial's widely varied

service operations will now be called Viad Corp. Consumer-products business will continue to be known as Dial Corp. See "Dial Unveils Details of Planned Spinoff in Filing with SEC," *Wall Street Journal*, June 11, 1996, p. C24. Across the border, Dial Corp.'s Greyhound Line of Canada, Ltd. subsidiary is even planning to split itself in two to start an air service. See "Dial's Canada Unit Plans to Split Itself to Start Air Service," *Wall Street Journal*, May 30, 1996, p. B5. ■

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