Huge Mellon/Dreyfus Deal Represents Pooling of Interests

by Robert W. Wood • San Francisco

The recently announced $1.7 billion deal by which Mellon Bank Corp. will acquire Dreyfus Corp., the biggest-ever acquisition of a mutual fund company, will be accounted for as a pooling of interests transaction. Dreyfus shareholders will receive 0.88017 Mellon common shares for each of the 36.6 million Dreyfus shares outstanding. (See "Mellon to Buy Dreyfus for $1.7 Billion," *Wall St. J.*, 12/7/93, p. C1.)

Defining Terms

Pooling of interests treatment has become increasingly common in recent years. This accounting method is premised on the notion that certain transactions are merely arrangements between shareholder groups to exchange certain securities, resulting in combined financials for the entities involved. A change in the ownership interests of the shareholders is effected by eliminating the capital stock of the target, and recording the new stock issued by the acquiring company to the target company's shareholders. (See "Stock Buybacks: The Impact on Pooling of Interests," 2 *M&A Tax Rep't* 5 (December 1993), p. 1.)

Requirements; Limitations

A variety of specific criteria must be met for a transaction to qualify for pooling of interests (as opposed to purchase) treatment. These criteria include the autonomy and independence of the constituent combining companies, and a number of requirements as to the manner in which the companies are combined. The latter include a single transaction requirement, an exchange of shares requirement, a prohibition on changes in equity interests of the voting common stock, rules regarding treasury stock transactions, criteria for ratios of shareholder interest, voting rights, and contingent consideration rules.

Finally, there is also a prohibition on certain planned transactions, including a reacquisition of common stock, arrangements for the benefit of certain shareholders, and certain asset dispositions. ■