

## Is Counting Spins Like Counting Stars?

by Robert W. Wood • Bancroft & McAlister

This issue did not start out to be glutted with spinoff news, it just turned out that way. The reason is obvious. There are just so many of these transactions being done right now that they are hard to ignore. This growing trend counts among its members Union Carbide's spinoff of Praxair Inc., Burlington Resources, Inc.'s spinoff of El Paso Natural Gas Co., and Baxter International Inc.'s spinoff of Caremark Inc. One of the most recently completed spins was Dresser Industries, Inc.'s distribution of its Industrial Products Businesses (now renamed INDRESCO Inc.).

Not all spins come to fruition, though. A good example is Ralston Purina Co., which had announced long ago that it would spin off its Continental Baking Co. unit (makers of such favorites as Hostess Twinkies and Wonder Bread). After news of lower-than-anticipated earnings, Ralston stated that the expenses of consummating the proposed spinoff were higher than anticipated, and that that is what nixed the deal.

### Tax vs. Non-tax

Apart from the obvious flexibility from a tax

viewpoint that a spinoff may hold for the future in the post-*General Utilities*-repeal world, there are doubtless financial objectives that the architects of these transactions seek to achieve. Take the recent news that Tele-Communications Inc. and Comcast Corp. are each attempting to raise \$1.5 billion in order to break up Storer Communications Inc., their jointly owned cable-TV company. With Storer now carrying \$3 billion in debt, the proposed transaction would allow banks to look at the balance sheets of the affiliates of the cable operators, and to lend to them at lower rates. (See "Storer Owners Seek Funding To Split It Up," *Wall St. J.*, 9/30/92, p. A3.)

This sounds like a good case for a spinoff. In fact, Tele-Communications and Comcast have already received a ruling from the IRS permitting the division of the companies on certain conditions.

Whatever the reason, it is undeniable that planned spinoffs are approaching epidemic proportions. (See "Marriott's Plan to Spin Off Real Estate Is Just Latest Example of Growing Trend," *Wall St. J.*, 10/6/92, p. A7.) This will doubtless alter the traditional notion of getting a ruling (which already has changed a good bit over the last couple of years). Moreover, it will surely cause increased attention on the part of the Service, focusing even more scrutiny on a Code provision that it is no secret is not among the most liked within the Service. ■

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