

BATUS (W)

INTERNAL CORRESPONDENCE

TO: L. W. Arentsen

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Subject: Imasco Stock Purchase

The purpose of this memo is to summarize the conclusions reached at our recent meeting regarding the Imasco Stock Purchase proposal.

Summary

A new Nevada subsidiary will be established with only a minimal capital contribution from BATUS. The newly formed subsidiary would then borrow approximately \$147 million Canadian (\$112 million U.S.) directly from BATIF who would in turn borrow the funds from BATCAP. The new subsidiary would then purchase stock from Imasco in the same amount. Both the asset and liability would remain on the books of the new subsidiary.

Proposed Debt

The debt would be denominated in Canadian dollars thereby eliminating any exchange gain or loss exposure as the investment would also be denominated in Canadian dollars. The interest rate on the debt would mirror the BATCAP rate adjusted to reflect the additional cost of a long term standby facility agreement. In this way the debt would be classified as "long term" for financial accounting purposes.

Met Loan Covenant Compliance

BATUS would identify this subsidiary as an unrestricted sub for purposes of compliance with the Met loan agreement, and as a result of the new Nevada subsidiary borrowing directly from BATIF, the transaction would not impact the loan covenant calculations. However, contributions by BATUS to cover annual debt service net of dividends received would be included in the Met loan covenant calculation as a restricted investment. This impact, however, would be minimal.

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Dividend Income Considerations

By having the Imasco investment held in the proposed Nevada sub versus BATUS, the group would avoid City of Louisville occupational and Kentucky intangible taxes which amount to approximately \$105,000 per year. State income tax would not be incurred on the dividend income and there would be no state tax benefit on the interest expense.

Interest Expense Consideration

Current dividend policy has resulted in the maximization of debt and related interest expense being carried on the books of the operating companies for purposes of computing state income taxes, therefore, no additional debt would be carried by an operating subsidiary via the dividend declaration mechanism. Furthermore, carrying the debt at the operating group level (BWT) would negatively impact the Met loan covenant computation since our major operating subsidiaries are considered restricted subsidiaries for this purpose.

Impact of Purchase

The following chart details the impact of the BATUS purchase of 3.4 million shares of Imasco stock at \$43.25 Canadian assuming a debt cost of 11.5%.

<u>U.S. \$ Millions</u>	
	<u>Impact on BATUS</u>
Net Income	
Equity in Earnings	+9.8
Debt Carrying Costs	-12.8
Tax Benefit	+4.8
Total	<u>+1.8</u>
Annual Cash Flow	
Dividends	+3.2
Debt Carrying Costs	-12.8
Taxes	+4.8
Total	<u>-4.8</u>

As a result of the additional debt load, the BATUS debt to equity ratio on a U.K. basis would increase by approximately 6.0 percentage points from 59.3% as of December 31, 1984.

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