

## Internal Revenue Service

## Department of the Treasury

Number: **200104001**

Release Date: 1/26/2001

Index Numbers: 355.01-00, 368.04-00

Washington, DC 20224

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**CC:DOM:CORP:4 PLR-118176-99**

Date:

**March 16, 2000**

P =

Sub 1 =

Sub 2 =

Sub 3 =

Sub 4 =

Sub 5 =

Sub 6 =

Sub 7 =

Controlled Sub 1 =

Controlled Sub 2 =

Controlled Sub 3 =

Controlled Sub 4 =

Controlled Sub 5 =

Controlled Sub 6 =

Business A =

Business B =

This letter responds to your November 2, 1999 request for rulings on certain federal income tax consequences of a proposed transaction. The information

submitted is summarized below.

The rulings given in this letter are based on facts and representations submitted by the taxpayer and accompanied by a penalties of perjury statement executed by an appropriate party. This office has not verified any of the materials submitted in support of the request for rulings. Verification of the information, representations, and other data may be required as part of the audit process.

### **Summary of Facts**

Publicly traded P is the common parent of a consolidated group that conducts Business A and Business B. P wholly owns Sub 1, Sub 2, and Sub 7. Sub 2 wholly owns Sub 3, Sub 4, and Sub 5. Sub 5 wholly owns Sub 6. Each of Sub 1, Sub 2, Sub 3, Sub 4, and Sub 6 directly conducts both Business A and Business B. Sub 5 is a holding company. Sub 7 directly conducts Business B.

We have received financial information indicating that Business A and Business B (as conducted by each of Sub 1, Sub 2, Sub 3, Sub 4, and Sub 6) each has had gross receipts and operating expenses representing the active conduct of a trade or business for each of the past five years.

P proposes to formally separate the assets, personnel, and operations of Business A from those of Business B so that each business may function independently of the other. This separation will result in, among other things, a significant reduction in administrative expense and other costs for each business.

### **Proposed Transactions**

To effect the separation, Distributing proposes the following series of transactions:

- (i) Sub 1 will contribute all of its Business B assets to newly formed Controlled Sub 1 in exchange for Controlled Sub 1 stock and the assumption by Controlled Sub 1 of related liabilities ("Contribution 1").
- (ii) Sub 2 will contribute all of its Business B assets to newly formed Controlled Sub 2 in exchange for Controlled Sub 2 stock and the assumption by Controlled Sub 2 of related liabilities ("Contribution 2").
- (iii) Sub 3 will contribute all of its Business B assets to newly formed Controlled Sub 3 in exchange for Controlled Sub 3 stock and the assumption by Controlled Sub 3 of related liabilities ("Contribution 3").
- (iv) Sub 4 will contribute all of its Business B assets to newly formed Controlled

Sub 4 in exchange for Controlled Sub 4 stock and the assumption by Controlled Sub 4 of related liabilities ("Contribution 4").

(v) Sub 6 will contribute all of its Business B assets to newly formed Controlled Sub 5 in exchange for Controlled Sub 5 stock and the assumption by Controlled Sub 5 of related liabilities ("Contribution 5").

(vi) Sub 5 will contribute all of its assets (excluding the Sub 6 shares) to newly formed Controlled Sub 6 in exchange for Controlled Sub 6 stock and the assumption by Controlled Sub 6 of related liabilities ("Contribution 6").

(vii) Sub 5 will merge with and into Sub 6 (the "Downstream Merger").

(viii) Sub 1 will distribute the shares of Controlled Sub 1 to P ("Distribution 1").

(ix) Sub 2 will distribute the shares of Controlled Sub 2 to P ("Distribution 2").

(x) Sub 3 will distribute the shares of Controlled Sub 3 to Sub 2 ("Distribution 3").

(xi) Sub 4 will distribute the shares of Controlled Sub 4 to Sub 2 ("Distribution 4").

(xii) Sub 6 will distribute the shares of Controlled Sub 5 to Sub 2 ("Distribution 5").

(xiii) Sub 2 will distribute the shares of Controlled Sub 3 to P ("Distribution 6").

(xiv) Sub 2 will distribute the shares of Controlled Sub 4 to P ("Distribution 7").

(xv) Sub 2 will distribute the shares of Controlled Sub 5 to P ("Distribution 8").

(xvi) Controlled Sub 1 will merge with and into Sub 7 in a transaction intended to qualify as a reorganization under § 368(a)(1)(A) of the Internal Revenue Code ("Merger 1").

(xvii) Controlled Sub 2 will merge with and into Sub 7 in a transaction intended to qualify as a reorganization under § 368(a)(1)(A) ("Merger 2").

(xviii) Controlled Sub 3 will merge with and into Sub 7 in a transaction intended to qualify as a reorganization under § 368(a)(1)(A) ("Merger 3").

(xix) Controlled Sub 4 will merge with and into Sub 7 in a transaction intended to qualify as a reorganization under § 368(a)(1)(A) ("Merger 4").

(xx) Controlled Sub 5 will merge with and into Sub 7 in a transaction intended to qualify as a reorganization under § 368(a)(1)(A) ("Merger 5").

## **Representations**

### Contribution 1 and Distribution 1

Distributing makes the following representations concerning Contribution 1 and Distribution 1:

(a) No part of the consideration distributed by Sub 1 will be received by P as a creditor, employee, or in any capacity other than that of a Sub 1 shareholder.

(b) The five years of financial information submitted on behalf of Business A and Business B (both as conducted by Sub 1) represents, in each case, its present operations, and there have been no substantial operational changes since the date of the last financial statements submitted.

(c) Following Distribution 1, Controlled Sub 1 (then Sub 7) and Sub 1 each will continue the active conduct of its business, independently and with its separate employees.

(d) Distribution 1 is being carried out to achieve significant cost savings. Distribution 1 is motivated, in whole or substantial part, by this corporate business purpose and other business reasons.

(e) Apart from Merger 1, there is no plan or intention by P to sell, exchange, transfer by gift, or otherwise dispose of any stock of Sub 1, Controlled Sub 1, or Sub 7 after Distribution 1.

(f) There is no plan or intention by either Sub 1 or Controlled Sub 1, directly or through any subsidiary corporation, to purchase any of its outstanding stock after Distribution 1.

(g) Apart from Merger 1, there is no plan or intention to liquidate either Sub 1 or Controlled Sub 1, to merge either corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation after Distribution 1, except in the ordinary course of business.

(h) The total adjusted basis and the fair market value of the assets to be transferred to Controlled Sub 1 by Sub 1 each equals or exceeds the liabilities assumed (within the meaning of § 357(d)) by Controlled Sub 1.

(i) The liabilities to be assumed (within the meaning of § 357(d)) in Contribution

1 were incurred in the ordinary course of business and are associated with the assets being transferred.

(j) No intercorporate debt will exist between Sub 1 and Controlled Sub 1 at the time of, or after, Distribution 1.

(k) Immediately before Distribution 1, any items of income, gain, loss, deduction, and credit will be taken into account as required by the applicable intercompany transaction regulations (see § 1.1502-13 and 1.1502-14 of the Income Tax Regulations as in effect before the publication of T.D. 8597, 1995-2 C.B. 147, and as currently in effect; § 1.1502-13 as published by T.D. 8597).

(l) Payments made in any continuing transactions between Sub 1 and Controlled Sub 1 (or Sub 7) will be for fair market value based on terms and conditions arrived at by the parties bargaining at arms' length.

(m) No two parties to the transaction are investment companies as defined in § 368(a)(2)(F)(iii) and (iv).

(n) Distribution 1 is not part of a plan or series of related transactions (within the meaning of § 355(e)) pursuant to which one or more persons will acquire, directly or indirectly, stock possessing 50 percent or more of the total combined voting power of all classes of either Sub 1 or Controlled Sub 1 stock entitled to vote, or stock possessing 50 percent or more of the total value of shares of all classes of either Sub 1 or Controlled Sub 1 stock.

#### Contribution 2 and Distribution 2

Distributing makes the following representations concerning Contribution 2 and Distribution 2:

(o) No part of the consideration distributed by Sub 2 will be received by P as a creditor, employee, or in any capacity other than that of a Sub 2 shareholder.

(p) The five years of financial information submitted on behalf of Business A and Business B (both as conducted by Sub 2) represents, in each case, its present operations, and there have been no substantial operational changes since the date of the last financial statements submitted.

(q) Following Distribution 2, Controlled Sub 2 (then Sub 7) and Sub 2 each will continue the active conduct of its business, independently and with its separate employees.

(r) Distribution 2 is being carried out to achieve significant cost savings.

Distribution 2 is motivated, in whole or substantial part, by this corporate business purpose and other business reasons.

(s) Apart from Merger 2, there is no plan or intention by P to sell, exchange, transfer by gift, or otherwise dispose of any stock of Sub 2, Controlled Sub 2, or Sub 7 after Distribution 2.

(t) There is no plan or intention by either Sub 2 or Controlled Sub 2, directly or through any subsidiary corporation, to purchase any of its outstanding stock after Distribution 2.

(u) Apart from Merger 2, there is no plan or intention to liquidate either Sub 2 or Controlled Sub 2, to merge either corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation after Distribution 2, except in the ordinary course of business.

(v) The total adjusted basis and the fair market value of the assets to be transferred to Controlled Sub 2 by Sub 2 each equals or exceeds the liabilities assumed (within the meaning of § 357(d)) by Controlled Sub 2.

(w) The liabilities to be assumed (within the meaning of § 357(d)) in Contribution 2 were incurred in the ordinary course of business and are associated with the assets being transferred.

(x) No intercorporate debt will exist between Sub 2 and Controlled Sub 2 at the time of, or after, Distribution 2.

(y) Immediately before Distribution 2, any items of income, gain, loss, deduction, and credit will be taken into account as required by the applicable intercompany transaction regulations (see § 1.1502-13 and 1.1502-14 as in effect before the publication of T.D. 8597 and as currently in effect; § 1.1502-13 as published by T.D. 8597).

(z) Payments made in any continuing transactions between Sub 2 and Controlled Sub 2 (or Sub 7) will be for fair market value based on terms and conditions arrived at by the parties bargaining at arms' length.

(aa) No two parties to the transaction are investment companies as defined in § 368(a)(2)(F)(iii) and (iv).

(bb) Distribution 2 is not part of a plan or series of related transactions (within the meaning of § 355(e)) pursuant to which one or more persons will acquire, directly or indirectly, stock possessing 50 percent or more of the total combined voting power of all classes of either Sub 2 or Controlled Sub 2 stock entitled to vote, or stock possessing

50 percent or more of the total value of shares of all classes of either Sub 2 or Controlled Sub 2 stock.

Contribution 3 and Distribution 3

Distributing makes the following representations concerning Contribution 3 and Distribution 3:

(cc) No part of the consideration distributed by Sub 3 will be received by Sub 2 as a creditor, employee, or in any capacity other than that of a Sub 3 shareholder.

(dd) The five years of financial information submitted on behalf of Business A and Business B (both as conducted by Sub 3) represents, in each case, its present operations, and there have been no substantial operational changes since the date of the last financial statements submitted.

(ee) Following Distribution 3, Controlled Sub 3 (then Sub 7) and Sub 3 each will continue the active conduct of its business, independently and with its separate employees.

(ff) Distribution 3 is being carried out to achieve significant cost savings. Distribution 3 is motivated, in whole or substantial part, by this corporate business purpose and other business reasons.

(gg) Apart from Distribution 6, there is no plan or intention by Sub 2 to sell, exchange, transfer by gift, or otherwise dispose of any stock of Sub 3 or Controlled Sub 3 after Distribution 3.

(hh) There is no plan or intention by either Sub 3 or Controlled Sub 3, directly or through any subsidiary corporation, to purchase any of its outstanding stock after Distribution 3.

(ii) Apart from Distribution 6 and Merger 3, there is no plan or intention to liquidate either Sub 3 or Controlled Sub 3, to merge either corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation after Distribution 3, except in the ordinary course of business.

(jj) The total adjusted basis and the fair market value of the assets to be transferred to Controlled Sub 3 by Sub 3 each equals or exceeds the liabilities assumed (within the meaning of § 357(d)) by Controlled Sub 3.

(kk) The liabilities to be assumed (within the meaning of § 357(d)) in Contribution 3 were incurred in the ordinary course of business and are associated with the assets being transferred.

(ll) No intercorporate debt will exist between Sub 3 and Controlled Sub 3 at the time of, or after, Distribution 3.

(mm) Immediately before Distribution 3, any items of income, gain, loss, deduction, and credit will be taken into account as required by the applicable intercompany transaction regulations (see § 1.1502-13 and 1.1502-14 as in effect before the publication of T.D. 8597 and as currently in effect; § 1.1502-13 as published by T.D. 8597).

(nn) Payments made in any continuing transactions between Sub 3 and Controlled Sub 3 (or Sub 7) will be for fair market value based on terms and conditions arrived at by the parties bargaining at arms' length.

(oo) No two parties to the transaction are investment companies as defined in § 368(a)(2)(F)(iii) and (iv).

(pp) Distribution 3 is not part of a plan or series of related transactions (within the meaning of § 355(e)) pursuant to which one or more persons will acquire, directly or indirectly, stock possessing 50 percent or more of the total combined voting power of all classes of either Sub 3 or Controlled Sub 3 stock entitled to vote, or stock possessing 50 percent or more of the total value of shares of all classes of either Sub 3 or Controlled Sub 3 stock.

#### Contribution 4 and Distribution 4

Distributing makes the following representations concerning Contribution 4 and Distribution 4:

(qq) No part of the consideration distributed by Sub 4 will be received by Sub 2 as a creditor, employee, or in any capacity other than that of a Sub 4 shareholder.

(rr) The five years of financial information submitted on behalf of Business A and Business B (both as conducted by Sub 4) represents, in each case, its present operations, and there have been no substantial operational changes since the date of the last financial statements submitted.

(ss) Following Distribution 4, Controlled Sub 4 (then Sub 7) and Sub 4 each will continue the active conduct of its business, independently and with its separate employees.

(tt) Distribution 4 is being carried out to achieve significant cost savings. Distribution 4 is motivated, in whole or substantial part, by this corporate business purpose and other business reasons.



(uu) Apart from Distribution 7, there is no plan or intention by Sub 2 to sell, exchange, transfer by gift, or otherwise dispose of any stock of Sub 4 or Controlled Sub 4 after Distribution 4.

(vv) There is no plan or intention by either Sub 4 or Controlled Sub 4, directly or through any subsidiary corporation, to purchase any of its outstanding stock after Distribution 4.

(ww) Apart from Distribution 7 and Merger 4, there is no plan or intention to liquidate either Sub 4 or Controlled Sub 4, to merge either corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation after Distribution 4, except in the ordinary course of business.

(xx) The total adjusted basis and the fair market value of the assets to be transferred to Controlled Sub 4 by Sub 4 each equals or exceeds the liabilities assumed (within the meaning of § 357(d)) by Controlled Sub 4.

(yy) The liabilities to be assumed (within the meaning of § 357(d)) in Contribution 4 were incurred in the ordinary course of business and are associated with the assets being transferred.

(zz) No intercorporate debt will exist between Sub 4 and Controlled Sub 4 at the time of, or after, Distribution 4.

(aaa) Immediately before Distribution 4, any items of income, gain, loss, deduction, and credit will be taken into account as required by the applicable intercompany transaction regulations (see § 1.1502-13 and 1.1502-14 as in effect before the publication of T.D. 8597 and as currently in effect; § 1.1502-13 as published by T.D. 8597).

(bbb) Payments made in any continuing transactions between Sub 4 and Controlled Sub 4 (or Sub 7) will be for fair market value based on terms and conditions arrived at by the parties bargaining at arms' length.

(ccc) No two parties to the transaction are investment companies as defined in § 368(a)(2)(F)(iii) and (iv).

(ddd) Distribution 4 is not part of a plan or series of related transactions (within the meaning of § 355(e)) pursuant to which one or more persons will acquire, directly or indirectly, stock possessing 50 percent or more of the total combined voting power of all classes of either Sub 4 or Controlled Sub 4 stock entitled to vote, or stock possessing 50 percent or more of the total value of shares of all classes of either Sub 4 or Controlled Sub 4 stock.

Contribution 5 and Distribution 5

Distributing makes the following representations concerning Contribution 5 and Distribution 5:

(eee) No part of the consideration distributed by Sub 6 will be received by Sub 2 as a creditor, employee, or in any capacity other than that of a Sub 6 shareholder.

(fff) The five years of financial information submitted on behalf of Business A and Business B (both as conducted by Sub 6) represents, in each case, its present operations, and there have been no substantial operational changes since the date of the last financial statements submitted.

(ggg) Following Distribution 5, Controlled Sub 5 (then Sub 7) and Sub 6 each will continue the active conduct of its business, independently and with its separate employees.

(hhh) Distribution 5 is being carried out to achieve significant cost savings. Distribution 5 is motivated, in whole or substantial part, by this corporate business purpose and other business reasons.

(iii) Apart from Distribution 8, there is no plan or intention by Sub 2 to sell, exchange, transfer by gift, or otherwise dispose of any stock of Sub 6 or Controlled Sub 5 after Distribution 5.

(jjj) There is no plan or intention by either Sub 6 or Controlled Sub 5, directly or through any subsidiary corporation, to purchase any of its outstanding stock after Distribution 5.

(kkk) Apart from Distribution 8 and Merger 5, there is no plan or intention to liquidate either Sub 6 or Controlled Sub 5, to merge either corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation after Distribution 5, except in the ordinary course of business.

(III) The total adjusted basis and the fair market value of the assets to be transferred to Controlled Sub 5 by Sub 6 each equals or exceeds the liabilities assumed (within the meaning of § 357(d)) by Controlled Sub 5.

(mmm) The liabilities to be assumed (within the meaning of § 357(d)) in Contribution 5 were incurred in the ordinary course of business and are associated with the assets being transferred.

(nnn) No intercorporate debt will exist between Sub 6 and Controlled Sub 5 at the time of, or after, Distribution 5.

(ooo) Immediately before Distribution 5, any items of income, gain, loss, deduction, and credit will be taken into account as required by the applicable intercompany transaction regulations (see § 1.1502-13 and 1.1502-14 as in effect before the publication of T.D. 8597 and as currently in effect; § 1.1502-13 as published by T.D. 8597).

(ppp) Payments made in any continuing transactions between Sub 6 and Controlled Sub 5 (or Sub 7) will be for fair market value based on terms and conditions arrived at by the parties bargaining at arms' length.

(qqq) No two parties to the transaction are investment companies as defined in § 368(a)(2)(F)(iii) and (iv).

(rrr) Distribution 5 is not part of a plan or series of related transactions (within the meaning of § 355(e)) pursuant to which one or more persons will acquire, directly or indirectly, stock possessing 50 percent or more of the total combined voting power of all classes of either Sub 6 or Controlled Sub 5 stock entitled to vote, or stock possessing 50 percent or more of the total value of shares of all classes of either Sub 6 or Controlled Sub 5 stock.

#### Downstream Merger

Distributing makes the following representation concerning the Downstream Merger:

(sss) To the best of P's Knowledge and belief, the Downstream Merger and Contribution 6 will qualify as a reorganization under § 368(a)(1)(A) and (a)(2)(C).

#### Distribution 6

Distributing makes the following representations concerning Distribution 6:

(ttt) No part of the consideration distributed by Sub 2 will be received by P as a creditor, employee, or in any capacity other than that of a Sub 2 shareholder.

(uuu) The five years of financial information submitted on behalf of Business A (as conducted by Sub 2) and Business B (as conducted by Sub 3) represents, in each case, its present operations, and there have been no substantial operational changes since the date of the last financial statements submitted.

(vvv) Following Distribution 6, Controlled Sub 3 (then Sub 7) and Sub 2 each will continue the active conduct of its business, independently and with its separate employees.

(www) Distribution 6 is being carried out to achieve significant cost savings. Distribution 6 is motivated, in whole or substantial part, by this corporate business purpose and other business reasons.

(xxx) Apart from Merger 3, there is no plan or intention by P to sell, exchange, transfer by gift, or otherwise dispose of any stock of Sub 2, Controlled Sub 3, or Sub 7 after Distribution 6.

(yyy) There is no plan or intention by either Sub 2 or Controlled Sub 3, directly or through any subsidiary corporation, to purchase any of its outstanding stock after Distribution 6.

(zzz) Apart from Merger 3, there is no plan or intention to liquidate either Sub 2 or Controlled Sub 3, to merge either corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation after Distribution 6, except in the ordinary course of business.

(aaaa) No intercorporate debt will exist between Sub 2 and Controlled Sub 3 at the time of, or after, Distribution 6.

(bbbb) Immediately before Distribution 6, any items of income, gain, loss, deduction, and credit will be taken into account as required by the applicable intercompany transaction regulations (see § 1.1502-13 and 1.1502-14 as in effect before the publication of T.D. 8597 and as currently in effect; § 1.1502-13 as published by T.D. 8597).

(cccc) Payments made in any continuing transactions between Sub 2 and Controlled Sub 3 (or Sub 7) will be for fair market value based on terms and conditions arrived at by the parties bargaining at arms' length.

(dddd) No two parties to the transaction are investment companies as defined in § 368(a)(2)(F)(iii) and (iv).

(eeee) Distribution 6 is not part of a plan or series of related transactions (within the meaning of § 355(e)) pursuant to which one or more persons will acquire, directly or indirectly, stock possessing 50 percent or more of the total combined voting power of all classes of either Sub 2 or Controlled Sub 3 stock entitled to vote, or stock possessing 50 percent or more of the total value of shares of all classes of either Sub 2 or Controlled Sub 3 stock.

#### Distribution 7

Distributing makes the following representations concerning Distribution 7:

(ffff) No part of the consideration distributed by Sub 2 will be received by P as a creditor, employee, or in any capacity other than that of a Sub 2 shareholder.

(gggg) The five years of financial information submitted on behalf of Business A (as conducted by Sub 2) and Business B (as conducted by Sub 4) represents, in each case, its present operations, and there have been no substantial operational changes since the date of the last financial statements submitted.

(hhhh) Following Distribution 7, Controlled Sub 4 (then Sub 7) and Sub 2 each will continue the active conduct of its business, independently and with its separate employees.

(iiii) Distribution 7 is being carried out to achieve significant cost savings. Distribution 7 is motivated, in whole or substantial part, by this corporate business purpose and other business reasons.

(jjjj) Apart from Merger 4, there is no plan or intention by P to sell, exchange, transfer by gift, or otherwise dispose of any stock of Sub 2, Controlled Sub 4, or Sub 7 after Distribution 7.

(kkkk) There is no plan or intention by either Sub 2 or Controlled Sub 4, directly or through any subsidiary corporation, to purchase any of its outstanding stock after Distribution 7.

(llll) Apart from Merger 4, there is no plan or intention to liquidate either Sub 2 or Controlled Sub 4, to merge either corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation after Distribution 7, except in the ordinary course of business.

(mmmm) No intercorporate debt will exist between Sub 2 and Controlled Sub 4 at the time of, or after, Distribution 7.

(nnnn) Immediately before Distribution 7, any items of income, gain, loss, deduction, and credit will be taken into account as required by the applicable intercompany transaction regulations (see § 1.1502-13 and 1.1502-14 as in effect before the publication of T.D. 8597 and as currently in effect; § 1.1502-13 as published by T.D. 8597).

(oooo) Payments made in any continuing transactions between Sub 2 and Controlled Sub 4 (or Sub 7) will be for fair market value based on terms and conditions arrived at by the parties bargaining at arms' length.

(pppp) No two parties to the transaction are investment companies as defined in § 368(a)(2)(F)(iii) and (iv).

(qqqq) Distribution 7 is not part of a plan or series of related transactions (within the meaning of § 355(e)) pursuant to which one or more persons will acquire, directly or indirectly, stock possessing 50 percent or more of the total combined voting power of all classes of either Sub 2 or Controlled Sub 4 stock entitled to vote, or stock possessing 50 percent or more of the total value of shares of all classes of either Sub 2 or Controlled Sub 4 stock.

#### Distribution 8

Distributing makes the following representations concerning Distribution 8:

(rrrr) No part of the consideration distributed by Sub 2 will be received by P as a creditor, employee, or in any capacity other than that of a Sub 2 shareholder.

(ssss) The five years of financial information submitted on behalf of Business A (as conducted by Sub 2) and Business B (as conducted by Sub 5) represents, in each case, its present operations, and there have been no substantial operational changes since the date of the last financial statements submitted.

(tttt) Following Distribution 8, Controlled Sub 5 (then Sub 7) and Sub 2 each will continue the active conduct of its business, independently and with its separate employees.

(uuuu) Distribution 8 is being carried out to achieve significant cost savings. Distribution 8 is motivated, in whole or substantial part, by this corporate business purpose and other business reasons.

(vvvv) Apart from Merger 5, there is no plan or intention by P to sell, exchange, transfer by gift, or otherwise dispose of any stock of Sub 2, Controlled Sub 5, or Sub 7 after Distribution 8.

(wwwv) There is no plan or intention by either Sub 2 or Controlled Sub 5, directly or through any subsidiary corporation, to purchase any of its outstanding stock after Distribution 8.

(xxxx) Apart from Merger 5, there is no plan or intention to liquidate either Sub 2 or Controlled Sub 5, to merge either corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation after Distribution 8, except in the ordinary course of business.

(yyyy) No intercorporate debt will exist between Sub 2 and Controlled Sub 5 at the time of, or after, Distribution 8.

(zzzz) Immediately before Distribution 8, any items of income, gain, loss,

deduction, and credit will be taken into account as required by the applicable intercompany transaction regulations (see § 1.1502-13 and 1.1502-14 as in effect before the publication of T.D. 8597 and as currently in effect; § 1.1502-13 as published by T.D. 8597).

(aaaaa) Payments made in any continuing transactions between Sub 2 and Controlled Sub 5 (or Sub 7) will be for fair market value based on terms and conditions arrived at by the parties bargaining at arms' length.

(bbbbb) No two parties to the transaction are investment companies as defined in § 368(a)(2)(F)(iii) and (iv).

(ccccc) Distribution 8 is not part of a plan or series of related transactions (within the meaning of § 355(e)) pursuant to which one or more persons will acquire, directly or indirectly, stock possessing 50 percent or more of the total combined voting power of all classes of either Sub 2 or Controlled Sub 5 stock entitled to vote, or stock possessing 50 percent or more of the total value of shares of all classes of either Sub 2 or Controlled Sub 5 stock.

#### Mergers 1 through 5

Distributing makes the following representation concerning Mergers 1 through 5:

(dddd) To the best of P's knowledge and belief, Merger 1, Merger 2, Merger 3, Merger 4, and Merger 5 each will qualify as a reorganization under § 368(a)(1)(A).

### **Rulings**

#### Contribution 1 and Distribution 1

Based solely on the information submitted and the representations set forth above, we rule as follows on Contribution 1 and Distribution 1:

(1) Contribution 1, followed by Distribution 1, will be a reorganization under § 368(a)(1)(D). Sub 1 and Controlled Sub 1 each will be "a party to a reorganization" under § 368(b).

(2) No gain or loss will be recognized by Sub 1 on Contribution 1 (§§ 357(a) and 361(a)).

(3) No gain or loss will be recognized by Controlled Sub 1 on Contribution 1 (§ 1032(a)).

(4) The basis of each asset received by Controlled Sub 1 in Contribution 1 will

equal the basis of that asset in the hands of Sub 1 immediately before its transfer (§ 362(b)).

(5) The holding period of each asset received by Controlled Sub 1 in Contribution 1 will include the period during which Sub 1 held that asset (§ 1223(2)).

(6) No gain or loss will be recognized by Sub 1 on Distribution 1 (§ 361(c)(1)).

(7) No gain or loss will be recognized by (and no amount will otherwise be included in the income of) P on its receipt of the Controlled Sub 1 stock in Distribution 1 (§ 355(a)(1)).

(8) The holding period of the Controlled Sub 1 stock received by P will include the period during which Distributing has held the Sub 1 stock on which Distribution 1 is made, provided the Sub 1 stock is held as a capital asset on the date of Distribution 1 (§ 1223(1)).

(9) Earnings and profits will be allocated between Sub 1 and Controlled Sub 1 in accordance with §§ 312(h), 1.312-10(a), and 1.1502-33(f)(2).

#### Contribution 2 and Distribution 2

Based solely on the information submitted and the representations set forth above, we rule as follows on Contribution 2 and Distribution 2:

(10) Contribution 2, followed by Distribution 2, will be a reorganization under § 368(a)(1)(D). Sub 2 and Controlled Sub 2 each will be “a party to a reorganization” under § 368(b).

(11) No gain or loss will be recognized by Sub 2 on Contribution 2 (§§ 357(a) and 361(a)).

(12) No gain or loss will be recognized by Controlled Sub 2 on Contribution 2 (§ 1032(a)).

(13) The basis of each asset received by Controlled Sub 2 in Contribution 2 will equal the basis of that asset in the hands of Sub 2 immediately before its transfer (§ 362(b)).

(14) The holding period of each asset received by Controlled Sub 2 in Contribution 2 will include the period during which Sub 2 held that asset (§ 1223(2)).

(15) No gain or loss will be recognized by Sub 2 on Distribution 2 (§ 361(c)(1)).



(16) No gain or loss will be recognized by (and no amount will otherwise be included in the income of) P on its receipt of the Controlled Sub 2 stock in Distribution 2 (§ 355(a)(1)).

(17) The holding period of the Controlled Sub 2 stock received by P will include the period during which P has held the Sub 2 stock on which Distribution 2 is made, provided the Sub 2 stock is held as a capital asset on the date of Distribution 2 (§ 1223(1)).

(18) Earnings and profits will be allocated between Sub 2 and Controlled Sub 2 in accordance with §§ 312(h), 1.312-10(a), and 1.1502-33(f)(2).

### Contribution 3 and Distribution 3

Based solely on the information submitted and the representations set forth above, we rule as follows on Contribution 3 and Distribution 3:

(19) Contribution 3, followed by Distribution 3, will be a reorganization under § 368(a)(1)(D). Sub 3 and Controlled Sub 3 each will be “a party to a reorganization” under § 368(b).

(20) No gain or loss will be recognized by Sub 3 on Contribution 3 (§§ 357(a) and 361(a)).

(21) No gain or loss will be recognized by Controlled Sub 3 on Contribution 3 (§ 1032(a)).

(22) The basis of each asset received by Controlled Sub 3 in Contribution 3 will equal the basis of that asset in the hands of Sub 3 immediately before its transfer (§ 362(b)).

(23) The holding period of each asset received by Controlled Sub 3 in Contribution 3 will include the period during which Sub 3 held that asset (§ 1223(2)).

(24) No gain or loss will be recognized by Sub 3 on Distribution 3 (§ 361(c)(1)).

(25) No gain or loss will be recognized by (and no amount will otherwise be included in the income of) Sub 2 on its receipt of the Controlled Sub 3 stock in Distribution 3 (§ 355(a)(1)).

(26) The holding period of the Controlled Sub 3 stock received by Sub 2 will include the period during which Sub 2 has held the Sub 3 stock on which Distribution 3 is made, provided the Sub 3 stock is held as a capital asset on the date of Distribution 3 (§ 1223(1)).

(27) Earnings and profits will be allocated between Sub 3 and Controlled Sub 3 in accordance with §§ 312(h), 1.312-10(a), and 1.1502-33(f)(2).

#### Contribution 4 and Distribution 4

Based solely on the information submitted and the representations set forth above, we rule as follows on Contribution 4 and Distribution 4:

(28) Contribution 4, followed by Distribution 4, will be a reorganization under § 368(a)(1)(D). Sub 4 and Controlled Sub 4 each will be “a party to a reorganization” under § 368(b).

(29) No gain or loss will be recognized by Sub 4 on Contribution 4 (§§ 357(a) and 361(a)).

(30) No gain or loss will be recognized by Controlled Sub 4 on Contribution 4 (§ 1032(a)).

(31) The basis of each asset received by Controlled Sub 4 in Contribution 4 will equal the basis of that asset in the hands of Sub 4 immediately before its transfer (§ 362(b)).

(32) The holding period of each asset received by Controlled Sub 4 in Contribution 4 will include the period during which Sub 4 held that asset (§ 1223(2)).

(33) No gain or loss will be recognized by Sub 4 on Distribution 4 (§ 361(c)(1)).

(34) No gain or loss will be recognized by (and no amount will otherwise be included in the income of) Sub 2 on its receipt of the Controlled Sub 4 stock in Distribution 4 (§ 355(a)(1)).

(35) The holding period of the Controlled Sub 4 stock received by Sub 2 will include the period during which Sub 2 has held the Sub 4 stock on which Distribution 4 is made, provided the Sub 4 stock is held as a capital asset on the date of Distribution 4 (§ 1223(1)).

(36) Earnings and profits will be allocated between Sub 4 and Controlled Sub 4 in accordance with §§ 312(h), 1.312-10(a), and 1.1502-33(f)(2).

#### Contribution 5 and Distribution 5

Based solely on the information submitted and the representations set forth above, we rule as follows on Contribution 5 and Distribution 5:

(37) Contribution 5, followed by Distribution 5, will be a reorganization under § 368(a)(1)(D). Sub 6 and Controlled Sub 5 each will be “a party to a reorganization” under § 368(b).

(38) No gain or loss will be recognized by Sub 6 on Contribution 5 (§§ 357(a) and 361(a)).

(39) No gain or loss will be recognized by Controlled Sub 5 on Contribution 5 (§1032(a)).

(40) The basis of each asset received by Controlled Sub 5 in Contribution 5 will equal the basis of that asset in the hands of Sub 6 immediately before its transfer (§ 362(b)).

(41) The holding period of each asset received by Controlled Sub 5 in Contribution 5 will include the period during which Sub 6 held that asset (§ 1223(2)).

(42) No gain or loss will be recognized by Sub 6 on Distribution 5 (§ 361(c)(1)).

(43) No gain or loss will be recognized by (and no amount will otherwise be included in the income of) Sub 2 on its receipt of Controlled Sub 5 stock in Distribution 5 (§ 355(a)(1)).

(44) The holding period of the Controlled Sub 5 stock received by Sub 2 will include the period during which Sub 2 has held the Sub 6 stock on which Distribution 5 is made, provided the Sub 6 stock is held as a capital asset on the date of Distribution 5 (§ 1223(1)).

(45) Earnings and profits will be allocated between Sub 6 and Controlled Sub 5 in accordance with §§ 312(h), 1.312-10(a), and 1.1502-33(f)(2).

#### Downstream Merger

(46) Contribution 6 will not prevent the Downstream Merger from qualifying as a reorganization under § 368(a)(1)(A) (see Rev. Rul. 58-93, 1958-1 C.B. 188).

#### Distribution 6

(47) No gain or loss will be recognized by P on Distribution 6 (§ 355(a)).

(48) No gain or loss will be recognized by Sub 2 on Distribution 6 (§ 355(c)).

(49) The holding period of the Controlled Sub 3 stock received by P will include the period during which P has held the Sub 2 stock on which Distribution 6 is made,

provided the Sub 2 stock is held as a capital asset on the date of Distribution 6 (§ 1223(1)).

(50) Earnings and profits will be allocated between Sub 2 and Controlled Sub 3 in accordance with §§ 312(h), 1.312-10(b), and 1.1502-33(f)(2).

#### Distribution 7

(51) No gain or loss will be recognized by P on Distribution 7 (§ 355(a)).

(52) No gain or loss will be recognized by Sub 2 on Distribution 7 (§ 355(c)).

(53) The holding period of the Controlled Sub 4 stock received by P will include the period during which P has held the Sub 2 stock on which Distribution 7 is made, provided the Sub 2 stock is held as a capital asset on the date of Distribution 7 (§ 1223(1)).

(54) Earnings and profits will be allocated between Sub 2 and Controlled Sub 4 in accordance with §§ 312(h), 1.312-10(b), and 1.1502-33(f)(2).

#### Distribution 8

(55) No gain or loss will be recognized by P on Distribution 8 (§ 355(a)).

(56) No gain or loss will be recognized by Sub 2 on Distribution 8 (§ 355(c)).

(57) The holding period of the Controlled Sub 5 stock received by P will include the period during which P has held the Sub 2 stock on which Distribution 8 is made, provided the Sub 2 stock is held as a capital asset on the date of Distribution 8 (§ 1223(1)).

(58) Earnings and profits will be allocated between Sub 2 and Controlled Sub 5 in accordance with §§ 312(h), 1.312-10(b), and 1.1502-33(f)(2).

#### Mergers 1 through 5

(59) Contributions 1 through 6, the Downstream Merger, and Distributions 1 through 8 will not prevent Mergers 1 through 5 from qualifying as reorganizations under § 368(a)(1)(A). (See Rev. Rul. 98-27).

#### **Caveats**

We express no opinion on the tax treatment of the transactions under other sections of the Code or regulations or the tax treatment of any conditions existing at the time of, or effects resulting from, the transactions that are not specifically covered by the above rulings. In particular, we express no opinion about (i) whether the Downstream Merger described in step (vii) qualifies as a reorganization under § 368, (ii) whether Merger 1,2,3,4, or 5 described in steps (xvi) through (xx) above qualifies as a reorganization under § 368, and (iii) the § 358 basis allocations occurring as a result of Distributions 1, 2, 3, 4, 5, 6, 7, and 8.

### **Procedural Statements**

Temporary or final regulations pertaining to one or more issues addressed in this ruling letter (including regulations under § 358(g)) have yet to be adopted. Therefore, this ruling letter may be revoked or modified if adopted temporary or final regulations are inconsistent with any conclusions reached herein. See § 12.04 of Rev. Proc. 2000-1, I.R.B. 4, 46, which addresses in greater detail when a ruling will be revoked or modified. However, when the criteria in § 12.05 of Rev. Proc. 99-1 are satisfied, a ruling is seldom revoked or modified retroactively, except in rare or unusual circumstances.

This ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

A copy of this ruling letter should be attached to the federal income tax return of each affected taxpayer for the taxable year in which the transactions covered by this letter are completed.

Under a power of attorney on file in this office, a copy of this letter is being sent to the taxpayer.

Sincerely,

Assistant Chief Counsel (Corporate)

By: \_\_\_\_\_  
Wayne T. Murray  
Senior Technician/Reviewer  
Branch 4