

Internal Revenue Service

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Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:

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Date:

August 9, 1999

Distributing =

Controlled =

Subsidiary 2 =

Subsidiary 3 =

Shareholder A =

Shareholder B =

a =

b =

c =

q =

p =

X =

Y =

Key Employee =

Date 1 =

Dear :

This is in response to your request dated March 17, 1999, for a supplemental ruling to PLR 9830016 ("Prior Letter Ruling") issued by our office on April 24, 1998. Specifically, you requested that certain factual changes to the Prior Letter Ruling have no effect on the rulings granted in the Prior Letter Ruling. Additional information regarding this request has been received in a letter dated May 4, 1999.

In the Prior Letter Ruling, Distributing proposed to transfer certain assets to Controlled and then to spin-off Controlled pro rata to its shareholders. The business purpose for the transaction was to enable Key Employee to acquire a significant interest in Controlled through the purchase of shares of Controlled Class B common stock which will be authorized following the spin-off. The transaction has not yet been consummated. Distributing now proposes to effect the transaction described in the Prior Letter Ruling, subject to the changes described below

The following factual changes are hereby made to the Prior Letter Ruling:

- (1) Key Employee will acquire, on a diluted basis, Controlled Class B common stock reflecting q% of the voting power of Controlled.
- (2) 54.03% of the outstanding Distributing common stock is owned by Shareholder A. An additional 39.35% of the stock is owned by Shareholder B.
- (3) At the time of the distribution, Distributing will have a shares of stock outstanding and Controlled will have b shares of stock outstanding so that in the pro rata distribution of Controlled each holder of a Distributing share will receive approximately c shares of Controlled Class A stock for each share of Distributing stock held.
- (4) As soon as is practicable, and within one year, Key Employee will purchase X shares of Class B common stock from Controlled, representing p% of the total value of the shares, and q% of the total vote. Key Employee will pay Y, a price based upon a formula believed by the company to represent the value of the shares. Key Employee will issue a note to Distributing in the amount of Y. This note will have a ten-year term and provide for equal monthly payments of principal with interest at 30 days LIBOR. Additionally, Controlled and Key Employee have agreed to arrange an option, with terms satisfactory to both parties, to enable Key Employee to acquire additional Class A stock representing

p% of the value of Controlled, to be exercisable within one year of the initial purchase of the Class B stock.

On Date 1, Subsidiary 2, a subsidiary of Distributing, sold part of its assets but retained 35% of its historical assets. On that same date, Subsidiary 3, also a subsidiary of Distributing, sold part of its assets but retained 90% of its historical assets. The taxpayer has provided updated financial information which indicates that the businesses conducted by Subsidiary 2 and Subsidiary 3, following the sale of assets, have had gross receipts and operating expenses representative of the active conduct of a trade or business for each of the past five years.

Based solely on the information submitted and the representations made, we rule that the changes discussed above have no effect on the rulings provided in the Prior Letter Ruling and the rulings remain in full force and effect.

No opinion is expressed about the tax treatment of the proposed transaction under other provisions of the Code and regulations or about the tax treatment of any conditions existing at the time of, or effects resulting from, the proposed transaction that are not specifically covered by the above rulings.

This ruling is directed only to the taxpayer who requested it. Section 6610(k)(3) provides that it may not be used or cited as precedent.

This letter supplements the Prior Letter Ruling. A copy of this letter and the Prior Letter Ruling should be attached to the Federal income tax returns of the taxpayers involved for the taxable year in which the transaction covered by this ruling is consummated.

Sincerely yours,

Assistant Chief Counsel (Corporate)

By _____
Christopher W. Schoen
Assistant to the Chief, CC:DOM:CORP:1