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Person to Contact:

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Date:

September 28, 2001

Parent =

Sub =

Newco 5 =

Business G =

Business H =

PS1 =

S14 =

S15 =

S16 =

S17 =

PAMsubs =

d =

e =

f =

g =

h =

This letter responds to your February 23, 2001 request for a letter ruling supplementing our prior letter ruling dated April 26, 2000 (the "Prior Letter Ruling"). The legend abbreviations, factual summary, and representations appearing in the Prior Letter Ruling are hereby incorporated by reference except as otherwise stated.

The Prior Letter Ruling addressed certain federal tax consequences of a series of proposed transactions that would ultimately lead to the conversion of Company from a mutual company into a stock company wholly owned by a new publicly-traded holding company, Parent (the "Demutualization"), and the realignment of Company's affiliated group along business lines (the "Realignment"). Because certain facts and steps in the Demutualization and Realignment have changed from those described in the Prior Letter Ruling, and because new steps not previously disclosed to this Office when the Prior Letter Ruling was issued will be undertaken, you have asked us to amend the Prior Letter Ruling in various ways.

Pursuant to your request, the Prior Letter Ruling has been amended as follows:

(A) Newco 5, Business G, Business H, PS 1, S15, S16, S17, d, e, f, g, and h have been added to the legend. In addition, the old names of Parent, Sub, and S14 have been deleted from the legend, and the new names of these entities have been added. Also, the name and EIN number of the first PAMsub in the legend has been changed.

(B) The following paragraphs have been added to the Summary of Facts on page 7:

Company wholly owns S15 and S16, both corporations, and d% of PS 1, a limited partnership. S16 wholly owns S17, which in turn, owns the remaining e% of PS 1. S16 and PS 1 engage in Business G.

We have received financial information indicating that Business G, as conducted by S16, has had gross receipts and operating expenses representing the active conduct of a trade or business for each of the past five years.

(C) The subtitle Public Offering and its contents on page 8 have been deleted and replaced with the following:

Public Offering and Other Transactions

Concurrently with the Demutualization, additional Parent stock will be issued through an initial public offering undertaken to raise cash for payment to various categories of policyholders and to replenish Company capital (the "IPO"). In addition, Parent will raise capital by issuing, in a private placement, Class B voting common stock (the "Class B Stock"). The value of the Class B Stock will be based on the performance of Business H. If the Participating Policyholders, the investors who participate in the IPO (the "Public Investors"), and the recipients of the Class B Stock (the "Class B Shareholders") were considered a group of co-transferors in an integrated transaction (due to the Class B Stock being viewed as Parent stock), the Participating Policyholders, the Public Investors, and the Class B Shareholders would own f percent, g percent, and h

percent (less than one percent), respectively, of Parent's outstanding stock. Thus, the Participating Policyholders, the Public Investors, and the Class B Shareholders, as a group, would be in "control" of Parent, as that term is defined in § 368(c). If the Class B Stock is not viewed as Parent stock, the Participating Policyholders and the Public Investors, together, would own all of Parent's outstanding stock. Thus, the Participating Policyholders and the Public Investors would, as a group, be in "control" of Parent, as that term is defined in § 368(c).

(D) Steps (v) through (xxix) on pages 8 through 10 have been deleted and replaced with the following:

(v) S2 will distribute its S12 stock to Company ("Distribution 8").

(vi) S2 will distribute its S13 stock to Company ("Distribution 9").

(vii) Company will contribute its S12, S13, and S15 stock to Newco 5 in exchange for Newco 5 stock ("Contribution 6"). Company will then distribute the Newco 5 stock to Parent ("Distribution 12").

(viii) Parent will contribute its Company stock to newly formed domestic Sub. Sub will be disregarded as an entity separate from Parent for federal tax purposes under § 301.7701-3(b)(1)(ii).

(ix) Company, S1, and Country A "nominee" shareholders (required to satisfy Country A shareholder requirements) will transfer cash to newly formed Newco 1, a Country A corporation. In exchange, S1 will receive voting common stock having at least 80 percent of the combined voting power of all Newco 1 stock. Company and the nominees will receive the remaining voting common stock as well as voting preferred stock. S1 then will transfer the Branch assets (including certain foreign currency and accounts receivable) to Newco 1 in exchange for the cash contributed by S1 to Newco 1 earlier in this step (ix) and the assumption by Newco 1 of related liabilities.

(x) As soon as permitted under Country A and State C law, but not more than 12 months after the Demutualization, S1 will distribute its Newco 1 voting common stock to Company ("Distribution 2").

(xi) Company will contribute the stock of FS1, FS2, Newco 1, and the OFsubs, and certain corporate-center assets and liabilities related to Business B to its recently formed, wholly owned domestic subsidiary, IHC, in constructive exchange for additional IHC stock ("Contribution 1").

(xii) Company will distribute the IHC stock to Sub ("Distribution 1").

(xiii) Under State B law, S7 will convert to a limited liability company wholly owned by S2, following which it will be disregarded as an entity separate

from S2 under § 301.7701-3(b)(1)(ii).

(xiv) Under State B law, S9 will convert to a limited liability company wholly owned by S8, following which it will be disregarded as an entity separate from S8 under § 301.7701-3(b)(1)(ii).

(xv) LLC 1 will distribute cash and the LLC2 shares to S10, and S10 will transfer the shares of LLC1 and LLC2 to newly formed, domestic Newco 2 in exchange for Newco 2 stock ("Contribution 3").

(xvi) S10 will distribute the Newco 2 stock to S8 ("Distribution 4").

(xvii) S8 will distribute the Newco 2 stock to S7, and S7 will distribute the Newco 2 stock to S2 ("Distribution 5").

(xviii) S2 will distribute the Newco 2 stock to Company ("Distribution 6").

(xix) S2 will transfer the TAMsubs stock to S11 in constructive exchange for additional S11 stock ("Contribution 4").

(xx) S2 will distribute the S11 stock to Company ("Distribution 7").

(xxi) S2 will distribute all of its stock in the Osubs and FOsubs to Company.

(xxii) Company will transfer all the stock of S11, S14, the PAMsubs, LLC3, LLC4, and Newco 2, and all the Division assets, to newly formed, domestic Newco 3 in exchange for all of the Newco 3 stock and the assumption by Newco 3 of related liabilities ("Contribution 5").

(xxiii) Newco 3 will transfer the LLC3 shares to Newco 2 in constructive exchange for Newco 2 stock.

(xxiv) Newco 3 will transfer the LLC4 shares to newly formed, domestic Newco 4 in exchange for all of the Newco 4 stock.

(xxv) Newco 3 will transfer the stock of S11 and the PAMsubs, and all of the Division assets to S14 in constructive exchange for additional S14 stock and the assumption by S14 of related liabilities.

(xxvi) Company will distribute the Newco 3 stock to Sub ("Distribution 10").

(xxvii) Company will distribute the S2 stock and certain surplus assets (the "Surplus Assets" and the "Surplus Distribution") to Sub ("Distribution 11"). Sub will distribute the Surplus Assets to Parent for use in its businesses other

than Business H.

(xxviii) Sub will distribute the stock of IHC, Newco 3, and S2 to Parent.

(xxix) Company will contribute its d% interest in PS 1 to S16 ("Contribution 7"). Company will then distribute S16 to Sub, which will distribute S16 to Parent ("Distribution 13").

(xxx) Sub will issue senior, unsubordinated debt to unrelated parties (the "Debt Issuance"), and will distribute most of the proceeds to Parent for use in its businesses other than Business H.

(E) Certain refinements will be made to the methodology used in calculating the amount of consideration to which Eligible Policyholders are entitled in the Demutualization. Taxpayer confirms that representation (a2) on page 11 and representation (a12) on pages 11 and 12 will remain true and correct after these refinements.

(F) Representations (a1) through (a36) on pages 11 through 14 remain valid, except that representation (a21) has been modified, and new representation (a37) has been added as follows:

(a21) Except for the possible acquisition of Parent debt by Transferors in an unrelated public financing and the possible acquisition of Sub debt by Transferors in the Debt Issuance, there is no indebtedness between Parent and any of the Transferors. No indebtedness will be created in favor of any of the Transferors in exchange for transferred property as a result of the Demutualization.

(a37) For federal tax purposes, the Class B Stock is Parent stock.

(G) Representations (b1) through (b19) on pages 14 through 16 remain valid, except that representations (b1), (b2), (b3), (b4), (b6), (b16), (b17), and (b19) are modified and new representations (b20) and (b21) are added as follows:

(b1) No part of the stock of IHC distributed by Company will be received by Parent as a creditor, employee, or in any capacity other than that of a shareholder of Company.

(b2) The five years of financial information submitted for Business A (as conducted by Company) and Business B (as conducted by each of FS1, FS2, and Newco 1) represents the present operations of each business, and regarding each business, there has been no substantial operational changes since the date of the last submitted financial statements.

(b3) Following Distribution 1, at least 90 percent of the fair market value of the gross assets of IHC will consist of the stock of FS1, FS2, and Newco 1,

each of which is engaged in the active conduct of a trade or business as defined in § 355(b)(2).

(b4) Following Distribution 1, Company, FS1, FS2, and Newco 1 each will continue the active conduct of its business, independently and with its separate employees.

(b6) There is no plan or intention by Parent to sell, exchange, transfer by gift, or otherwise dispose of any stock in either IHC or Company after Distribution 1.

(b16) All corporations involved in Distribution 1 and Distribution 2 are domestic corporations except for FS1, FS2, the OFsubs, and Newco 1.

(b17) Each of FS1, FS2, the OFsubs, and Newco 1 will be a controlled foreign corporation, within the meaning of § 957(a), before and immediately after the date of Distribution 1.

(b19) All of the outstanding stock of IHC will be distributed to Parent in Distribution 1.

(b20) For purposes of § 355(d), immediately after Distribution 1, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Company stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Company stock, that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 1.

(b21) For purposes of § 355(d), immediately after Distribution 1, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of IHC stock entitled to vote, or 50 percent or more of the total value of shares of all classes of IHC stock, that was either (i) acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 1 or (ii) attributable to distributions on Company stock that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 1.

(H) Representations (c1) through (c25) on pages 16 through 18 remain valid, except that representation (c3) has been modified and new representations (c26) and (c27) have been added as follows:

(c3) Following Distribution 2, Newco 1 will continue the active conduct of its business, independently and with its separate employees, and S1 will

continue the active conduct of its business using employees of Company. S1 will reimburse Company for the services of these employees. The reimbursement will be at fair market value.

(c26) For purposes of § 355(d), immediately after Distribution 2, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of S1 stock entitled to vote, or 50 percent or more of the total value of shares of all classes of S1 stock, that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 2.

(c27) For purposes of § 355(d), immediately after Distribution 2, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Newco 1 stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Newco 1 stock, that was either (i) acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 2 or (ii) attributable to distributions on S1 stock that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 2.

(I) Since Distribution 3 will no longer occur, representations (d1) through (d14) on pages 18 and 19 are deleted.

(J) Representations (e1) through (e14) on pages 20 through 21 remain valid, and new representations (e15) and (e16) are added as follows:

(e15) For purposes of § 355(d), immediately after Distribution 4, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of S10 stock entitled to vote, or 50 percent or more of the total value of shares of all classes of S10 stock, that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 4.

(e16) For purposes of § 355(d), immediately after Distribution 4, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Newco 2 stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Newco 2 stock, that was either (i) acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 4 or (ii) attributable to distributions on S10 stock that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the

date of Distribution 4.

(K) Representations (f1) through (f11) on pages 21 and 22 remain valid, except that representation (f3) has been modified and new representations (f12) and (f13) are added as follows:

(f3) Following Distribution 5, Newco 2 (through LLC1 and LLC2) will continue the active conduct of its business, independently and with its separate employees, and S8 (through S9) will continue the active conduct of its business, independently, using employees of S10. S9 will reimburse S10 for the services of these employees. The reimbursement will be at fair market value.

(f12) For purposes of § 355(d), immediately after Distribution 5, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of S8 stock entitled to vote, or 50 percent or more of the total value of shares of all classes of S8 stock, that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 5.

(f13) For purposes of § 355(d), immediately after Distribution 5, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Newco 2 stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Newco 2 stock, that was either (i) acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 5 or (ii) attributable to distributions on S8 stock that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 5.

(L) Representations (g1) through (g12) on pages 22 through 24 remain valid, except that representation (g4) has been modified and new representations (g13) and (g14) have been added as follows:

(g4) Following Distribution 6: Newco 2 (through LLC1 and LLC2) will continue the active conduct of its business, independently and with its separate employees; S4 and S6 each will continue the active conduct of its business, independently and using employees of Company; and S8 (through S9) will continue the active conduct of its business, independently and using employees of S10. S4 and S6 each will reimburse Company for the services of Company's employees, and S9 will reimburse S10 for the services of S10's employees. All reimbursements will be at fair market value.

(g13) For purposes of § 355(d), immediately after Distribution 6, no person (determined after applying § 355(d)(7)) will hold stock possessing 50

percent or more of the total combined voting power of all classes of S2 stock entitled to vote, or 50 percent or more of the total value of shares of all classes of S2 stock, that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 6.

(g14) For purposes of § 355(d), immediately after Distribution 6, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Newco 2 stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Newco 2 stock, that was either (i) acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 6 or (ii) attributable to distributions on S2 stock that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 6.

(M) Representations (h1) through (h15) on pages 24 and 25 remain valid, except that representation (h4) has been modified, and new representations (h16) and (h17) have been added as follows:

(h4) Following Distribution 7: S11 will continue the active conduct of its business, independently and using employees of Company; S4 and S6 each will continue the active conduct of its business, independently and using employees of Company; and S8 (through S9) will continue the active conduct of its business, independently and using employees of S10. S11, S4, and S6 each will reimburse Company for the services of Company's employees, and S9 will reimburse S10 for the services of S10's employees. All reimbursements will be at fair market value.

(h16) For purposes of § 355(d), immediately after Distribution 7, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of S2 stock entitled to vote, or 50 percent or more of the total value of shares of all classes of S2 stock, that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 7.

(h17) For purposes of § 355(d), immediately after Distribution 7, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of S11 stock entitled to vote, or 50 percent or more of the total value of shares of all classes of S11 stock, that was either (i) acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 7 or (ii) attributable to distributions on S2 stock that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the

five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 7.

(N) Representations (i1) through (i12) on pages 25 through 27 remain valid, except that representation (i4) is modified, and new representations (i13) and (i14) are added as follows:

(i4) Following Distribution 8: S12 will continue the active conduct of its business, independently and using employees of S13; S4 and S6 each will continue the active conduct of its business, independently and using employees of Company; and S8 (through S9) will continue the active conduct of its business, independently and using employees of S10. S4 and S6 each will reimburse Company for the services of Company's employees, S9 will reimburse S10 for the services of S10's employees, and S12 will reimburse S13 for the services of S13's employees. All reimbursements will be at fair market value.

(i13) For purposes of § 355(d), immediately after Distribution 8, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of S2 stock entitled to vote, or 50 percent or more of the total value of shares of all classes of S2 stock, that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 8.

(i14) For purposes of § 355(d), immediately after Distribution 8, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of S12 stock entitled to vote, or 50 percent or more of the total value of shares of all classes of S12 stock, that was either (i) acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 8 or (ii) attributable to distributions on S2 stock that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 8.

(O) Representations (j1) through (j12) on pages 27 and 28 remain valid, except that representation (j4) is modified and new representations (j13) and (j14) are added as follows:

(j4) Following Distribution 9: S13 will continue the active conduct of its business, independently and with its separate employees; S4 and S6 each will continue the active conduct of its business, independently and using employees of Company; and S8 (through S9) will continue the active conduct of its business, independently and using employees of S10. S4 and S6 each will reimburse Company for the services of Company's employees, and S9 will reimburse S10 for the services of S10's employees. All reimbursements will be

at fair market value.

(j13) For purposes of § 355(d), immediately after Distribution 9, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of S2 stock entitled to vote, or 50 percent or more of the total value of shares of all classes of S2 stock, that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 9.

(j14) For purposes of § 355(d), immediately after Distribution 9, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of S13 stock entitled to vote, or 50 percent or more of the total value of shares of all classes of S13 stock, that was either (i) acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 9 or (ii) attributable to distributions on S2 stock that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 9.

(P) Representations (k1) through (k18) on pages 28 through 30 remain valid, except that representation (k12) has been modified as follows:

(k12) Company will receive stock of Newco 3 equal to the fair market value of the property (net of liabilities) transferred to Newco 3. No property other than Newco 3 stock will be received by Company in Contribution 5.

(Q) Representations (l1) through (l13) on pages 30 and 31 remain valid, except that representations (l1) and (l6) are modified and new representations (l14) and (l15) are added as follows:

(l1) No part of the Newco 3 stock distributed by Company will be received by Parent as a creditor, employee, or in any capacity other than that of a shareholder of Company.

(l6) There is no plan or intention by Parent to sell, exchange, transfer by gift, or otherwise dispose of any stock in Company or Newco 3 after Distribution 10.

(l14) For purposes of § 355(d), immediately after Distribution 10, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Company stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Company stock, that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying §

355(d)(6)) ending on the date of Distribution 10.

(l15) For purposes of § 355(d), immediately after Distribution 10, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Newco 3 stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Newco 3 stock, that was either (i) acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 10 or (ii) attributable to distributions on Company stock that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 10.

(R) Representations (m1) through (m12) on pages 31 through 33 remain valid, except that representations (m1), (m4), and (m6) have been modified and new representations (m13) and (m14) have been added as follows:

(m1) No part of the S2 stock distributed by Company will be received by Parent as a creditor, employee, or in any capacity other than that of a shareholder of Company.

(m4) Following Distribution 11: Company will continue the active conduct of its business, independently and with its separate employees; S4 and S6 each will continue the active conduct of its business, independently and using employees of Company; and S8 (through S9) will continue the active conduct of its business, independently and using employees of S10. S4 and S6 each will reimburse Company for the services of Company's employees, and **S9** will reimburse S10 for the services of S10's employees. All reimbursements will be for fair market value.

(m6) There is no plan or intention by Parent to sell, exchange, transfer by gift, or otherwise dispose of any stock in Company or S2 after Distribution 11.

(m13) For purposes of § 355(d), immediately after Distribution 11, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Company stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Company stock, that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 11.

(m14) For purposes of § 355(d), immediately after Distribution 11, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of S2 stock entitled to vote, or 50 percent or more of the total value of shares of all classes of S2 stock, that was either (i) acquired by purchase (as defined in § 355(d)(5) and

(8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 11 or (ii) attributable to distributions on Company stock that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 11.

(S) Representations (n1) through (n5) on page 33 remain valid, except that the reference to step (xxii) in each of these representations has been changed to step (xxi).

(T) The following new representations have been added regarding Contribution 6 and Distribution 12:

(o1) No part of the Newco 5 stock distributed by Company will be received by Parent as a creditor, employee, or in any capacity other than that of a shareholder of Company.

(o2) The five years of financial information submitted for Business A (as conducted by Company) and Business F (as conducted by each of S12 and S13) represents the present operations of each business, and regarding each business, there have been no substantial operational changes since the date of the last financial statements submitted.

(o3) Following Distribution 12, at least 90 percent of the fair market value of the gross assets of Newco 5 will consist of stock of S12 and S13, each of which is engaged in the active conduct of a trade or business as defined in § 355(b)(2).

(o4) Following Distribution 12, Company and S13 will each continue the active conduct of its business, independently and with its separate employees. S12 will continue the active conduct of its business, independently and using employees of S13. S12 will reimburse S13 for the services of S13's employees. The reimbursement will be at fair market value.

(o5) Distribution 12 is being undertaken to (i) increase Company's claims paying rating and (ii) avoid redundant capital charges. Distribution 12 is motivated, in whole or substantial part, by these corporate business purposes and other business reasons.

(o6) There is no plan or intention by Parent to sell, exchange, transfer by gift, or otherwise dispose of any stock in either Newco 5 or Company after Distribution 12.

(o7) There is no plan or intention by Newco 5 or Company, directly or through any subsidiary corporation, to purchase any of its outstanding stock after Distribution 12.

(o8) There is no plan or intention to liquidate either Newco 5 or Company, to merge either corporation with any other corporation, or to sell or otherwise dispose of any of the assets of either corporation after Distribution 12.

(o9) No liabilities are being assumed by Newco 5 in Contribution 6.

(o10) No indebtedness will exist between Newco 5 and Company at the time of, or after, Distribution 12.

(o11) Immediately before Distribution 12, 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).

(o12) Payments made in any continuing transactions between Newco 5 and Company will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.

(o13) No two parties to the transaction are investment companies as defined in § 368(a)(2)(F)(iii) and (iv).

(o14) Distribution 12 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 stock of either Newco 5 or Company entitled to vote, or stock possessing 50 percent or more of the total value of all classes of stock of either Newco 5 or Company.

(o15) All of the outstanding stock of Newco 5 will be distributed to Parent in Distribution 12.

(o16) For purposes of § 355(d), immediately after Distribution 12, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Company stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Company stock, that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 12.

(o17) For purposes of § 355(d), immediately after Distribution 12, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Newco 5 stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Newco 5 stock, that was either (i) acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying §

355(d)(6)) ending on the date of Distribution 12 or (ii) attributable to distributions on Company stock that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 12.

(U) The following new representations have been added regarding Contribution 7 and Distribution 13:

(q1) No part of the S16 stock distributed by Company will be received by Parent as a creditor, employee, or in any capacity other than that of a shareholder of Company.

(q2) The five years of financial information submitted for Business A (as conducted by Company) and Business G (as conducted by S16) represents the present operations of each business, and regarding each business, there have been no substantial operational changes since the date of the last financial statements submitted.

(q3) Following Distribution 13, Company and S16 each will continue the active conduct of its business, independently and with its separate employees.

(q4) Distribution 13 is being undertaken to (i) increase Company's claims paying rating and (ii) avoid redundant capital charges. Distribution 13 is motivated, in whole or substantial part, by these corporate business purposes and other business reasons.

(q5) There is no plan or intention by Parent to sell, exchange, transfer by gift, or otherwise dispose of any stock in either S16 or Company after Distribution 13.

(q6) There is no plan or intention by S16 or Company, directly or through any subsidiary corporation, to purchase any of its outstanding stock after Distribution 13.

(q7) There is no plan or intention to liquidate either S16 or Company, to merge either corporation with any other corporation, or to sell or otherwise dispose of any of the assets of either corporation after Distribution 13.

(q8) No liabilities will be assumed by S16 in connection with Contribution 7.

(q9) Other than short-term liabilities between S16 and Company that are settled monthly, no indebtedness will exist between S16 and Company at the time of, or after, Distribution 13.

(q10) Immediately before Distribution 13, 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).

(q11) Payments made in any continuing transactions between S16 and Company will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.

(q12) No two parties to the transaction are investment companies as defined in § 368(a)(2)(F)(iii) and (iv).

(q13) Distribution 13 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 stock of either S16 or Company entitled to vote, or stock possessing 50 percent or more of the total value of all classes of stock of either S16 or Company.

(q14) All of the outstanding stock of S16 will be distributed to Parent in Distribution 13.

(q15) For purposes of § 355(d), immediately after Distribution 13, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Company stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Company stock, that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 13.

(q16) For purposes of § 355(d), immediately after Distribution 13, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of S16 stock entitled to vote, or 50 percent or more of the total value of shares of all classes of S16 stock, that was either (i) acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 13 or (ii) attributable to distributions on Company stock that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of Distribution 13.

Based solely on the information and representations submitted in the original and supplemental requests, we rule that the above changes have no effect on the rulings contained on pages 33 through 42 of the Prior Letter Ruling, and those rulings remain in effect, except that (i) rulings (39) through (42) are deleted (and rulings (43) to (92) are renumbered as rulings (39) to (88), respectively (the "Renumbering")), and (ii)

rulings (9), (25), (27), (29), (31), (33), (34), (51), (81), (83), (85), (87), and (90) (prior to the Renumbering) are amended as follows:

(9) The Participating Policyholders will recognize no gain or loss on their transfer of Company stock to Parent in exchange for Parent stock (§ 351(a) and § 1.351-1(a)).

(25) No gain or loss will be recognized by Parent on Distribution 1 (§ 355(a)).

(27) The holding period of the IHC stock received by Parent in Distribution 1 will include the holding period of the Company stock on which Distribution 1 is made, provided the Company stock is held as a capital asset on the date of Distribution 1 (§ 1223(1)).

The introductory paragraph under the Contribution 2 and Distribution 2 rulings on page 36 is amended to read as follows: "Based solely on the information submitted and the representations made, and subject to rulings (89) and (90) and caveat (ix) below, we rule as follows on Contribution 2 and Distribution 2:".

(29) For federal tax purposes, the cash transferred by S1 to Newco 1 and then returned by Newco 1 to S1 in step (ix) above (other than the foreign currency) will be disregarded, and the transaction instead will be treated as if S1 had transferred the Branch assets (including the foreign currency and accounts receivable) to Newco 1 in exchange for Newco 1 common stock representing control of Newco 1 under § 368(c) and the assumption by Newco 1 of related liabilities ("Contribution 2").

(31) Other than gain recognized in rulings (89) and (90) and caveat (ix) below, no gain or loss will be recognized by S1 on Contribution 2 (§§ 357(a) and 361(a)).

(33) The basis of the assets received by Newco 1 in Contribution 2 will equal the basis of these assets in the hands of S1 immediately before Contribution 2, increased by any gain recognized by S1 in rulings (89) and (90) and caveat (ix) below (§ 362(b)).

(34) The holding period of the assets received by Newco 1 in Contribution 2 will include the period during which S1 held these assets (§ 1223(2)).

(51) Earnings and profits will be allocated between S10 and Newco 2 in accordance with §§ 312(h), 1.312-10(a) and 1.1502-33(f)(2).

(81) No gain or loss will be recognized by Parent on Distribution 10 (§ 355(a)).

(83) The holding period of the Newco 3 stock received by Parent in Distribution 10 will include the holding period of the Company stock on which Distribution 10 is made, provided the Company stock is held as a capital asset on the date of Distribution 10 (§ 1223(1)).

(85) Except for the Surplus Distribution, no gain or loss will be recognized by

(and no amount will otherwise be included in the income of) Parent on Distribution 11 (§§ 355(a)(1) and 356). The Surplus Distribution will be treated as a distribution of property to which § 301 applies (§ 356(b) and § 1.356-2(a)).

(87) The holding period of the S2 stock received by Parent will include the holding period of the Company stock on which Distribution 11 is made, provided the Company stock is held as a capital asset on the date of Distribution 11 (§ 1223(1)).

(90) The transfer of accounts receivable by S1 to Newco 1 in step (ix) will be subject to § 367(a) to the extent that they have not been included by the taxpayer in taxable income (§ 1.367(a)-5T(c)).

In addition, based solely on the information and representations set forth above, we rule as follows regarding Contribution 6 and Distribution 12 (after the Renumbering):

(89) Contribution 6, followed by Distribution 12, will be a reorganization under § 368(a)(1)(D). Company and Newco 5 each will be "a party to a reorganization" under § 368(b).

(90) No gain or loss will be recognized by Company on Contribution 6 (§§ 357(a) and 361(a)).

(91) No gain or loss will be recognized by Newco 5 on Contribution 6 (§ 1032(a)).

(92) The basis of each asset received by Newco 5 in Contribution 6 will equal the basis of that asset in the hands of Company immediately before Contribution 6 (§ 362(b)).

(93) The holding period of each asset received by Newco 5 in Contribution 6 will include the period during which Company held the asset (§ 1223(2)).

(94) No gain or loss will be recognized by Parent on Distribution 12 (§ 355(a)).

(95) No gain or loss will be recognized by Company on Distribution 12 (§ 361(c)).

(96) The holding period of the Newco 5 stock received by Parent in Distribution 12 will include the holding period of the Company stock on which Distribution 12 is made, provided the Company stock is held as a capital asset on the date of Distribution 12 (§ 1223(1)).

(97) Earnings and profits will be allocated between Company and Newco 5 in accordance with §§ 312(h), 1.312-10(a), and 1.1502-33(f)(2).

In addition, based solely on the information and representations set forth above,

we rule as follows regarding Contribution 7 and Distribution 13 (after the Renumbering):

(98) Contribution 7, followed by Distribution 13, will be a reorganization under § 368(a)(1)(D). Company and S16 each will be "a party to a reorganization" under § 368(b).

(99) No gain or loss will be recognized by Company on Contribution 7 (§§ 357(a) and 361(a)).

(100) No gain or loss will be recognized by S16 on Contribution 7 (§ 1032(a)).

(101) The basis of each asset received by S16 in Contribution 7 will equal the basis of that asset in the hands of Company immediately before Contribution 7 (§ 362(b)).

(102) The holding period of each asset received by S16 in Contribution 7 will include the period during which Company held the asset (§ 1223(2)).

(103) No gain or loss will be recognized by Parent on Distribution 13 (§ 355(a)).

(104) No gain or loss will be recognized by Company on Distribution 13 (§ 361(c)).

(105) The holding period of the S16 stock received by Parent in Distribution 13 will include the holding period of Company stock on which Distribution 13 is made, provided the Company stock is held as a capital asset on the date of Distribution 13 (§ 1223(1)).

(106) Earnings and profits will be allocated between Company and S16 in accordance with §§ 312(h), 1.312-10(a), and 1.1502-33(f)(2).

Caveats

The introductory caveat paragraph on page 42 and caveats (a) through (l) on pages 42 and 43 of the Prior Ruling Letter have been deleted and replaced with the following:

No opinion is expressed about the tax treatment of the proposed transactions (as modified) under other provisions of the Code and federal income tax regulations, or the tax treatment of any conditions existing at the time of, or effects resulting from, the proposed transactions (as modified) that are not specifically covered by the rulings contained in the Prior Letter Ruling, as reaffirmed and modified in part herein. Specifically, no opinion is expressed regarding:

(i) The contribution of Company stock by Parent to newly formed Sub, as

described in step (viii);

(ii) The conversion of S7 into a limited liability company, as described in step (xiii);

(iii) The conversion of S9 into a limited liability company as described in step (xiv);

(iv) The distribution of the stock of Osubs and FOSubs by S2 to Company, as described in step (xxi);

(v) The transfer by Newco 3 of the LLC3 shares to Newco 2, as described in step (xxiii);

(vi) The transfer by Newco 3 of the LLC4 shares to newly formed Newco 4, as described in step (xxiv);

(vii) The transfer by Newco 3 of the stock of S11 and the PAMsubs, and all of the Division assets to S14, as described in step (xxv);

(viii) The federal tax effects of the Debt Issuance, as described in step (xxx);

(ix) Except for rulings (89) and (90), the tax consequences under § 367 of the transfer of the Branch assets and liabilities to Newco 1. If this transfer is subject to foreign tax, no opinion is expressed regarding whether S1 would be entitled to a foreign tax credit for such foreign tax. See § 6038B for the reporting requirements regarding S1's transfer of property to Newco 1;

(x) Whether the Class B Stock is Parent stock, and the federal income tax consequences to Parent and the Class B Shareholders on Parent's issuance of the Class B Stock to the Class B Shareholders in exchange for cash;

(xi) The application of the regulations under § 1502 to Distribution 11;

(xii) Whether any or all of FS1, FS2, the OFsubs, Newco 1, and the FOSubs are passive foreign investment companies (within the meaning of § 1297(a) and the regulations to be promulgated thereunder). If it is determined that any or all of the above-described foreign corporations are passive foreign corporations, no opinion is expressed on the application of §§ 1291 through 1298 to the proposed transactions. In particular, in a transaction in which gain is not otherwise recognized, regulations under § 1291(f) may require gain recognition notwithstanding any other provision of the Code; and

(xiii) The reporting or withholding obligations in step (iv).

Temporary or final regulations pertaining to one or more issues addressed in the Prior Letter Ruling and this supplemental ruling letter have yet to be adopted. Therefore, the rulings contained in these letters may be revoked or modified, in whole or in part, by the issuance of such temporary or final regulations (or a notice with respect to their future issuance). See section 12.04 of Rev. Proc. 2001-1, 2001-1 I.R.B. 1, 46, which discusses the revocation or modification of ruling letters. However, when the criteria in section 12.05 of Rev. Proc. 2001-1 are satisfied, a ruling will not be revoked or modified retroactively except in rare or unusual circumstances.

The rulings in the Prior Letter Ruling, as reaffirmed and modified in part herein, and the new rulings provided above, are based on facts and representations submitted under penalties of perjury. Verification of that information may be required as part of the audit process.

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

It is important that a copy of this supplemental letter and a copy of the Prior Letter Ruling be attached to the federal income tax return of each taxpayer involved for the taxable year in which the transactions covered by these letters are consummated.

Under a power of attorney on file in this office, a copy of this letter is being sent to your authorized representative.

Sincerely,
Associate Chief Counsel (Corporate)
By: Lewis K Brickates
Senior Technical Reviewer, Branch 4
Office of the Associate Chief Counsel
(Corporate)