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Agency

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PLR-162174-05

Date:

January 18, 2006

In Re:

LEGEND

Parent =

Sub 1 =

Business B =

Date 1 =

Year A =

Year B =

X =

Trust 1 =

Trust 2 =

Trust 3 =

Trust 4 =

a =

b =

c =

Dear :

This letter replies to your letter of December 20, 2005, submitted on behalf of Parent, requesting rulings as to certain federal income tax consequences of a proposed transaction. The information submitted is summarized below.

Summary of Facts

Parent is a holding company that files a consolidated federal income tax return with Sub 1 and other subsidiaries. Sub 1 is engaged in Business B.

On Date 1, Parent, Sub 1, and certain other subsidiaries filed petitions for reorganization under Chapter 11 of the Bankruptcy Code. Parent and its subsidiaries expect to emerge from bankruptcy in Year A.

At the end of Year B, Parent and its subsidiaries had a net operating loss of approximately x dollars. Since that time, Parent and its subsidiaries have incurred significant additional losses.

Before the commencement of the bankruptcy proceeding, Sub 1 established four defined benefit pension plans for four specific groups of its employees. Each plan was qualified within the meaning of § 401(a) of the Internal Revenue Code and had a separate trust (Trust 1, Trust 2, Trust 3, and Trust 4, or the Trusts) which held the assets of such plan. The Trusts deposited all of their investment assets in a group investment trust (Group Trust), as permitted by Rev. Rul. 81-100, 1981-1 C.B. 326, for the purpose of diversifying their investments. Certain basic benefits under such plans were guaranteed by the Pension Benefit Guaranty Corporation ("PBGC"), an agency of the United States Government.

During the bankruptcy proceedings, and consistent with an agreement (the "Agreement") entered into between PBGC and Parent and its subsidiaries, all four defined benefit pension plans were terminated. As a result of such terminations, PBGC assumed the obligation to pay benefits to the beneficiaries of the terminated plans within certain statutory limits. Many of the assets from the Trusts were transferred from the Group Trust to PBGC. Trust 1, Trust 2, and Trust 3 held claims against Parent, Subsidiary, and certain of their affiliates related to Subsidiary's failure to make required minimum funding contributions to the plans (the Minimum Funding Contribution Claims)

at the time of plan termination. The estimated amounts of the Minimum Funding Contribution Claims are a dollars for Trust 1, b dollars for Trust 2, and c dollars for Trust

3.

The Agreement provides that PBGC will receive, upon Debtors' emergence from bankruptcy, Parent notes, Parent convertible preferred stock ("Preferred Stock") and a pre-petition unsecured claim in an amount determined by the unfunded benefit liability of each terminated pension plan. Under the plan of reorganization, all unsecured creditors, including PBGC with respect to such unsecured claim, will receive Parent common stock. The Agreement also provided that (i) PBGC would become the statutory trustee of the terminated pension plans and (ii) PBGC would release the minimum funding contribution claims held by the Trusts and certain other claims against the debtors.

Parent and PBGC propose to take the following actions:

(i) On or soon after the effective date of the debtors' plan of reorganization, Parent will transfer a portion of the Preferred Stock directly to Trust 1, Trust 2, and Trust 3, the trusts that hold Minimum Funding Contribution Claims. Each of those three Trusts will receive Preferred Stock with a liquidation value equal to or less than the amount of the Minimum Funding Contribution Claims held by that Trust. Each of those three Trusts is expected to receive less than 5 percent of the stock of Parent, as determined for purposes of Code § 382.

(ii) PBGC will receive the Parent common stock and other consideration under the Agreement (including any Preferred Stock not transferred to the three Trusts as described above).

(iii) As provided by the Agreement, PBGC will remain the statutory trustee for all four Trusts.

(iv) Trust 1, Trust 2, and Trust 3 will each continue to hold its Preferred Stock until such stock has been sold.

(v) Pursuant to PBGC policies, the Preferred Stock held in each of Trust 1, Trust 2, and Trust 3 will be valued at a future time, probably three to six months after such stock has been contributed to the Trusts. The valuation of such stock may affect the determination of the non-guaranteed benefits to be received by the pension plans' participants.

Rulings

Based solely on the information submitted, we rule as follows:

(1) Trust 1, Trust 2, and Trust 3 will each be treated as an individual who is unrelated to any other owner (direct or indirect) of the loss corporation for purposes of § 382 of the Internal Revenue Code, provided that the aggregate liquidation value of the Parent Preferred Stock received by each of those three Trusts does not exceed the Minimum Funding Contribution Claim of that Trust.

(2) PBGC will be treated as an individual who is unrelated to any other owner (direct or indirect) of the loss corporation for purposes of § 382 (§ 1.382-2T(h)(2)(iii)(C)).

(3) Trust 1, Trust 2, and Trust 3, separately and together with PBGC, do not constitute a group of persons acting in concert to acquire Parent stock, and therefore are not aggregated as a single entity for purposes of § 382 (§ 1.382-2T-3(a)).

(4) Provided that Trust 1, Trust 2, or Trust 3 is not a separate 5-percent shareholder (within the meaning of § 382(k)(7)), the sale of Preferred Stock (or Parent common stock that is received on conversion of the Preferred Stock) by Trust 1, Trust 2, or Trust 3 to persons that are not 5-percent shareholders (and who do not become 5-percent shareholders by reason of such sales) will not be treated as “owner shifts involving a 5-percent shareholder” within the meaning of § 382(g)(2).

(5) The distribution of Parent common stock and Preferred Stock to PBGC will be treated as having been made to a “qualified creditor” within the meaning of § 1.382-9(d).

(6) The distribution of Preferred Stock to Trust 1, Trust 2, and Trust 3 will be treated as having been made to “qualified creditors” within the meaning of § 1.382-9(d), provided that the aggregate liquidation value of the Preferred Stock received by each Trust does not exceed the Minimum Funding Contribution Claim of that Trust.

Caveats

No opinion is expressed about the tax treatment of the proposed transaction under other provisions of the Code or regulations or 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. In particular, no opinion is expressed as to whether or not any of Trust 1, Trust 2, Trust 3, or PBGC is a “5-percent shareholder” within the meaning of § 382(k)(7).

Procedural Statements

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.

Each taxpayer involved in the transaction should attach a copy of this ruling letter to the taxpayer's federal income tax return for the taxable year in which the transaction covered by this letter is completed. Alternatively, taxpayers filing their returns

electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of this ruling letter.

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

Sincerely,

Gerald B. Fleming
Senior Technician Reviewer
Branch 2
Office of Associate Chief Counsel
(Corporate)

cc: