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February 8, 2001

Distributing	=
Controlled	=
Corp X	=
Business A	=
Business B	=
Shareholder 1	=
Shareholder 2	=
Shareholder 3	=
Shareholder 4	=

This letter responds to your July 31, 2000 request for rulings on certain aspects of the proposed transaction described below.

The rulings contained in this letter are based upon the 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 a ruling. Verification of the information, representations, and other data may be required as part of the audit process.

Summary of Facts

Distributing conducts Business A and Business B, and Corp X conducts Business A. Each of Distributing and Corp X is owned equally by Shareholder 1, Shareholder 2, Shareholder 3, and Shareholder 4.

We have received financial information indicating that Business A and Business B each has had gross receipts and operating expenses representing the active conduct of a trade or business for each of the past five years.

Serious disputes have arisen between Shareholder 1, on the one hand, and Shareholder 2, Shareholder 3, and Shareholder 4, on the other, that are having an adverse effect on the day-to-day operation of Distributing. To eliminate these disputes and allow Shareholder 1 to focus on Business B, the parties have proposed the following transaction:

- (i) Distributing will transfer all of its Business B assets and cash to newly formed

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

(ii) Distributing will distribute the Controlled stock to Shareholder 1 in exchange for all of his Distributing stock (the "Distribution").

Representations

The taxpayer has made the following representations concerning the Contribution and Distribution:

(a) The fair market value of the Controlled stock received by Shareholder 1 will approximately equal the fair market value of the Distributing stock surrendered by Shareholder 1 in the exchange.

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

(c) The five years of financial information submitted on behalf of Distributing for Business A and Business B represents, in each case, its present operations, and there have been no substantial operational changes since the date of the last financial statement submitted.

(d) Following the Distribution, Distributing and Controlled will each continue the active conduct of its business, independently and with its separate employees.

(e) The Distribution will be carried out (i) to eliminate shareholder disputes that, if permitted to continue, would jeopardize the operation and continued success of Business A and Business B and (ii) to permit Shareholder 1 to focus exclusively on Business B. The Distribution is motivated, in whole or substantial part, by these corporate business purposes.

(f) Except for the possible transfer of a minority interest by Shareholder 4 to his wife, there is no plan or intention by the shareholders or security holders of Distributing to sell, exchange, transfer by gift, or otherwise dispose of any stock in, or securities of, either Distributing or Controlled after the Distribution.

(g) There is no plan or intention by either Distributing or Controlled, directly or through any subsidiary corporation, to purchase any of its outstanding stock after the Distribution, other than through stock purchases meeting the requirements of section 4.05(1)(b) of Rev. Proc. 96-30, 1996-1 C.B. 696, 705.

(h) There is no plan or intention to liquidate either Distributing or Controlled, to merge either corporation with any other corporation, or to sell or otherwise dispose of the

assets of either corporation after the Distribution, except in the ordinary course of business.

(i) The total adjusted basis and the fair market value of the assets transferred to Controlled by Distributing in the Contribution will, in each instance, equal or exceed the liabilities assumed (as determined under § 357(d) of the Internal Revenue Code) by Controlled.

(j) The liabilities to be assumed (as determined under § 357(d)) in the Contribution were incurred in the ordinary course of business and are associated with the assets being transferred.

(k) The income tax liability for the taxable year in which investment credit property (including any building to which § 47(d) applies) is transferred will be adjusted pursuant to § 50(a)(1) or (a)(2) (or § 47, as in effect before amendment by Public Law 101-508, Title 11, 104 Stat. 1388, 536 (1990), if applicable) to reflect an early disposition of the property.

(l) Distributing neither accumulated its receivables nor made extraordinary payment of its payables in anticipation of the transaction.

(m) No intercorporate debt will exist between Distributing and Controlled at the time of, or after, the Distribution.

(n) Payments made in connection with any continuing transactions between Distributing and Controlled will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.

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

(p) The Distribution 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 Distributing or Controlled stock entitled to vote, or 50 percent or more of the total value of shares of all classes of either Distributing or Controlled stock.

(q) Distributing is not an S corporation (within the meaning of § 1361(a)), and there is no plan or intention by Distributing or Controlled to make an S corporation election pursuant to § 1362(a).

(p) Distributing and Corp X will not merge before the Distribution.

Rulings

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

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

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

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

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

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

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

(7) No gain or loss will be recognized by (and no amount will otherwise be included in the income of) Shareholder 1 on the Distribution (§ 355(a)(1)).

(8) The basis of Controlled stock in the hands of Shareholder 1 will equal the basis of the Distributing stock surrendered in exchange therefor (§ 358(a)(1)).

(9) The holding period of Controlled stock received by Shareholder 1 will include the holding period of the Distributing stock surrendered in the exchange, provided the Distributing stock is held as a capital asset on the date of the Distribution (§ 1223(1)).

(10) As provided in § 312(h), proper allocation of earnings and profits between Distributing and Controlled will be made under § 1.312-10(a).

Caveats and Procedural Statements

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.

This ruling letter 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 this 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.

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

Sincerely yours,
Assistant Chief Counsel (Corporate)
By: Wayne T. Murray
Senior Technician/Reviewer
Branch 4