

Internal Revenue Service

Department of the Treasury

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Distributing =

Controlled =

Target =

Business A =

Business B =

Dear

We respond to your letter dated February 26, 1999, in which you requested a supplemental ruling that the proposed liquidation of Target will have no effect upon the validity of the rulings contained in PLR 199908036 issued by our office on December 1, 1998 ("Prior Letter Ruling").

In the Prior Letter Ruling, Distributing is the common parent of a consolidated group of corporations. Distributing, through its subsidiaries, is engaged in Business A and Business B. Distributing has two classes of stock outstanding, common and preferred. Its common stock is widely-held and publicly traded. Its preferred stock is nonvoting, nonconvertible, and is not publicly traded.

Controlled is a wholly-owned subsidiary of Distributing. It has one class of common stock outstanding. Controlled is engaged, directly and through its subsidiaries, in Business B.

Target is a widely-held, publicly-traded corporation unrelated to Distributing. It has one class of common stock outstanding. Target is engaged in Business B.

Distributing wanted Controlled to acquire the stock of Target. However, Target expressed unwillingness to be acquired directly by Controlled while Distributing retained an interest in Controlled because such acquisition would result in its shareholders owning a minority interest in a corporation while the majority interest would be owned by a single corporate shareholder. Target, engaged in Business B, also expressed concerns about being acquired by a corporation involved in Business A. To accommodate Target, Distributing proposed to transfer part of its assets (related to Business B) to Controlled and spin-off Controlled to its shareholders. Thereafter, a subsidiary of Controlled would merge with and into Target in a transaction Distributing represented would qualify as a reorganization under § 368(a)(2)(E).

In addition, Distributing represented, among other things, that to the best of its knowledge, the proposed distribution of Controlled was not part of a plan or series of related transactions pursuant to which one or more persons would acquire directly or indirectly stock representing a 50 percent or greater interest in either Distributing or Controlled. Distributing and Controlled represented that, following the transaction, each will continue the active conduct of its respective business independently and with its separate employees.

Based on the facts submitted and the representations made, we ruled, among other things, that the transfer of assets by Distributing to Controlled will qualify as a reorganization under § 368(a)(1)(D); Distributing will not recognize gain or loss on the transfer of Controlled stock to its shareholders under § 361(c); and the shareholders of Distributing will not recognize gain or loss on the receipt of Controlled stock under § 355(a)(1). We expressed no opinion on the tax treatment of the proposed acquisition of Target.

The proposed transaction described in the Prior Letter Ruling subsequently was consummated and Target was acquired by Controlled. Controlled now proposes to liquidate Target into itself.

Based on the facts submitted and the representations made, we rule that the proposed liquidation of Target into Controlled will have no effect on the validity of the rulings contained in the Prior Letter Ruling.

We express no opinion about the tax treatment of the transaction under any 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 not specifically covered by the above rulings. In particular, we express no opinion on the tax treatment of the acquisition of Target by Controlled and proposed liquidation of Target into Controlled.

This ruling supplements the Prior Letter Ruling. Section 6110(k)(3) provides that it may not be used or cited as precedent.

Each taxpayer involved in the proposed transaction must attach a copy of this letter to its federal income tax return for the taxable year in which the transaction is completed.

Sincerely Yours,

Assistant Chief Counsel (Corporate)

By _____
Mark S. Jennings
Senior Technician Reviewer
CC:DOM:CORP:1