

## Internal Revenue Service

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Department of the Treasury

Washington, DC 20224

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PLR-100049-06

Date:

April 07, 2006

### LEGEND:

Distributing =

Controlled =

Merger Partner =

Sub 1 =

Sub 2 =

Sub 3 =

Sub 4 =

PLR-100049-06

Sub 5 =

Sub 6 =

Sub 7 =

Sub 8 =

Sub 9 =

Sub 10 =

Business A Subs -----=

Sub 11 =

Sub 12 =

Sub 13 =

PLR-100049-06

Sub 14 =

Sub 15 =

Sub 16 =

Sub 17 =

Sub 18 =

Sub 19 =

LP =

Bank =

Business A =

Business B =

B Acquisitions =

Shareholder A =

Investment Banks =

a =

b =

c =

d =

e =

f =

g =

h =

i =

i =

k =

l =

m =

n =

o =

date a =

date b =

Dear :

This letter responds to your December 23, 2005 letter requesting rulings as to the federal income tax consequences of a proposed transaction. The information submitted in that request and in later correspondence is summarized below.

The rulings contained in this letter are based on facts and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. This office has not verified any of the materials submitted in support of the request for rulings. Verification of the information, representations, and other data may be required as part of the audit process. Moreover, no information provided by the taxpayer has been reviewed and no determination has been made regarding whether the proposed transaction: (i) satisfies the business purpose requirement of § 1.355-2(b) of the Income Tax Regulations; (ii) is used principally as a device for the distribution of the earnings and profits of the distributing corporation or the controlled corporation or both (see § 355(a)(1)(B) of the Internal Revenue Code and § 1.355-2(d)); and (iii) is part of a plan (or series of related transactions) pursuant to which one or more persons will acquire directly or indirectly stock representing a 50-percent or greater interest in the distributing corporation or the controlled corporation (see § 355(e)(2)(A)(ii) and § 1.355-7).

### Summary of Facts

Distributing is a publicly traded holding company with a single class of voting common stock outstanding (the "Distributing Common Stock") and two series of convertible preferred stock outstanding. Distributing is the common parent of an affiliated group of corporations that file a consolidated federal income tax return (the "Distributing Group"). Shareholder A owns more than five percent of the Distributing stock but does not have a representative on Distributing's board of directors or participate actively in the management of Distributing. Controlled is a corporation that has been newly formed in connection with the proposed transaction and will have a single class of voting common stock outstanding (the "Controlled Common Stock").

Distributing has approximately \$a in short-term commercial paper outstanding ("Commercial Paper"), with maturities averaging less than m days. Given its short maturity, the Commercial Paper has been renewed, or "rolled over," since its initial issuance and will continue to be renewed prior to consummation of the proposed transaction. In connection with the renewal, Distributing expects that the Commercial Paper to be re-issued will have a maturity of n days rather than m days. Distributing also has outstanding, in addition to other third-party indebtedness, approximately \$b face amount of senior notes due with maturity dates ranging from date a to date b ("Notes"). Neither the Commercial Paper nor the Notes were issued in anticipation of the proposed transaction.

Distributing owns all of the outstanding stock of each of Sub 1, Sub 2, Sub 3, Sub 4, Sub 5, Sub 6, Sub 7, Sub 8, Sub 9, and Sub 10. Distributing also owns all of the outstanding stock of each of the Business A Subs. Sub 4 owns all of the outstanding stock of Sub 11 and Sub 12. Sub 6 owns all of the outstanding stock of Sub 13, Sub 14, Sub 15, Sub 16, and Sub 17. Sub 15 owns a limited partnership interest in LP. Sub 17 owns all of the outstanding stock of Sub 18.

Distributing conducts Business A and Business B through its wholly owned subsidiaries. Sub 1 directly engages in Business A and Business B. Sub 1 acquired certain of its Business B assets and subsidiaries conducting Business B within the past five years (the "B Acquisitions"). Each of Sub 2, Sub 3, Sub 7, Sub 11, and the Business A Subs directly engages in Business A. Sub 6 conducts Business A through Sub 13, Sub 14, and Sub 15, each of which directly engages in Business A. Distributing acquired the business being conducted by Sub 2 within the past five years by forming Sub 2, contributing cash to it, and causing it to purchase all of the assets and assume the liabilities of a corporation engaged in Business A (the "Sub 2 Acquisition")

The taxpayer has submitted financial information indicating that each of Business A, and Business B, as conducted by Distributing through its relevant subsidiaries, has had gross receipts and operating expenses representing the active conduct of a trade or business for each of the past five years.

Distributing's management has determined that the separation of Business A from Business B will serve a number of corporate business purposes including: (1) allowing Business A and Business B to adopt the most favorable capital structure for each business; (2) enabling investors to invest in a business that more closely fits their investment goals; (3) eliminating competition within a single business enterprise; and (4) facilitating the merger of Controlled into Merger Partner, with Merger Partner surviving (the "Merger").

### **Pre-Distribution Restructuring**

Before the Contribution, the Distribution (each defined below), and the Merger, the following steps will occur (collectively, the "Pre-Distribution Restructuring"):

- (i) Distributing will contribute certain Business A assets to Sub 3 and the stock of Sub 3 will then be contributed to Sub 6, which will then contribute such stock to Sub 15.
- (ii) Sub 11 will sell certain Business B assets to Sub 1.
- (iii) Sub 4 and Sub 12, each inactive corporations, will liquidate in transactions intended to qualify as liquidations under §§ 332 and 337.
- (iv) Sub 15 will sell all of its interest in LP to Sub 18.

- (v) Sub 6 will distribute all of the stock of Sub 17 to Distributing in a transaction intended to qualify as a distribution under § 355.
- (vi) Distributing will contribute all of the stock of Sub 17 to Sub 1.
- (vii) Prior to the Distribution, Distributing expects various of the Business A Subsidiaries to distribute to Distributing stock in Bank that will subsequently be redeemed by Bank pursuant to recent legislation requiring dissolution of Bank.
- (viii) Distributing will cancel existing accounts receivable and payable between Distributing and various subsidiaries conducting Business A, which accounts have generally arisen in the ordinary course of business.
- (ix) Sub 1 will contribute certain Business A assets to a newly formed, wholly owned subsidiary, Sub 19, in a transaction intended to qualify as a reorganization under § 368(a)(1)(D) and will distribute all of the stock of Sub 19 to Distributing in a transaction intended to qualify as a distribution under § 355.
- (x) Distributing will contribute all of the stock of Sub 5 to Sub 1.

### **Proposed Transaction**

To accomplish the stated business purposes, the following transaction has been proposed (collectively the "Proposed Transaction"):

- (i) Distributing will contribute all of the stock of subsidiaries directly or indirectly conducting Business A to Controlled (including Sub 2, Sub 6, Sub 7, Sub 11, Sub 19, and the Business A Subs) in exchange solely for additional shares of Controlled Common Stock, approximately \$c in cash that Controlled expects to borrow from unrelated third parties (the "Special Dividend"), debt securities to be issued by Controlled (the "Controlled Securities") that will have a term of not less than d years, will be redeemable by Controlled no earlier than e years after issuance, if at all, and will bear interest at a rate designed to render the securities worth their face amount, and the assumption by Controlled of the Business A liabilities, if any (the "Contribution").
- (ii) Distributing will distribute all of the stock of Controlled pro rata to the holders of the Distributing Common Stock (the "Distribution"). Distributing will effect the Distribution by delivering to an exchange agent on behalf of the Distributing shareholders all of the outstanding shares of Controlled Common Stock, which the agent will hold on behalf of the Distributing shareholders for conversion into shares of Merger Partner stock pursuant to the Merger described in step (vi) below.
- (iii) On the date of the Distribution, Controlled will borrow approximately \$f from unrelated third parties (the "Bank Debt"), which amount will be reduced to the

extent that Controlled decides to issue debt securities to the public of up to \$g face amount (the "Public Debt"). The proceeds from the Bank Debt (and, to the extent issued, the Public Debt) will be used to pay the Special Dividend, repurchase \$h of the existing debt of the Business A subsidiaries, repurchase \$i of existing debt of Merger Partner and pay expenses.

(iv) Distributing intends to transfer all of the Controlled Securities received by it in the Contribution to the Investment Banks in exchange for Commercial Paper with a face amount of approximately \$j and Notes with a face amount of approximately \$k less the face amount of Commercial Paper so acquired, which the Investment Banks, acting as principals for their own accounts, will have acquired in the marketplace at least 14 days prior to the Distribution (the "Debt Exchange"). Distributing expects to consummate the Debt Exchange pursuant to an exchange agreement entered into by the Investment Banks no sooner than five days after acquiring the Commercial Paper and Notes in the marketplace and at least nine days prior to the Distribution, pursuant to which the parties will agree to exchange an amount of Commercial Paper and Notes with a fair market value to be determined as of the date the exchange is consummated approximately equal to an aggregate \$k face amount of Controlled Securities. The Investment Banks intend to sell the Controlled Securities to the public pursuant to non-binding orders solicited prior to the Debt Exchange.

(v) Distributing will deposit the Special Dividend in a segregated account. As promptly as practicable after the Distribution but in no event later than o months after the Distribution, and pursuant to the plan of reorganization, Distributing will use the Special Dividend to repay existing indebtedness that was not incurred in connection with the Distribution and/or to repurchase shares of Distributing Common Stock .

(vi) Immediately after the Distribution, Controlled will merge with and into Merger Partner in a transaction qualifying as a statutory merger under applicable state law, with Merger Partner surviving. The liabilities of Controlled assumed by Merger Partner pursuant to the Merger will exceed the adjusted basis of Controlled's assets. Except for cash received in lieu of fractional shares, if any, the shareholders of Controlled will receive solely common stock of Merger Partner in exchange for their Controlled Common Stock. Any fractional shares of Merger Partner stock will be aggregated. Merger Partner will transfer to an exchange agent on behalf of the Controlled shareholders either the cash necessary to pay to shareholders in lieu of such fractional shares or instruct the exchange agent to sell such fractional shares on the open market. The proceeds from such sales will then be delivered to the Controlled shareholders who would otherwise have received the fractional shares. After the Merger, the former Controlled shareholders will own in the aggregate approximately 85 percent of the outstanding Merger Partner common stock, which will be the only class of Merger Partner stock outstanding. Controlled will be primarily liable for transaction costs associated with the issuance of the Controlled Securities, the Bank Debt, the Public Debt and the Merger, totaling not more than \$l in the aggregate.



(vii) As a result of the Merger, Merger Partner will become the obligor on the Controlled Securities issued. All other terms of the Controlled Securities will remain the same.

In conjunction with the Proposed Transaction, Distributing, Controlled, and Merger Partner will enter into several agreements relating to the separation of Business A from Business B and certain continuing transactions between the companies, including certain transitional agreements and a tax sharing agreement.

### **Representations**

Distributing makes the following representations with respect to the Contribution and the Distribution:

(a) Other than the Controlled Securities to be held by Distributing prior to their distribution to Distributing's creditors, any indebtedness owed by Controlled to Distributing after the Distribution will not constitute stock or securities.

(b) No part of the consideration to be distributed by Distributing with respect to the Distributing Common Stock will be received by any shareholder of Distributing 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 Sub 1's Business B is representative of the present operations of Sub 1, and with regard to Sub 1, there have been no substantial operational changes since the date of the last financial statements submitted, other than the B Acquisitions.

(d) The five years of financial information submitted on behalf of each of Sub 2, Sub 7, Sub 11, Sub 13, Sub 14, Sub 15, Sub 19, and the Business A Subs is representative of the present operations of those corporations, and with regard to such corporations, there have been no substantial operational changes since the date of the last financial statements submitted.

(e) Immediately after the Distribution, at least 90 percent of the fair market value of the gross assets of Distributing will consist of the stock and securities of controlled corporations (i.e., Sub 1) that are engaged in the active conduct of a trade or business as defined in § 355(b)(2).

(f) Provided that the Sub 2 Acquisition qualifies as an expansion of the Business A within the meaning of § 1.355-3(b)(3)(ii), immediately after the Distribution, at least 90 percent of the fair market value of the gross assets of Controlled will consist of the stock and securities of controlled corporations (i.e., Sub 2, Sub 6, Sub 7, Sub 11, Sub 19, and the Business A Subs) that are engaged directly or indirectly in the active conduct of a trade or business as defined in § 355(b)(2).

(g) Immediately after the Distribution, at least 90 percent of the fair market value of the gross assets of Sub 6 will consist of the stock and securities of controlled corporations (i.e., Sub 13, Sub 14, and Sub 15) that are engaged directly in the active conduct of a trade or business as defined in § 355(b)(2).

(h) Following the Distribution, Distributing and Controlled, through their respective controlled subsidiaries, will continue the active conduct of their respective businesses, independently and with their separate employees.

(i) The Distribution is being carried out for the following business purposes: (1) allowing Business A and Business B to adopt the most favorable capital structure for the business given the different profiles of their businesses; (2) enabling investors who seek either growth or current cash return, respectively, to invest in the separate business that more closely fits their investment goals; (3) eliminating competition within a single corporate enterprise between Business A and Business B; and (4) facilitating the Merger. The Distribution is motivated, in whole or substantial part, by one or more of these corporate business purposes.

(j) The Distribution is not used principally as a device for the distribution of the earnings and profits of Distributing or Controlled or both.

(k) The total adjusted basis and the fair market value of the assets transferred to Controlled by Distributing each will equal or exceed the sum of (i) any liabilities assumed (within the meaning of § 357(d)) by Controlled and (ii) the total of any money and the fair market value of any other property (within the meaning of § 361(b)) received by Distributing and transferred to its creditors and/or shareholders in connection with the reorganization.

(l) Any liabilities assumed (within the meaning of § 357(d)) in the transaction were incurred in the ordinary course of business and are associated with the assets being transferred.

(m) No indebtedness between Distributing (and its subsidiaries) and Controlled (and its subsidiaries) has been or will be cancelled in connection with the Distribution other than the settlement of open intercompany account balances attributable to the normal business operations of Distributing and its subsidiaries prior to the Distribution.

(n) No intercorporate debt will exist between Distributing (and its subsidiaries) and Controlled (and its subsidiaries) at the time of, or subsequent to, the Distribution, except for the Controlled Securities to be issued to Distributing and distributed to Distributing's creditors in connection with the Distribution and payables arising under the transitional agreements or otherwise in the ordinary course of business.

(o) No property will be transferred by Distributing to Controlled for which an investment credit allowed under § 47 will be claimed.

(p) Immediately before the Distribution, 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, 1995-2 C. B.147, and as currently in effect; § 1.1502-13 as published by T.D. 8597). Further, Distributing's excess loss account, if any, with respect to its Controlled Common Stock will be included in income immediately before the Distribution to the extent required by applicable Treasury Regulations (see § 1.1502-19).

(q) Except for certain payments that will be made in connection with the tax sharing agreement and certain services agreements that are transitional in nature, payments made in connection with any continuing transactions between Distributing (and its subsidiaries) and Controlled (and its subsidiaries) following the Distribution, will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.

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

(s) For purposes of § 355(d), immediately after the Distribution, 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 Distributing stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Distributing 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 the Distribution.

(t) For purposes of § 355(d), immediately after the Distribution, 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 Controlled stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Controlled stock, that was either: (1) 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 the Distribution, or (2) attributable to distributions on Distributing 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 the Distribution.

(u) The Merger may be part of a plan or series of related transactions (within the meaning of § 1.355-7) that includes the Distribution. Taking the Merger into account, the Distribution is not part of a plan or series of related transactions (within the meaning of § 1.355-7) pursuant to which one or more persons will acquire, directly or indirectly, stock representing a 50 percent or greater interest (within the meaning of

§ 355(d)(4)) in Distributing or Controlled (including any predecessor or successor of any such corporation).

(v) The total fair market value of the assets transferred in the Contribution will equal or exceed the aggregate adjusted basis of those assets.

(w) The Controlled Securities issued to Distributing will qualify as "securities" within the meaning of § 361(a).

(x) Distributing will transfer the Special Dividend received from Controlled to its creditors and/or shareholders pursuant to the plan of reorganization.

Distributing, Controlled, and Merger Partner make the following representations with respect to the Merger:

(y) The fair market value of the Merger Partner stock and cash in lieu of fractional shares, if any, received by each Controlled shareholder will be approximately equal to the fair market value of the Controlled Common Stock surrendered in exchange therefor.

(z) At least 50 percent of the proprietary interest in Controlled will be exchanged for Merger Partner Stock and will be preserved within the meaning of § 1.368-1(e).

(aa) Merger Partner has no plan or intention to sell or otherwise dispose of any of the assets of Controlled acquired in the Merger, except for dispositions made in the ordinary course of business and except that Merger Partner may seek to dispose of the stock or assets of Sub 3.

(bb) Neither Merger Partner nor any person related to Merger Partner (within the meaning of § 1.368-1(e)(3)) has any plan or intention, directly or through any subsidiary corporation, to purchase any Merger Partner Stock after the Merger, other than through stock purchases on the open market (see Rev. Rul. 99-58).

(cc) Other than the Controlled Securities, the Bank Debt, and the Public Debt, the liabilities of Controlled assumed (within the meaning of § 357(d)) by Merger Partner will have been incurred in the ordinary course of business and will be associated with the assets being transferred.

(dd) Following the Merger, Merger Partner (through its controlled subsidiaries) will continue the active conduct of Business A.

(ee) Subject to step (vi) of the Proposed Transaction, Merger Partner, Controlled, and the Controlled shareholders will pay their respective expenses, if any, incurred in connection with the Merger.

(ff) There is no intercorporate indebtedness existing between Controlled and Merger Partner that was issued, acquired, or will be settled at a discount.

(gg) No two parties to the Merger will be investment companies as defined in § 368(a)(2)(F)(iii) and (iv).

(hh) Controlled will not be under the jurisdiction of a court in a title 11 or similar case under § 368(a)(3)(A).

(ii) The fair market value of the Controlled assets to be transferred to Merger Partner will equal or exceed the sum of the liabilities assumed (as determined under § 357(d)) by Merger Partner.

(jj) The Merger will qualify as a statutory merger under applicable state law.

(kk) None of the compensation received by any shareholder/employee of Controlled will be separate consideration for, or allocable to, any of their shares of Controlled stock; none of the shares of Merger Partner stock received by any shareholder/employee of Controlled pursuant to the Merger will be separate consideration for, or allocable to, any employment agreement; and the compensation paid to any shareholder/employee of Controlled will be for services actually rendered and will be commensurate with amounts paid to third parties bargaining at arm's length for similar services.

(ll) Except for payments that will be made in connection with the tax sharing agreement and other ancillary agreements that are transitional in nature, payments made in connection with any continuing transactions between Distributing (and its subsidiaries) and Merger Partner (and its subsidiaries) following the Merger, will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.

(mm) The payment of cash in lieu of fractional shares, if any, of Merger Partner stock will be solely for the purpose of avoiding the expense and inconvenience to Merger Partner of issuing fractional shares and will not represent separately bargained-for consideration. It is expected that the total cash consideration that will be paid to the shareholders of record of Controlled instead of issuing fractional shares will not exceed one percent of the total consideration that will be issued in the transaction to the Controlled shareholders in exchange for their shares of Controlled Common Stock. Any fractional share interests of each Controlled shareholder of record will be aggregated, and it is intended that no Controlled shareholder of record will receive cash in an amount equal to or greater than the value of one full share of Controlled Common Stock.

## **Rulings**

Based solely on the information submitted and the representations made, we rule as follows on the Contribution and Distribution:

- (1) The Contribution, followed by the Distribution, will qualify as a reorganization within the meaning of § 368(a)(1)(D). Distributing and Controlled will each be “a party to a reorganization” within the meaning of § 368(b).
- (2) Distributing will not recognize any gain or loss on the Contribution (§§ 357(a) and 361(a), (b)).
- (3) Controlled will not recognize any gain or loss on the Contribution (§ 1032(a)).
- (4) Controlled’s basis in each asset received in the Contribution will equal the basis of that asset in the hands of Distributing immediately before its transfer (§ 362(b)).
- (5) Controlled’s holding period in each asset received by Controlled in the Contribution will include the period during which Distributing held that asset (§ 1223(2)).
- (6) Distributing will not recognize any gain or loss on the Distribution (§ 361(c)).
- (7) Taking into account the intercompany transaction regulations and their impact on, among other things, the deconsolidation of Controlled and the subsequent planned dispositions of the Controlled Securities, Distributing will not recognize any income, gain, loss, or deduction with respect to the Controlled Securities, other than any (i) amount of income, gain, loss, or deduction that offsets Controlled’s corresponding amount of income, gain, loss, or deduction upon the deemed satisfaction of the Controlled Securities, (ii) deductions attributable to the fact that Distributing debt obligations may be redeemed at a premium, (iii) income attributable to the fact that Distributing debt obligations may be redeemed at a discount, (iv) interest expense accrued with respect to the Distributing debt obligations, and (v) income or gain realized on the transfer of the Controlled Securities in the Debt Exchange attributable to appreciation in the Controlled Securities while held by Distributing following the Distribution.
- (8) The Distributing shareholders will not recognize any gain or loss (and will not otherwise include any amount in income) upon the receipt of the Controlled Common Stock (§ 355(a)).
- (9) Each Distributing shareholder’s basis in a share of Distributing Common Stock (as adjusted under § 1.358-1) shall be allocated between the share of Distributing Common Stock with respect to which the Distribution is made and the share or shares of Controlled Common Stock (or allocable portions thereof) received with respect to the share of Distributing Common Stock in proportion to their fair market values. If one

share of Controlled Common Stock is received in respect of more than one share of Distributing Common Stock, the basis of each share of Distributing Common stock must be allocated to the shares of Controlled Common Stock received in a manner that reflects that, to the extent possible, a share of Controlled Common Stock is received in respect of shares of Distributing Common Stock acquired on the same date and at the same price. If a Distributing shareholder that purchased or acquired shares of Distributing Common Stock on different dates or at different prices is not able to identify which particular share of Controlled Common Stock (or portion thereof) is received with respect to a particular share of Distributing Common Stock, the shareholder may designate which Controlled Common Stock is received with respect to a particular share of Distributing Common Stock, provided the designation is consistent with the terms of the Distribution.

(10) Each Distributing shareholder's holding period in the Controlled Common Stock received will include the holding period of the Distributing Common Stock with respect to which the distribution of the Controlled Common Stock is made, provided that the Distributing Common Stock is held as a capital asset on the date of the Distribution (§ 1223(1)).

(11) Earnings and profits will be allocated between Distributing and Controlled in accordance with § 312(h).

(12) Payments made by Distributing to Controlled or by Controlled to Distributing under the tax sharing agreement or other transitional agreements regarding liabilities, indemnities or other obligations that (a) have arisen or will arise for a taxable period ending with or before the Distribution or for a taxable period beginning on or before and ending after the Distribution, and (b) will not become fixed or determinable until after the Distribution, will be treated as occurring immediately before the Distribution (see Rev. Rul. 83-73, 1983-1 C.B. 84).

Based solely on the information submitted and the representations made, we rule as follows on the Merger:

(13) The Merger will qualify as a reorganization under § 368(a)(1)(A) provided the Merger qualifies as a statutory merger under applicable law. Controlled and Merger Partner will each be "a party to a reorganization" under § 368(b).

(14) Controlled will not recognize gain or loss on the transfer of its assets to Merger Partner and the assumption by Merger Partner of the liabilities of Controlled, including the Controlled Securities, the Bank Debt, and the Public Debt (§§ 357(a), 357(c) and 361(a)).

(15) Merger Partner will not recognize gain or loss on the receipt of Controlled assets in exchange for Merger Partner stock (§ 1032(a)).

(16) Merger Partner's basis in each asset received in the Merger will equal the basis of that asset in the hands of Controlled immediately before its transfer (§ 362(b)).

(17) Merger Partner's holding period in each asset received by Merger Partner in the Merger will include the period during which Controlled held that asset (§ 1223(2)).

(18) Merger Partner will succeed to and take into account those attributes of Controlled described in § 381(c) (§ 381(a) and § 1.381(a)-1)). These items will be taken into account by Merger Partner subject to the conditions and limitations specified in §§ 381, 382, 383, and 384 and the regulations thereunder.

(19) No gain or loss will be recognized by the Controlled shareholders on the receipt of Merger Partner stock in exchange for Controlled Common Stock (§ 354(a)(1)).

(20) A Controlled shareholder who receives cash in lieu of a fractional share will recognize gain or loss measured by the difference between the basis allocated to the fractional share transferred, as determined below, and the amount of cash received (§ 1001). Any gain or loss will be treated as capital gain or loss, provided such fractional share will be held as a capital asset on the date of the Distribution (§§ 1221 and 1222).

(21) Each Controlled shareholder's basis in the Merger Partner stock received will be the same as the basis of the share or shares (or allocable portions thereof) of Controlled Common Stock exchanged therefor, allocated in the manner described in § 1.358-2.

(22) Each Controlled shareholder's holding period in the Merger Partner stock received in the Merger will include the holding period in the Controlled Common Stock exchanged therefor, provided the Controlled Common Stock is held as a capital asset on the date of the Merger (§ 1223).

### **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 regarding: (i) whether the Distribution satisfies the business purpose requirement of § 1.355-2(b); (ii) whether the proposed transaction is used principally as a device for the distribution of the earnings and profits of the distributing corporation or the controlled corporation or both (see § 355(a)(1)(B) and § 1.355-2(d)); and (iii) whether the Distribution and an acquisition or acquisitions are part of a plan (or series of related transactions) under § 355(e)(2)(A)(ii). Additionally, no opinion is expressed regarding any tax effects of the Pre-Distribution Restructuring, and, the repurchase of the existing



debt of the Business A subsidiaries and existing debt of Merger Partner pursuant to step (iii) of the Proposed Transaction.

### **Procedural Statements**

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) provides that it may not be used or cited as precedent. A copy of this letter must be attached to any income tax return to which it is relevant. 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 the letter ruling.

In accordance with the power of attorney on file in this office, a copy of this ruling letter will be sent to your authorized representative.

Sincerely,

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Richard K. Passales  
Senior Counsel, Branch 4  
Office of Associate Chief Counsel (Corporate)

cc: