

Internal Revenue Service

Number: **201430002**

Release Date: 7/25/2014

Index Numbers: 368.04-00, 355.01-00,
1502.32-00, 1504.01-00

Department of the Treasury

Washington, DC 20224

Third Party Communication: None

Date of Communication: Not Applicable

Person To Contact:

, ID No.

Telephone Number:

Refer Reply To:

CC:CORP:B04

PLR-137165-13

Date:

March 7, 2014

Legend

Distributing 2 =

Distributing 1 =

Sub =

Controlled 1 =

Controlled 2 =

FSub 1 =

FSub 2 =

FSub 3 =

FSub 4 =

DRE 1 =

DRE 2 =

DRE 3 =

DRE 4 =

DRE 5 =

DRE 6 =

FPRS =

LLC 1 =

LLC 2 =

Country A =

Country B =

Country C =

Country D =

Country E =

Country F =

State 1 =

Business A =

Business B =

Business
Combination =

Financing
Structure =

Financing
Benefits =

Post-Separation =
Agreements

Transition
Services
Agreement =

a =

b =

c =

d =

Dear :

This letter responds to your August 22, 2013 request for rulings, submitted by your authorized representatives, on certain U.S. federal income tax consequences of the Proposed Transactions (defined below). The information submitted in that letter 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 penalties of perjury statement executed by an appropriate party. While this office has not verified any of the materials submitted in support of the request for rulings, it is subject to verification upon examination.

In particular, this office has not reviewed any information pertaining to, and has made no determination regarding, whether the Proposed Transactions: (i) satisfy the business purpose requirement of § 1.355-2(b) of the Income Tax Regulations, (ii) are 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 (“Code”) and § 1.355-2(d)), or (iii) are 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) and § 1.355-7).

Summary of Facts

Distributing 2, a State 1 corporation, is the parent of a worldwide group of entities (collectively, the “Distributing 2 Group”) and the common parent of an affiliated group of corporations filing a consolidated U.S. federal income tax return (the “Distributing 2 Consolidated Group”). In addition to its single class of stock outstanding (which is publicly traded), Distributing 2 also has outstanding stock options, performance stock units, and restricted stock units issued as part of its equity compensation plans. The Distributing 2 Group conducts Business A and Business B on a worldwide basis.

Distributing 2 directly owns 100 percent of the stock of Distributing 1, Distributing 1 directly owns 100 percent of the stock of Sub, and Sub directly owns 100 percent of the stock of Controlled 1. Each of Distributing 1, Sub, and Controlled 1 is a subsidiary (within the meaning of § 1.1502-1(c)) in the Distributing 2 Consolidated Group. Sub also indirectly owns 100 percent of the equity interests of FSub 1, a Country E entity that is treated as a corporation for U.S. federal tax purposes. Sub is engaged directly and

indirectly in the conduct of Business A. Controlled 1 is engaged directly and indirectly in the conduct of Business B.

Controlled 1 owns 100 percent of the equity interests of FSub 4, a Country A company that is treated as a corporation for U.S. federal tax purposes.

FSub 1 owns 100 percent of the equity interests of DRE 1, a Country E entity that is disregarded for U.S. federal tax purposes, and 100 percent of the equity interests of DRE 2, a Country F entity that is disregarded for U.S. federal tax purposes.

DRE 1 owns 100 percent of the equity interests of FSub 2, a Country D entity that is treated as a corporation for U.S. federal tax purposes, 100 percent of the equity interests of DRE 4, a Country C entity that is disregarded for U.S. federal tax purposes, and 100 percent of the equity of certain Country A entities that are treated as corporations for U.S. federal tax purposes (the “Country A Corporations”).

DRE 2 owns 100 percent of the equity interests of DRE 3, a Country F entity that is disregarded for U.S. federal tax purposes.

FSub 2 owns 100 percent of the equity interests of FSub 3, a Country B entity that is treated as a corporation for U.S. federal tax purposes.

DRE 4 owns 100 percent of the equity interests of DRE 5, a Country C entity that is disregarded for U.S. federal tax purposes, and DRE 6, a Country C entity that is disregarded for U.S. federal tax purposes.

The Country A Corporations, collectively, own a percent of the partnership interests in FPRS, a Country A entity that is treated as a partnership for U.S. federal tax purposes. FSub 4 owns the remaining b percent of the partnership interests in FPRS.

Following the External Spin-Off (defined below), Distributing 2, through its separate affiliated group (within the meaning of § 355(b)(3)(B)) (the “Distributing 2 SAG”), will continue to conduct Business B. Controlled 2, through its separate affiliated group (within the meaning of § 355(b)(3)(B)) (the “Controlled 2 SAG”), will continue to conduct Business A. Financial information has been received which indicates that each of Business A and Business B has had gross receipts and operating expenses representing the active conduct of a trade or business for each of the past five years.

Distributing 2 has determined to separate Business A from Business B for the following corporate business purposes: (1) to allow each management team to concentrate on strategic and operational issues relevant to its distinct business; (2) to allow each business to attract and retain personnel by offering equity-linked compensation reflecting the results of the business for which they work, and (3) to allow each business to access capital without internal competition from the other business.

Proposed Transactions

For what are represented to be valid business reasons, Distributing 2 has proposed the following steps to separate Business A from Business B (collectively, the “Proposed Transactions”):

(i) Distributing 2 will form LLC 1, a domestic limited liability company, which will be disregarded as separate from Distributing 2 for U.S. federal tax purposes, and will contribute its Distributing 1 stock to LLC 1.

(ii) Controlled 1 will borrow from one or more unrelated financial institutions or through capital markets transactions (the “First Special Financing”). The Financing Structure established by Controlled 1 will result in the Financing Benefits.

(iii) Controlled 1 will transfer a portion of the proceeds from the First Special Financing to one of its foreign subsidiaries, which will use the funds to acquire Controlled 1’s foreign operations currently held by other entities.

(iv) Controlled 1 will transfer a portion of the proceeds from the First Special Financing to FPRS, which will use the funds to redeem interests held in FPRS by the Country A Corporations.

(v) Controlled will use a portion of the proceeds from the First Special Financing to repay certain intercompany debt owed by Controlled 1 or its subsidiaries to Sub.

(vi) Controlled 1 will distribute to Sub the portion of the proceeds from the First Special Financing remaining after the preceding three steps.

(vii) Sub will distribute its Controlled 1 stock to Distributing 1 (the “First Internal Spin-Off”).

(viii) Distributing 1 will form LLC 2, a domestic limited liability company, which will be disregarded as separate from Distributing 1 for U.S. federal tax purposes, and will contribute the Controlled 1 stock to LLC 2.

(ix) Controlled 1 will borrow from one or more unrelated financial institutions or through capital markets transactions (the “Second Special Financing” and together with the First Special Financing, the “Special Financings”) and will use the proceeds from the Second Special Financing to purchase c (the “Acquisition”). The Special Financings, in the aggregate, are expected to be in the amount of d.

(x) Controlled 1 will distribute the c received in the Acquisition to LLC 2, and LLC 2 will distribute the c to Distributing 1 (the “Controlled 1 Distribution”). As a result of

this distribution, Distributing 1 may have an excess loss account (within the meaning of § 1.1502-19(a)(2)(i)) in its Controlled 1 stock.

(xi) Distributing 1 will distribute all of the stock in Sub to LLC 1 (the “Second Internal Spin-Off”).

(xii) LLC 1 will distribute the Distributing 1 stock to Distributing 2.

(xiii) Distributing 2 will form Controlled 2, as a domestic corporation.

(xiv) Distributing 2 will contribute all of its interests in LLC 1 to Controlled 2 (the “Contribution”).

(xv) Distributing 2 will distribute all of the Controlled 2 stock, *pro rata*, to its shareholders (the “External Spin-Off”).

On or before the date of the External Spin-Off, Distributing 2 and Controlled 2 (and their respective subsidiaries) will enter into the Post-Separation Agreements, including the Transition Services Agreement. Following the External Spin-Off, Distributing 2 may engage in the Business Combination.

Representations

First Internal Spin-Off

The taxpayer makes the following representations regarding the First Internal Spin-Off:

(a) No part of the consideration to be distributed in the First Internal Spin-Off will be received by any shareholder of Sub as a creditor, employee, or in any capacity other than that of a shareholder of Sub.

(b) In applying § 355(b)(2)(A) regarding the active conduct of a trade or business, Sub will treat all members of its separate affiliated group (the “Sub SAG”) as defined in § 355(b)(3)(B), as one corporation.

(c) The five years of financial information submitted on behalf of Business A conducted by the Sub SAG is representative of its present business operations, and with regard to such business, there have been no substantial operational changes since the date of the last financial statements submitted.

(d) In applying § 355(b)(2)(A) regarding the active conduct of a trade or business, Controlled 1 will treat all members of its separate affiliated group (the “Controlled 1 SAG”) as defined in § 355(b)(3)(B), as one corporation.

(e) The five years of financial information submitted on behalf of Business B currently conducted by the Controlled 1 SAG is representative of its present business operations, and with regard to such business, there have been no substantial operational changes since the date of the last financial statements submitted.

(f) Neither Business A conducted by the Sub SAG nor control of an entity conducting this business will have been acquired during the five-year period ending on the date of the First Internal Spin-Off in a transaction in which gain or loss was recognized (or treated as recognized) in whole or in part.

(g) Neither Business B conducted by the Controlled 1 SAG nor control of an entity conducting this business will have been acquired during the five-year period ending on the date of the First Internal Spin-Off in a transaction in which gain or loss was recognized (or treated as recognized) in whole or in part.

(h) Following the First Internal Spin-Off, the Sub SAG will continue the active conduct of Business A and the Controlled 1 SAG will continue the active conduct of Business B, independently and with their separate employees (except as otherwise provided pursuant to the Post-Separation Agreements).

(i) The First Internal Spin-Off will be carried out for the corporate business purpose of facilitating the External Spin-Off. The First Internal Spin-Off is motivated, in whole or substantial part, by this corporate business purpose.

(j) The First Internal Spin-Off will not be used principally as a device for the distribution of the earnings and profits of Sub or Controlled 1 or both.

(k) There is no plan or intention to liquidate Sub or Controlled 1, to merge Sub or Controlled 1, or to sell or otherwise dispose of the assets of Sub or Controlled 1 after the First Internal Spin-Off, except in the ordinary course of business or pursuant to the Proposed Transactions.

(l) Other than pursuant to the Proposed Transactions, there is no plan or intention by Sub or Controlled 1, or any party related to Sub or Controlled 1, to purchase or acquire any of the outstanding stock of Sub or Controlled 1.

(m) For purposes of § 355(d), immediately after the First Internal Spin-Off, 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 Sub stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Sub 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 First Internal Spin-Off.

(n) For purposes of § 355(d), immediately after the First Internal Spin-Off, 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 1 stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Controlled 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 the First Internal Spin-Off or (ii) attributable to distributions on Sub 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 First Internal Spin-Off.

(o) The First Internal Spin-Off 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 Sub or Controlled 1 (including any predecessor or successor of any such corporation).

(p) Immediately after the First Internal Spin-Off (taking into account § 355(g)(4)), neither Sub nor Controlled 1 will be a disqualified investment corporation (within the meaning of § 355(g)(2)).

(q) Except pursuant to the elimination or reduction of intercompany balances in connection with the Proposed Transactions, Sub will have neither accumulated its receivables nor made extraordinary payment of its payables in anticipation of the First Internal Spin-Off.

(r) No indebtedness between Sub (and its subsidiaries) and Controlled 1 (and its subsidiaries) has been or will be cancelled in connection with the First Internal Spin-Off other than the settlement of open intercompany account balances and other intercompany loans attributable to normal business operations of Sub and its subsidiaries prior to the First Internal Spin-Off.

(s) No intercorporate debt will exist between Sub (or any of its subsidiaries) and Controlled 1 (or any of its subsidiaries) at the time of, or subsequent to, the First Internal Spin-Off, except for payables arising under transitional agreements or otherwise in the ordinary course of business.

(t) Any continuing indebtedness existing between Sub (or any of its subsidiaries) and Controlled 1 (or any of its subsidiaries) after the First Internal Spin-Off will not constitute stock or securities of Sub (or any of its subsidiaries) or Controlled 1 (or any of its subsidiaries).

(u) The amount of money to be distributed by Controlled 1 to Sub in step (vi) of the Proposed Transactions will not exceed Sub's basis in the stock of Controlled 1 immediately before the distribution.

(v) Immediately before the First Internal Spin-Off, 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, any excess loss account that Sub has in its Controlled 1 stock will be included in income immediately before the First Internal Spin-Off to the extent required by applicable regulations (see § 1.1502-19).

(w) Except with respect to certain payments made pursuant to the Transition Services Agreement, payments made in connection with the Post-Separation Agreements between Sub and Controlled 1 will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.

(x) No two parties to the First Internal Spin-Off will be investment companies as defined in § 368(a)(2)(F)(iii) and (iv).

(y) Sub and Controlled 1, and their respective shareholders, will each pay their own expenses, if any, incurred in connection with the First Internal Spin-Off.

Second Internal Spin-Off

The taxpayer makes the following representations regarding the Second Internal Spin-Off:

(z) No part of the consideration to be distributed in the Second Internal Spin-Off will be received by any shareholder of Distributing 1 as a creditor, employee, or in any capacity other than that of a shareholder of Distributing 1.

(aa) In applying § 355(b)(2)(A) regarding the active conduct of a trade or business, Distributing 1 will treat all members of its separate affiliated group (the "Distributing 1 SAG") as defined in § 355(b)(3)(B), as one corporation.

(bb) The five years of financial information submitted on behalf of Business B conducted by the Distributing 1 SAG is representative of its present business operations, and with regard to such business, there have been no substantial operational changes since the date of the last financial statements submitted.

(cc) In applying § 355(b)(2)(A) regarding the active conduct of a trade or business, Sub will treat all members of its separate affiliated group (*i.e.*, the Sub SAG) as defined in § 355(b)(3)(B), as one corporation.

(dd) The five years of financial information submitted on behalf of Business A currently conducted by the Sub SAG is representative of its present business

operations, and with regard to such business, there have been no substantial operational changes since the date of the last financial statements submitted.

(ee) Neither Business B conducted by the Distributing 1 SAG nor control of an entity conducting this business will have been acquired during the five-year period ending on the date of the Second Internal Spin-Off in a transaction in which gain or loss was recognized (or treated as recognized) in whole or in part.

(ff) Neither Business A conducted by the Sub SAG nor control of an entity conducting this business will have been acquired during the five-year period ending on the date of the Second Internal Spin-Off in a transaction in which gain or loss was recognized (or treated as recognized) in whole or in part.

(gg) Following the Second Internal Spin-Off, the Distributing 1 SAG will continue the active conduct of Business B and the Sub SAG will continue the active conduct of Business A, independently and with their separate employees (except as otherwise provided pursuant to the Post-Separation Agreements).

(hh) The Second Internal Spin-Off will be carried out for the corporate business purpose of facilitating the External Spin-Off. The Second Internal Spin-Off is motivated, in whole or substantial part, by this corporate business purpose.

(ii) The Second Internal Spin-Off will not be used principally as a device for the distribution of the earnings and profits of Distributing 1 or Sub or both.

(jj) There is no plan or intention to liquidate Distributing 1 or Sub, to merge Distributing 1 or Sub, or to sell or otherwise dispose of the assets of Distributing 1 or Sub after the Second Internal Spin-Off, except in the ordinary course of business or pursuant to the Proposed Transactions.

(kk) Other than pursuant to the Proposed Transactions, there is no plan or intention by Distributing 1 or Sub, or any party related to Distributing 1 or Sub, to purchase or acquire any of the outstanding stock of Distributing 1 or Sub after the Second Internal Spin-Off.

(ll) For purposes of § 355(d), immediately after the Second Internal Spin-Off, 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 1 stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Distributing 1 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 Second Internal Spin-Off.

(mm) For purposes of § 355(d), immediately after the Second Internal Spin-Off, 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 Sub stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Sub 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 the Second Internal Spin-Off or (ii) attributable to distributions on Distributing 1 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 Second Internal Spin-Off.

(nn) The Second Internal Spin-Off 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 1 or Sub (including any predecessor or successor of any such corporation).

(oo) Immediately after the Second Internal Spin-Off (taking into account § 355(g)(4)), neither Distributing 1 nor Sub will be a disqualified investment corporation (within the meaning of § 355(g)(2)).

(pp) Except pursuant to the elimination or reduction of intercompany balances in connection with the Proposed Transactions, Distributing 1 will have neither accumulated its receivables nor made extraordinary payment of its payables in anticipation of the Second Internal Spin-Off.

(qq) No indebtedness between Distributing 1 (and its subsidiaries) and Sub (and its subsidiaries) has been or will be cancelled in connection with the Second Internal Spin-Off other than the settlement of open intercompany account balances and other intercompany loans attributable to normal business operations of Distributing 1 and its subsidiaries prior to the Second Internal Spin-Off.

(rr) No intercorporate debt will exist between Distributing 1 (or any of its subsidiaries) and Sub (or any of its subsidiaries) at the time of, or subsequent to, the Second Internal Spin-Off, except for payables arising under transitional agreements or otherwise in the ordinary course of business.

(ss) Any continuing indebtedness existing between Distributing 1 (or any of its subsidiaries) and Sub (or any of its subsidiaries) after the Second Internal Spin-Off will not constitute stock or securities of Distributing 1 (or any of its subsidiaries) or Sub (or any of its subsidiaries).

(tt) Immediately before the Second Internal Spin-Off, 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, any excess loss account that Distributing 1 may have in its Sub stock will be included in income immediately before the Second Internal Spin-Off to the extent required by applicable regulations (see § 1.1502-19).

(uu) Except with respect to certain payments made pursuant to the Transition Services Agreement, payments made in connection with the Post-Separation Agreements between Distributing 1 and Sub will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.

(vv) No two parties to the Second Internal Spin-Off will be investment companies as defined in § 368(a)(2)(F)(iii) and (iv).

(ww) Distributing 1 and Sub, and their respective shareholders, will each pay their own expenses, if any, incurred in connection with the Second Internal Spin-Off.

Contribution and External Spin-Off

The taxpayer makes the following representations regarding the Contribution and the External Spin-Off:

(xx) No part of the consideration to be distributed in the External Spin-Off will be received by any shareholder of Distributing 2 as a creditor, employee, or in any capacity other than that of a shareholder of Distributing 2.

(yy) In applying § 355(b)(2)(A) regarding the active conduct of a trade or business, Distributing 2 will treat all members of the Distributing 2 SAG, as one corporation.

(zz) The five years of financial information submitted on behalf of Business B conducted by the Distributing 2 SAG is representative of its present business operations, and with regard to such business, there have been no substantial operational changes since the date of the last financial statements submitted.

(aaa) In applying § 355(b)(2)(A) regarding the active conduct of a trade or business, Controlled 2 will treat all members of the Controlled 2 SAG as one corporation.

(bbb) The five years of financial information submitted on behalf of Business A currently conducted by the Controlled 2 SAG is representative of its present business operations, and with regard to such business, there has been no substantial operational changes since the date of the last financial statements submitted.

(ccc) Neither Business B conducted by the Distributing 2 SAG nor control of an entity conducting this business will have been acquired during the five-year period ending on the date of the External Spin-Off in a transaction in which gain or loss was recognized (or treated as recognized) in whole or in part.

(ddd) Neither Business A conducted by the Controlled 2 SAG nor control of an entity conducting this business will have been acquired during the five-year period ending on the date of the External Spin-Off in a transaction in which gain or loss was recognized (or treated as recognized) in whole or in part.

(eee) Following the External Spin-Off, the Distributing 2 SAG will continue the active conduct of Business B and the Controlled 2 SAG will continue the active conduct of Business A, independently and with their separate employees (except as otherwise provided pursuant to the Post-Separation Agreements).

(fff) The External Spin-Off will be carried out for the following corporate business purposes: (1) to allow each management team to concentrate on strategic and operational issues relevant to its distinct business; (2) to allow each business to attract and retain personnel by offering equity-linked compensation reflecting the results of the business for which they work, and (3) to allow each business to access capital without internal competition from the other business. The External Spin-Off is motivated, in whole or substantial part, by one or more of these corporate business purposes.

(ggg) The External Spin-Off will not be used principally as a device for the distribution of the earnings and profits of Distributing 2 or Controlled 2 or both.

(hhh) There is no plan or intention to liquidate Distributing 2 or Controlled 2, to merge Distributing 2 or Controlled 2, or to sell or otherwise dispose of the assets of Distributing 2 or Controlled 2 after the External Spin-Off, except in the ordinary course of business or pursuant to the Business Combination.

(iii) The receipt by Distributing 2 shareholders of cash in lieu of fractional shares of Controlled 2 stock is solely for the purpose of avoiding the expense and inconvenience to Distributing 2 of issuing fractional shares and does not represent separately bargained-for consideration. It is intended that the total cash consideration received by the shareholders of Distributing 2 will not exceed one percent of the total consideration that will be distributed in the External Spin-Off. It is also intended that no Distributing 2 shareholder will receive cash in an amount equal to or greater than the value of one full share of Controlled 2 common stock.

(jjj) For purposes of § 355(d), immediately after the External Spin-Off, 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 2 stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Distributing 2 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 External Spin-Off.

(kkk) For purposes of § 355(d), immediately after the External Spin-Off, 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 2 stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Controlled 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 the External Spin-Off or (ii) attributable to distributions on Distributing 2 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 External Spin-Off.

(lll) The External Spin-Off 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 2 or Controlled 2 (including any predecessor or successor of any such corporation).

(mmm) Immediately after the External Spin-Off (taking into account § 355(g)(4)), neither Distributing 2 nor Controlled 2 will be a disqualified investment corporation (within the meaning of § 355(g)(2)).

(nnn) The total fair market value of the assets to be transferred by Distributing 2 to Controlled 2 in the Contribution will exceed the sum of: (i) the total amount of liabilities (if any) to be assumed (within the meaning of § 357(d)) by Controlled 2, plus any liabilities to which the transferred assets will be subject, (ii) the total amount of liabilities (if any) owed by Distributing 2 to Controlled 2 that will be discharged or extinguished in the exchange, and (iii) the amount of cash and the fair market value of property (if any) (other than stock and securities permitted to be received under § 361(a) without the recognition of gain) to be received by Distributing 2 from Controlled 2 in the exchange.

(ooo) Immediately after the External Spin-Off, the aggregate fair market value of the assets of Controlled 2 will exceed the sum of the liabilities of Controlled 2 (whether indebtedness or other forms of obligations, including contingent obligations), plus the other liabilities, if any, to which the assets of Controlled 2 will be subject.

(ppp) The total adjusted bases of the assets to be transferred by Distributing 2 to Controlled 2 in the Contribution will exceed the sum of: (i) the total amount of liabilities (if any) to be assumed (within the meaning of § 357(d)) by Controlled 2, plus any liabilities to which the transferred assets will be subject, and (ii) the total amount of cash and the fair market value of property (if any) (other than stock and securities permitted

to be received under § 361(a) without the recognition of gain) to be received by Distributing 2 from Controlled 2 in the exchange.

(qqq) The liabilities, if any, that will be assumed (within the meaning of § 357(d)) by Controlled 2 and the liabilities, if any, to which the transferred assets are subject will have been incurred in the ordinary course of business and will be associated with the assets being transferred.

(rrr) Except pursuant to the elimination or reduction of intercompany balances in connection with the Proposed Transactions, Distributing 2 will have neither accumulated its receivables nor made extraordinary payment of its payables in anticipation of the External Spin-Off.

(sss) No indebtedness between Distributing 2 (and its subsidiaries) and Controlled 2 (and its subsidiaries) has been or will be cancelled in connection with the External Spin-Off other than the settlement of open intercompany account balances and other intercompany loans attributable to normal business operations of Distributing 2 and its subsidiaries prior to the External Spin-Off.

(ttt) No intercorporate debt will exist between Distributing 2 (or any of its subsidiaries) and Controlled 2 (or any of its subsidiaries) at the time of, or subsequent to, the External Spin-Off, except for payables arising under transitional agreements or otherwise in the ordinary course of business.

(uuu) Any continuing indebtedness existing between Distributing 2 (or any of its subsidiaries) and Controlled 2 (or any of its subsidiaries) after the External Spin-Off will not constitute stock or securities of Distributing 2 (or any of its subsidiaries) or Controlled 2 (or any of its subsidiaries).

(vvv) Except with respect to certain payments made pursuant to the Transition Services Agreement, payments made in connection with the Post-Separation Agreements between Distributing 2 and Controlled 2 will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.

(www) No two parties to the Contribution and External Spin-Off will be investment companies as defined in § 368(a)(2)(F)(iii) and (iv).

(xxx) Distributing 2 and Controlled 2, and their respective shareholders, will each pay their own expenses, if any, incurred in connection with the External Spin-Off.

(yyy) Immediately before the External Spin-Off, 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, any excess loss account that Distributing 2 may have in its Controlled 2 stock will be included in income immediately before the External Spin-Off to the extent required by applicable regulations (see § 1.1502-19).

(zzzz) Neither Distributing 2 nor Controlled 2 has been or will be a United States real property holding corporation (within the meaning of § 897(c)(2)) (a “USRPHC”) at any time during the five-year period ending on the date of the External Spin-Off, and neither Distributing 2 nor Controlled 2 will be a USRPHC immediately after the External Spin-Off.

(aaaa) Distributing 2 will comply with any applicable notice and filing requirements set forth in §§ 897 and 1445, and the regulations thereunder.

(bbbb) As of the date of the External Spin-Off, Distributing 2 will not have any foreign five-percent shareholders.

(cccc) No party to the Contribution and External Spin-Off is under the jurisdiction of a court in a Title 11 or similar case within the meaning of § 368(a)(3)(A).

(dddd) 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) to reflect an early disposition of property.

Rulings

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

First Internal Spin-Off

(1) Distributing 1 will not recognize any gain or loss (and no amount will be includible in its income) upon its receipt of the stock of Controlled 1 from Sub in the First Internal Spin-Off (§ 355(a)(1)).

(2) Sub will not recognize any gain or loss upon its distribution of the stock of Controlled 1 to Distributing 1 in the First Internal Spin-Off (§ 355(c)).

(3) Distributing 1’s basis in the stock of Sub and Controlled 1 immediately after the First Internal Spin-Off will equal its basis in its Sub stock immediately before the First Internal Spin-Off, allocated between the stock of Sub and Controlled 1 in proportion to the fair market value of each immediately following the First Internal Spin-Off in accordance with § 1.358-2(a)(2)(iv) (§ 358(a), (b)(2) and (c)).

(4) Distributing 1's holding period in the Controlled 1 stock received from Sub in the First Internal Spin-Off will include the holding period of the Sub stock with respect to which the First Internal Spin-Off is made, provided that the Sub stock is held by Distributing 1 as a capital asset on the date of the First Internal Spin-Off (§ 1223(1)).

(5) Earnings and profits, if any, will be allocated between Sub and Controlled 1 in accordance with § 312(h) and §§ 1.312-10(b) and 1.1502-33(f)(2).

Controlled 1 Distribution

(6) Controlled 1's distribution of the c to Distributing 1 in the Controlled 1 Distribution will be a distribution to which § 301(a) applies.

(7) Distributing 1's basis in the c received from Controlled 1 in the Controlled 1 Distribution will be equal to the fair market value of the c, determined at the time of the Controlled 1 Distribution (§ 301(d)), and Distributing 1's basis in its stock of Controlled 1 will be reduced by such amount, as a result of the Controlled 1 Distribution (§ 1.1502-32(b)(2)(iv)).

Second Internal Spin-Off

(8) Distributing 2 will not recognize any gain or loss (and no amount will be includible in its income) upon its receipt of the stock of Sub from Distributing 1 in the Second Internal Spin-Off (§ 355(a)(1)).

(9) Distributing 1 will not recognize any gain or loss upon its distribution of the stock of Sub to Distributing 2 in the Second Internal Spin-Off (§ 355(c)).

(10) Distributing 2's basis in the stock of Distributing 1 and Sub immediately after the Second Internal Spin-Off will equal its basis in its Distributing 1 stock immediately before the Second Internal Spin-Off, allocated between the stock of Distributing 1 and Sub in proportion to the fair market value of each immediately following the Second Internal Spin-Off in accordance with § 1.358-2(a)(2)(iv) (§ 358(a), (b)(2) and (c)).

(11) Distributing 2's holding period in the Sub stock received from Distributing 1 in the Second Internal Spin-Off will include the holding period of the Distributing 1 stock with respect to which the Second Internal Spin-Off is made, provided that the Distributing 1 stock is held by Distributing 2 as a capital asset on the date of the Second Internal Spin-Off (§ 1223(1)).

(12) Earnings and profits, if any, will be allocated between Distributing 1 and Sub in accordance with § 312(h) and §§ 1.312-10(b) and 1.1502-33(f)(2).

Contribution and External Spin-Off

(13) The Contribution, together with the External Spin-Off, will be a reorganization within the meaning of § 368(a)(1)(D). Distributing 2 and Controlled 2 each will be a “party to a reorganization” within the meaning of § 368(b).

(14) Distributing 2 will not recognize any gain or loss upon its transfer of assets to Controlled 2 in the Contribution (§§ 361(a) and 357(a)).

(15) Controlled 2 will not recognize any gain or loss upon its receipt of assets from Distributing 2 in the Contribution (§ 1032(a)).

(16) Controlled 2’s basis in each asset received from Distributing 2 in the Contribution will equal the basis of that asset in the hands of Distributing 2 immediately before the Contribution (§ 362(b)).

(17) Controlled 2’s holding period in each asset received from Distributing 2 in the Contribution will include the period during which such asset was held by Distributing 2 (§ 1223(2)).

(18) Distributing 2 will not recognize any gain or loss upon its distribution of the stock of Controlled 2 in the External Spin-Off (§ 361(c)).

(19) Distributing 2’s shareholders will not recognize any gain or loss (and no amount will be includible in their income) upon their receipt of the Controlled 2 stock in the External Spin-Off (§ 355(a)(1)).

(20) Each Distributing 2 shareholder’s basis in the Distributing 2 and Controlled 2 stock (including any fractional share interest in Controlled 2 to which the shareholder may be entitled) immediately after the External Spin-Off will equal the basis of the Distributing 2 stock that the shareholder held immediately before the External Spin-Off, allocated between the stock of Distributing 2 and Controlled 2 in proportion to the fair market value of each immediately following the External Spin-Off in accordance with § 1.358-2(a)(2)(iv) (§ 358(a), (b)(2) and (c)).

(21) Each Distributing 2 shareholder’s holding period in the Controlled 2 stock received in the External Spin-Off (including any fractional share interest in Controlled 2 to which the shareholder may be entitled) will include the holding period of the Distributing 2 stock with respect to which the External Spin-Off is made, provided that the shareholder holds such Distributing 2 stock as a capital asset on the date of the External Spin-Off (§ 1223(1)).

(22) Earnings and profits, if any, will be allocated between Distributing 2 and Controlled 2 in accordance with § 312(h) and §§ 1.312-10(a) and 1.1502-33(e)(3).

(23) The receipt by Distributing 2 shareholders of cash in lieu of fractional shares of Controlled 2 stock will be treated for U.S. federal income tax purposes as if the fractional shares had been distributed to the Distributing 2 shareholders as part of the External Spin-Off and then had been disposed of by such shareholders for the amount of such cash in a sale or exchange. The gain (or loss) recognized, if any (determined using the bases allocated to the fractional shares in ruling (20)), will be treated as capital gain (or loss), provided the stock was held as a capital asset by the selling shareholder (§ 1001). Such gain or loss will be short-term or long-term capital gain (or loss) (determined using the holding period provided in ruling (21)), and will be subject to the provisions and limitations of Subchapter P of Chapter 1 of Subtitle A of the Code.

(24) Except for purposes of § 355(g), any payments between Distributing 2 and Controlled 2 that are made following the External Spin-Off pursuant to the Post-Separation Agreements regarding obligations that (i) have arisen or will arise for a taxable period ending on or before the External Spin-Off or for a taxable period beginning before but ending after the External Spin-Off and (ii) will not have become fixed and ascertainable until after the External Spin-Off, will be treated as occurring immediately before the External Spin-Off (see *Arrowsmith v. Commissioner*, 344 U.S. 6 (1952); Rev. Rul. 83-73, 1983-1 C.B. 84).

(25) Following the External Spin-Off, Controlled 2 will not be a successor of Distributing 2 for purposes of § 1504(a)(3). Therefore, Controlled 2 and its direct and indirect subsidiaries that are “includible corporations” under § 1504(b) and satisfy the ownership requirements of § 1504(a)(4) will be members of an affiliated group of corporations entitled to file a consolidated U.S. federal income tax return with Controlled 2 as the common parent.

Caveats

No opinion is expressed about the federal income tax treatment of the Proposed Transactions under other provisions of the Code and Income Tax Regulations or the tax treatment of any conditions existing at the time of, or effects resulting from, the Proposed Transactions that are not specifically covered by the above rulings.

In particular, no opinion is expressed regarding:

- a. whether the Proposed Transactions: (i) satisfy the business purpose requirement of § 1.355-2(b) of the Income Tax Regulations, (ii) are 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)), or (iii) are 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) and § 1.355-7);

- b. the tax treatment of steps (iii), (iv), (v), or (vi) of the Proposed Transactions; or
- c. the classification of any entity for U.S. federal income tax purposes.

Procedural Matters

This ruling letter is directed only to the taxpayer who requested it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

A copy of this ruling letter must be attached to any income 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 this ruling letter.

Under a Power of Attorney on file in this office, a copy of this ruling letter is being sent to your authorized representatives.

Sincerely,

Maury Passman
Acting Chief, Branch 4
Office of Associate Chief Counsel (Corporate)

cc: