

## Internal Revenue Service

## Department of the Treasury

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Date:  
**September 13, 1999**

Business 1

Business 2

Common Parent

Distributing

Controlled

Subsidiary 1

Subsidiary 2

Subsidiary 3

Subsidiary 4

Subsidiary 5

Subsidiary 6

Subsidiary 7

Subsidiary 8

Subsidiary 9

Subsidiary 10

Subsidiary 11

Subsidiary 12

Subsidiary 13

Subsidiary 14

Subsidiary 15

Subsidiary 16

Subsidiary 17

Subsidiary 18

Subsidiary 19

Subsidiary 20

Subsidiary 21

Subsidiary 22

Subsidiary 23

Subsidiary 24

Subsidiary 25

Subsidiary 26

Subsidiary 27

Subsidiary 28

Subsidiary 29

Subsidiary 30

Subsidiary 31

Credit Agreement

Financial Institution 1

Financial Institution 2

State A

State B

State C

State D

State E

State F

State G

a

b

c

d

e

f

Country M

Country N

Country O

Country P

Territory X

M

N

O

P

Q

R

We reply to your letter dated January 28, 1999, in which rulings were requested as to the federal income tax consequences of a proposed transaction. Additional information was submitted in a letter dated June 29, 1999. The information submitted for consideration is summarized below.

Common Parent is the common parent of an affiliated group of corporations that files a consolidated return for federal income tax purposes. The affiliated group is

engaged in two distinct lines of business, Business 1 and Business 2.

Subsidiary 1 is a State A corporation wholly owned by Common Parent engaged in both Business 1 and Business 2.

Subsidiary 2 is a Country O corporation wholly owned by Common Parent engaged in both Business 1 and Business 2.

Subsidiary 3 is an inactive State B corporation wholly owned by Common Parent.

Subsidiary 4 is a State C corporation wholly owned by Common Parent engaged in Business 1.

Subsidiary 5 is a State A corporation wholly owned by Common Parent engaged in Business 2.

Subsidiary 6 is a Territory X corporation and FSC under section 922 of the Code wholly owned by Common Parent.

Subsidiary 7 is a State B corporation wholly owned by Subsidiary 1 engaged in Business 1.

Subsidiary 8 is a Country O corporation wholly owned by Subsidiary 1 engaged in Business1.

Subsidiary 9 is a State F corporation wholly owned by Subsidiary 1 engaged in Business 2.

Subsidiary 10 is a State A corporation wholly owned by Subsidiary 1 engaged in Business 2.

Subsidiary 11 is a State A corporation wholly owned by Subsidiary 1 engaged in Business 2.

Subsidiary 12 is a State G corporation wholly owned by Subsidiary 1 engaged in Business 1.

Subsidiary 13 is a State A corporation wholly owned by Subsidiary 1 engaged in Business 1.

Subsidiary 14 is a State A corporation wholly owned by Subsidiary 1 engaged in Business 1.

Subsidiary 15 is a State B corporation wholly owned by Subsidiary 1 engaged in

both Business 1 and Business 2.

Distributing is a State C corporation wholly owned by Subsidiary 15 engaged in both Business 1 and Business 2.

Controlled is a State A corporation wholly owned by Distributing recently formed for purposes of the proposed transaction.

Subsidiary 16 is a State A corporation wholly owned by Subsidiary 1 engaged in Business 1.

Subsidiary 17 is a Country N company wholly owned by Subsidiary 1 engaged in Business 1.

Subsidiary 18 is a State F corporation wholly owned by Subsidiary 1 engaged in Business 2.

Subsidiary 19 is a State D corporation R percent owned by Subsidiary 1 engaged in Business 2.

Subsidiary 20 is a joint venture with Country P treated as a corporation for federal income tax purposes engaged in Business 1.

Subsidiary 21 is a State A corporation wholly owned by Subsidiary 1 engaged in Business 2.

Subsidiary 22 is a joint venture with a Country P company treated as a corporation for federal income tax purposes engaged in Business 2.

Subsidiary 23 is a Country M company M percent owned by Subsidiary 17 and N percent owned by Subsidiary 1 engaged in Business 1.

Subsidiary 24 is a Country M company wholly owned by Subsidiary 19 engaged in Business 2.

Subsidiary 25 is a State E corporation wholly owned by Subsidiary 21 engaged in Business 1.

Subsidiary 26 is a Country M company P percent owned by Subsidiary 23 engaged in Business 2.

All above mentioned corporations either have or plan to adopt calendar year accounting periods. All above mentioned corporations (except for corporations which are not includible corporations under section 1504(b) of the Code) are included in the

consolidated federal income tax returns of Common Parent.

Financial information has been received which indicates that Business 1 and Business 2 have each had gross receipts and operating expenses representative of the active conduct of a trade or business for each of the past five years.

The affiliated group, in consultation with its financial advisors, has determined that substantial capital needs to be raised in the near future for acquisitions, debt reduction, working capital and other business purposes of Business 2. The affiliated group has further determined, also in consultation with its financial advisors, that the raising of such capital should be accomplished through a public offering of the common stock of Controlled, a subsidiary to be created to hold all subsidiaries engaged in Business 2. The affiliated group in consultation with its advisors has further determined that such an offering would raise significantly more funds per share (net of the transaction costs of separation) if Controlled and all subsidiaries engaged in Business 2 are separated from the affiliated group prior to the offering. Substantiation in the form of an analysis from the affiliated group's investment banker indicates an expectation that the offering would raise approximately Q percent more per share if Controlled is an independent corporation rather than a subsidiary of the group.

The proposed transaction will be accomplished in the following steps:

#### Preliminary Transactions

(i) Intercorporate debts between Business 1 group of companies and Business 2 group of companies will be canceled and treated as distributions, contributions or payments as appropriate. The Credit Agreement among Common Parent, Subsidiary 1, Financial Institution1, Financial Institution 2, and certain other financial institutions will be amended to allow the assumption of debt described in steps (x), (xii), and (xiii) below.

(ii) Subsidiary 19 will incorporate a new Country O subsidiary, Subsidiary 27. Also, Subsidiary 1 will transfer approximately \$a to Subsidiary 19 as a capital contribution, which will then transfer that amount to Subsidiary 27 as a capital contribution. Subsidiary 27 will then acquire Subsidiary 28 from unrelated parties for approximately \$b. Also Subsidiary 27 will acquire certain Business 2 operating assets from Subsidiary 2 for approximately \$c. Finally, Subsidiary 1 will acquire Subsidiary 29, a State E corporation without significant assets for approximately \$d.

(iii) Subsidiary 24 (a wholly owned Country M subsidiary of Subsidiary 19) will acquire the P percent interest in Subsidiary 26 now owned by Subsidiary 23 for approximately \$e.

(iv) Subsidiary 21 will distribute all of its interest in Subsidiary 25 to Subsidiary 1.



(v) Subsidiary 21 will sell certain improved real estate to an unrelated party for approximately \$f.

(vi) Certain license agreements with unrelated computer software licensors will be renegotiated to allow Controlled and its Business 2 subsidiaries to continue to use such licensors' software after the proposed transaction.

(vii) Certain incentive stock options and nonqualified stock options to acquire the Common Parent stock held by employees of Common Parent (or its subsidiaries) will terminate and equivalent options to acquire Controlled stock will be issued by Controlled.

(viii) All accrued but unpaid intercompany payments for the use of trademarks, patents, and patent applications will be paid.

#### Contributions

(ix) Common Parent will contribute its Business 2 related patents, patent applications, trademarks and stock in Subsidiary 5 to Subsidiary 1. Common Parent will not retain or receive back an interest in the transferred property.

(x) Subsidiary 1 will contribute all of its property (except for its stock in Subsidiary 15) to Subsidiary 15. This property will include property received in step (ix) and also will include all of the stock of Subsidiaries 7, 8, 9, 10, 11, 12, 13, 14, 16, 17, 18, 21, 25, 29 and its Q percent interest in Subsidiary 20, its Q percent interest in Subsidiary 22 and R percent of the common stock of Subsidiary 19 and N percent of the common stock of Subsidiary 23. Subsidiary 1 will not retain or receive back an interest in the transferred property. Subsidiary 15 will assume Subsidiary 1's debt obligation under the Credit Agreement.

(xi) Subsidiary 15 will incorporate a new corporation, Subsidiary 30, and contribute certain Business 1 assets to Subsidiary 30. Subsidiary 15 will not retain or receive back an interest in the transferred property.

(xii) Subsidiary 15 will contribute all of the Business 2 property received in step (x) above, plus its Business 2 related patents and patent applications, Business 2 inventory, and Business 2 accounts receivable to Distributing. Subsidiary 15 will not retain or receive back an interest in the transferred property. Distributing will assume a significant portion of Subsidiary 1's debt obligation under the Credit Agreement that was assumed by Subsidiary 15 in step (x) above.

(xiii) Distributing will incorporate a new corporation, Controlled, and contribute all of the property it received in step (xii) above plus its Business 2 operating assets, inventory and accounts receivable to Controlled. Distributing will not retain or receive back an interest in the transferred property. Controlled will assume that portion of

Subsidiary 1's debt obligation under the Credit Agreement that was assumed by Distributing in step (xii) above.

(xiv) Controlled will contribute the Business 2 related trademarks, patents and patent applications, operating assets, inventory and accounts receivable, all of the stock of Subsidiaries 9 and 21 and its interest in Subsidiary 22 to Subsidiary 10. Controlled will not retain or receive back an interest in the transferred property.

(xv) Subsidiary 10 will incorporate a new corporation, Subsidiary 31, and contribute the Business 2 related trademarks and patents and patent applications received in step (xiv) above to Subsidiary 31. Subsidiary 10 will not retain or receive back an interest in the transferred property.

#### Distributions

(xvi) Distributing will distribute its stock in Controlled to Subsidiary 15.

(xvii) Subsidiary 15 will distribute its stock in Controlled received in step (xvi) above to Subsidiary 1.

(xviii) Subsidiary 1 will distribute its stock in Controlled received in step (xvii) above to Common Parent.

(xix) Common Parent will distribute its stock in Controlled received in step (xviii) above pro rata to its shareholders.

The following representations have been made in connection with the proposed contributions described in steps (ix) through (xv) above:

(a) No stock or securities will be issued for services rendered to or for the benefit of the transferee in connection with the proposed transaction, and no stock or securities will be issued for indebtedness of the transferee that is not evidenced by a security or for interest on indebtedness of the transferee which accrued on or after the beginning of the holding period of the transferor for the debt.

(b) The patents or patent applications qualify as "property" within the meaning of section 351 of the Code.

(c) The transferor will transfer all substantial rights in such patents or patent applications within the meaning of section 1235 of the Code.

(d) The transferor will not retain any significant power, right, or continuing interest, within the meaning of section 1253(b) of the Code, in the franchises, trademarks or trade names being transferred.

(e) None of the stock to be transferred is "section 306 stock" within the meaning of section 306(c) of the Code, except for certain stock specified in the request with respect to steps (x), (xii), (xiii), and (xiv).

(f) The transfer is not the result of the solicitation by a promoter, broker, or investment house.

(g) The transferor will not retain or receive back any rights in the property transferred to the transferee.

(h) The value of the stock received in exchange for accounts receivable will be equal to the net value of the accounts transferred, i.e. the face amount of the accounts receivable previously included in income less the amount of the reserve for bad debts.

(i) Any debt relating to the stock being transferred that is being assumed (or to which such stock is subject) was incurred to acquire such stock and was incurred when such stock was acquired, and each transferor is transferring all of the stock for which the acquisition indebtedness being assumed (or to which such stock is subject) was incurred.

(j) The adjusted basis and the fair market value of the assets to be transferred by the transferor to the transferee will, in each instance, be equal to or exceed the sum of the liabilities to be assumed by the transferee plus any liabilities to which the transferred assets are subject.

(k) The liabilities of the transferor to be assumed by the transferee were incurred in the ordinary course of business and are associated with the assets to be transferred.

(l) There is no indebtedness between the transferee and the transferor and there will be no indebtedness created in favor of the transferor as the result of the transaction.

(m) The transfers and exchanges will occur under a plan agreed upon before the transaction in which the rights of the parties are defined.

(n) All exchanges will occur on approximately the same date.

(o) There is no plan or intention on the part of the transferee to redeem or otherwise reacquire any stock or indebtedness to be issued in the proposed transaction.

(p) Taking into account any issuance of additional shares of transferee stock; any issuance of stock for services; the exercise of any transferee stock rights, warrants, or subscriptions; a public offering of transferee stock; and the sale, exchange, transfer by gift, or other disposition of any of the stock of the transferee to be received in the exchange, the transferor will be in "control" of the transferee within the meaning of

section 368(c) of the Code.

(q) Each transferor will receive stock, securities or other property approximately equal to the fair market value of the property transferred to the transferee or for services rendered or to be rendered for the benefit of the transferee.

(r) The transferee will remain in existence and retain and use the property transferred to it in a trade or business, except for the transfer of such property to its wholly-owned subsidiary as described in the proposed steps above. See Rev. Rul. 77-449, 1977-2 C.B. 110.

(s) There is no plan or intention by the transferee to dispose of the transferred property other than in the normal course of business operations, except for the transfer of such property to its wholly-owned subsidiary described in the proposed steps above. See Rev. Rul. 77-449, 1977-2 C.B. 110.

(t) Each of the parties to the transaction will pay its or his/her own expenses, if any, incurred in connection with the proposed transaction.

(u) The transferee will not be an investment company within the meaning of section 351(e)(1) of the Code and section 1.351-1(c)(1)(ii) of the regulations.

(v) The transferor is not under the jurisdiction of a court in a title 11 or similar case (within the meaning of section 368(a)(3)(A)) and the stock or securities received in the exchange will not be used to satisfy the indebtedness of such debtor.

(w) The transferee will not be a "personal service corporation" within the meaning of section 269A of the Code.

The following representations have been made in connection with the proposed distributions described in steps (xvi) through (xix) above:

(x) No part of the consideration to be distributed by the distributing corporation will be received by a shareholder as a creditor, employee, or in any capacity other than that of a shareholder of the corporation.

(y) With respect to steps (xvi) and (xvii) above, the 5 years of financial information submitted on behalf of the distributing corporation is representative of the corporation's present operation, and with regard to such corporation, there have been no substantial operational changes since the date of the last financial statements submitted.

(z) The 5 years of financial information submitted on behalf of each of subsidiaries 5, 10, 11, 18 and 19 engaged in Business 2 is representative of the corporation's present operation, and with regard to such corporation, there have been no

substantial operational changes since the date of the last financial statements submitted.

(aa) 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 that are engaged in the active conduct of a trade or business as defined in section 355(b)(2).

(bb) With respect to step (xviii), immediately after the distribution, at least 90 percent of the fair market value of the gross assets of Subsidiary 1 will consist of the stock and securities of controlled corporations that are engaged in the active conduct of a trade or business as defined in section 355(b)(2).

(cc) With respect to step (xix), immediately after the distribution, at least 90 percent of the fair market value of the gross assets of Common Parent will consist of the stock and securities of controlled corporations that are engaged in the active conduct of a trade or business as defined in section 355(b)(2).

(dd) Following the transaction, the distributing and controlled corporations will each continue the active conduct of its business, independently and with its separate employees.

(ee) The distribution of the stock, or stock and securities, of the controlled corporation is carried out for the following corporate business purposes: stock offering, fit and focus, borrowing, facilitating acquisitions by the controlled and distributing corporations, and facilitating equity compensation. The distribution of the stock, or stock and securities, of the controlled corporation is motivated, in whole or substantial part, by one or more of these corporate business purposes.

(ff) With respect to steps (xvi), (xvii), and (xviii), there is no plan or intention by the shareholders or security holders of the distributing corporation to sell, exchange, transfer by gift, or otherwise dispose of any of their stock in, or securities of, either the distributing or controlled corporation after the transaction, except as provided in the above proposed steps. With respect to step (xix), there is no plan or intention by any shareholder who owns 5 percent or more of the stock of Common Parent, and the management of Common Parent, to its best knowledge, is not aware of any plan or intention on the part of any particular remaining shareholder or security holder of Common Parent to sell, exchange, transfer by gift, or otherwise dispose of any of their stock in, or securities of, either Common Parent or Controlled after the transaction.

(gg) There is no plan or intention by either the distributing corporation or the controlled corporation, directly or through any subsidiary corporation, to purchase any of its outstanding stock after the transaction, other than through stock purchases meeting the requirements of section 4.05(1)(b) of Rev. Proc. 96-30.

(hh) There is no plan or intention to liquidate either the distributing or controlled corporation, to merge either corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation after the transaction, except in the ordinary course of business.

(ii) The total adjusted bases and the fair market value of the assets transferred to the controlled corporation by the distributing corporation each equals or exceeds the sum of the liabilities assumed by the controlled corporation plus any liabilities to which the transferred assets are subject.

(jj) The liabilities assumed in the transaction and the liabilities to which the transferred assets are subject were incurred in the ordinary course of business and are associated with the assets being transferred, except for those specified in the request with respect to step (xvi).

(kk) No intercorporate debt will exist between the distributing corporation and the controlled corporation at the time of, or subsequent to, the distribution of the controlled corporation stock.

(ll) 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. Further, Distributing's excess loss account with respect to the Controlled stock will be included in income immediately before the distribution.

(mm) Payments made in connection with all continuing transactions, if any, between the distributing and controlled corporations, will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.

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

(oo) The distribution is not part of a plan or series of related transactions (within the meaning of section 355(e)) pursuant to which one or more persons will acquire directly or indirectly stock possessing 50 percent or more of the combined voting power of all classes of stock of either Distributing or Controlled, or stock possessing 50 percent or more of the total value of all classes of stock of either Distributing or Controlled taking into account all subsequent issues of stock and securities pursuant to any proposed public offerings and any issuance of stock under employee stock option plans.

(pp) No non-compensatory options to acquire the stock of Distributing or Controlled are outstanding and there is no plan or intention to issue non-compensatory options to acquire the stock of Distributing or Controlled.

(qq) No excess loss account will be eliminated in any of the proposed section 355

distributions.

Based solely on the information submitted and on the representations set forth above, we rule as follows on the transfers described in steps (ix) through step (xix) above:

(1) No gain or loss will be recognized by, and no amount will be included in the income of, Common Parent or Subsidiary 1 upon the transfer by Common Parent to Subsidiary 1 of its patents and patent applications, trademarks, and stock in Subsidiary 5 as a contribution to capital in step (ix) (sections 351 and 1032).

(2) No gain or loss will be recognized by, and no amount will be included in the income of, Subsidiary 1 or Subsidiary 15 upon the transfer by Subsidiary 1 to Subsidiary 15 of all the property it received in step (ix), plus its patents and patent applications, trademarks and Subsidiaries 7, 8, 9, 10, 11, 12, 13, 14, 16, 17, 18, 19, 21, 23, 25, 29, and interests in Subsidiaries 20 and 22, together with the assumption by Subsidiary 15 of Subsidiary 1's debt obligation under the Credit Agreement, in step (x) (sections 351 and 1032).

(3) No gain or loss will be recognized by, and no amount will be included in the income of, Subsidiary 15 or Subsidiary 30 upon the transfer by Subsidiary 15 to Subsidiary 30 of its Business 1 related patents and patent application, trademarks, and rights to payment under certain loans to members of the Business 1 Group, as a contribution to capital in step (xi) (section 351 and 1032).

(4) No gain or loss will be recognized by, and no amount will be included in the income of, Subsidiary 15 or Distributing upon the transfer by Subsidiary 15 to Distributing of its Business 2 related patents and patent applications, trademarks, accounts receivable, inventory and any prepaid insurance premiums related thereto, and stock received from Subsidiary 1 in step (x), as a contribution to capital, together with the assumption by Distributing of approximately M percent of Subsidiary 1's debt obligation under the Credit Agreement (previously assumed by Subsidiary 15 in step (x) and step (xii) (sections 351 and 1032).

(5) No gain or loss will be recognized by, and no amount will be included in the income of, Distributing or Controlled upon the transfer by Distributing to Controlled of all of the property it received in step (xii), plus its Business 2 related accounts receivable, operating assets and any prepaid insurance premiums related thereto, inventory and any prepaid insurance premiums related thereto, as a contribution to capital, together with the assumption by Controlled of approximately M percent of Subsidiary 1's debt obligation under the Credit Agreement (previously assumed by Distributing in step (xii), and step (xiii) (sections 351 and 1032).

(6) No gain or loss will be recognized by, and no amount will be included in the

income of, Controlled and Subsidiary 10 upon the transfer by Controlled to Subsidiary 10 of its Business 2 related patents and patent applications, trademarks, accounts receivables, operating assets and any prepaid insurance premiums related thereto, inventory and any prepaid insurance premiums related thereto and stock in various Business 2 corporations, as a contribution to capital in step (xiv) (sections 351 and 1032).

(7) No gain or loss will be recognized by, and no amount will be included in the income of Subsidiary 10 or Subsidiary 31 upon the transfer by Subsidiary 10 to Subsidiary 31 of its Business 2 related patents and patent applications, and trademarks as a contribution to capital in step (xv) (sections 351 and 1032).

(8) The basis of the property received by a transferee corporation in steps (ix) through (xv) will be the same as the basis of such property in the hands of the transferor corporation immediately prior to the transfers in such contributions, increased by the amount of gain, if any, recognized on such transfer (section 362(a)).

(9) The holding period of the property received by the transferee corporation in steps (ix) through (xv) will include the period during which such property was held by the transferor (section 1223(2)).

(10) The basis of the stock of a transferee corporation held by a transferor corporation in steps (ix) through (xv) will be increased by the sum of the basis of the property transferred by the transferor corporation to the transferee corporation and the amount of gain or dividends, if any recognized by the transferor corporation on such transfer, and decreased by the amount of money and the fair market value of other property, if any, received by the transferor corporation on such transfer (section 358(a)).

(11) No gain or loss will be recognized by, and no amount will be included in the income of Distributing or Subsidiary 15 upon the distribution by Distributing to Subsidiary 15 of all of its stock in Controlled in step (xvi) (sections 355(c) and 355(a)(1)).

(12) The aggregate basis of the stock of Controlled and Distributing held by Subsidiary 15 immediately after the distribution by Distributing will be the same as the basis of the Distributing held by Subsidiary 15 immediately before the distribution, allocated in proportion to the fair market values of each of Controlled and Distributing in accordance with Treasury regulations section 1.358-2(a)(2) (section 358(a)(1) and (b)(1)).

(13) The holding period of the Controlled stock received by Subsidiary 15 in the distribution of such stock by Distributing will be the same as the holding period of the Distributing stock held before the distribution, provided that Subsidiary 15 held the stock of Distributing as a capital asset on the date of the distribution (section 1223(1)).



(14) As a result of the distribution of the stock of Controlled by Distributing to Subsidiary 15, the earnings and profits of Distributing will be allocated between Controlled and Distributing under Treasury regulations section 1.312-10(a) (section 312(h)).

(15) No gain or loss will be recognized by, and no amount will be included in the income of, Subsidiary 15 or Subsidiary 1 upon the distribution by Subsidiary 15 to Subsidiary 1 of all of its stock in Controlled in step (xvii) (sections 355(c) and 355(a)(1)).

(16) The aggregate basis of the stock of Controlled and Subsidiary 15 held by Subsidiary 1 immediately after the distribution by Subsidiary 15 will be the same as the basis of the Subsidiary 15 stock held by Subsidiary 1 immediately before the distribution, allocated in proportion to the fair market values of each of Controlled and Subsidiary 15 in accordance with section 1.358-2(a)(2) (section 358(a)(1) and (b)(1)).

(17) The holding period of the Controlled stock received by Subsidiary 1 in the distribution of such stock by Subsidiary 15 will be the same as the holding period of the Subsidiary 15 stock held before the distribution, provided that Subsidiary 1 held the stock of Subsidiary 15 as a capital asset on the date of the distribution (section 1223(1)).

(18) As a result of the distribution of the stock of Controlled by Subsidiary 15 to Subsidiary 1, the earnings and profits of Controlled and Subsidiary 15 will be allocated between Controlled and Subsidiary 15 under 1.312-10(b) (section 312(h)).

(19) No gain or loss will be recognized by, and no amount will be included in the income of Subsidiary 1 or Common Parent upon the distribution by Subsidiary 1 to Common Parent of all of its stock in Controlled in step (xviii) (sections 355(c) and 355(a)(1)).

(20) The aggregate basis of the stock of Controlled and Subsidiary 1 held by Common Parent immediately after the distribution by Subsidiary 1 will be the same as the basis of the Subsidiary 1 stock held by Common Parent immediately before the distribution, allocated in proportion to the fair market values of each of Controlled and Subsidiary 1 in accordance with 1.358-2(a)(2) (section 358(a)(1) and (b)).

(21) The holding period of the stock of Controlled received by Common Parent in the distribution of such stock by Subsidiary 1 will be the same as the holding period of the Subsidiary 1 stock held before the distribution, provided that Common Parent held the stock of Subsidiary 1 as a capital asset on the date of the distribution (section 1223(1)).

(22) As a result of the distribution of the stock of Controlled by Subsidiary 1 to Common Parent, the earnings and profits of Controlled and Subsidiary 1 will be allocated between Controlled and Subsidiary 1 under 1.312-10(b) (section 312(h)).

(23) No gain or loss will be recognized by, and no amount will be included in the income of Common Parent or the shareholders of Common Parent upon the distribution by Common Parent to its shareholders of all its stock in Controlled in step (xix) (sections 355(c) and 355(a)(1)).

(24) The aggregate basis of the stock of Controlled and Common Parent held by the shareholders of Common Parent immediately after the distribution by Common Parent will be the same as the basis of the Common Parent stock held by the shareholders of Common Parent immediately before the distribution, allocated in proportion to the fair market values of each of Controlled and Common Parent in accordance with 1.358-2(a)(2) (section 358(a)(1) and (b)(1)).

(25) The holding period of the Controlled stock received by the shareholders of Common Parent in the distribution of such stock by Common Parent will be the same as the holding period of the Common Parent stock held before the distribution, provided that the shareholders of Common Parent held the stock of Common Parent as a capital asset on the date of the distribution (section 1223(1)).

(26) As a result of the distribution of the stock of Controlled by Common Parent to its shareholders, the earnings and profits of Controlled and Common Parent will be allocated between Controlled and Common Parent under 1.312-10(b) (section 312(h)).

The rulings contained in this letter are based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

No opinion is expressed about the tax treatment of the proposed transaction under any other provisions of the Code and 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, we express no opinion regarding the tax treatment of the termination of certain incentive stock options and nonqualified stock options to acquire Common Parent stock held by employees of Common Parent (or its subsidiaries) and the issuance by Controlled of equivalent options to acquire Controlled stock.

Temporary or final regulations pertaining to one or more of the issues addressed in this ruling letter (including regulations under section 358(g)) have not yet been adopted. Therefore, this ruling will be modified or revoked if adopted temporary or final regulations are inconsistent with any conclusions in the ruling. See, section 12.04 of Rev. Proc. 99-1, 1999-1 I.R.B. 47. However, when the criteria in section 12.05 of Rev. Proc. 99-1 are satisfied, a ruling is not revoked or modified retroactively except in rare or

unusual circumstances.

This ruling is directed only to the taxpayer(s) requesting it. Section 6110(k)(3) of the Code 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.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to the taxpayer.

Sincerely,

Assistant Chief Counsel (Corporate)

By: *Mark S. Jennings*

Mark S. Jennings  
Senior Technician Reviewer  
Branch 1