Internal Revenue Service

Department of the Treasury

Index Number: 332.00-00
355.00-00

Washington, DC 20224

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Number: **200015006**
Release Date: 4/14/2000

Refer Reply To:
CC:DOM:CORP:4 PLR-109459-99
Date:
January 3, 2000

Distributing 1 =

Distributing 2 =

Distributing 3 =

Controlled =

Corp A =

Corp B =

Corp C =

Corp D =

Corp E =

Corp F =

Corp G =

Corp H =

Corp I =

Corp J =

Corp K =

Corp L =

Corp M =

Corp N =

Corp O =

Corp P =

Corp Q =

Corp R =

Corp S =

Corp T =

Corp U =

Corp V =

Corp W =

Corp X =

Corp Y =

Corp Z =

Corp AA =

Corp BB =

Business A =

Business B =

Business C =

Business D =

Group 1 =

Group 2 =

Group 3 =

Group 4 =

Date A =

State A =

a =

b =

c =

This letter responds to your May 14, 1999 request for rulings on the federal income tax consequences of a proposed transaction.

The rulings contained in this letter are based on the facts and representations submitted by the taxpayer and accompanied by a penalties of perjury statement executed by an appropriate party. This office has not verified any of the materials submitted in support of the request for rulings. Verification of the information, representations, and other data may be required as part of the audit process.

Summary of Facts

Publicly traded Distributing 1 is the holding company parent of a consolidated group that manufactures and distributes a broad range of consumer and industrial products. The operations of Distributing 1's direct and indirect subsidiaries are conducted through four divisions: Group 1, Group 2, and Group 3 (collectively, the "Core Group") and Group 4.

Distributing 1 wholly owns Corp A, Corp B, and Corp C and owns the common stock of Distributing 2. The preferred stock of Distributing 2 (representing approximately ninety-one percent of the voting power of all Distributing 2 stock) (the "Distributing 2 Preferred Stock") is owned by Corp D, a holding company wholly owned by Corp A (also a holding company). Distributing 2 (a holding company) wholly owns Distributing 3 and owns Corp E, Corp F, Corp G, and Corp H through its ownership of Corp I, an entity intended to be disregarded for United States federal income tax purposes under § 301.7701-3 of the Procedure and Administration Regulations. Distributing 2 also owns one share of the stock of Corp J.

Corp E (a holding company) wholly owns Corp K, Corp L, Corp M and Corp BB. Corp E and Corp L together own all the stock of Corp N.

Corp E, Corp F, Corp G, Corp H, Corp I, Corp J, Corp K, Corp L, Corp M, Corp N, and Corp BB are all foreign corporations.

Distributing 3 (a holding company) wholly owns Corp O and each member of Group 4, consisting of Controlled, Corp P, Corp Q, Corp R, Corp S, Corp T, Corp U,

Corp V, Corp W, and Corp X. Corp O (a holding company) wholly owns Corp Z. Controlled (a holding company) wholly owns Corp Y. Corp T wholly owns Corp AA.

Corp C is engaged in Business A. Corp L, Corp M, and Corp N are engaged in Business B. Corp Y is engaged in Business C. Corp Z is engaged in Business D. We have received financial information indicating that each of these businesses had gross receipts and operating expenses representing the active conduct of a trade or business for each of the past five years.

Because Group 4 and the Core Group are substantially different in nature and operation, their present relationship creates managerial, systemic, and other problems. The managements of each group therefore have decided, based on internal and external studies and reports prepared by and for management, to separate Group 4 from the Core Group.

Proposed Transaction

To accomplish this separation, Distributing 1 has proposed the following transaction:

(i) Group 4 will use the proceeds from new credit facilities and notes (the "Notes") expected to be incurred and issued by Controlled to repay some or all existing intercompany notes issued by members of Group 4 to Distributing 2 and Distributing 3. Controlled will distribute the balance of the proceeds, if any (the "Excess Proceeds"), to Distributing 3, which will use the distribution to repay intercompany debt owed Distributing 2. Distributing 2 will use the repayment to satisfy third-party obligations, repurchase shares of stock of Distributing 1, fund acquisitions, or do some combination of the foregoing. In the event that the proceeds from the new borrowings are insufficient to repay all existing intercompany notes issued by members of Group 4 to Distributing 2 and Distributing 3, the excess intercompany notes will be contributed to the capital of the applicable obligor.

(ii) Distributing 3 will assume existing intercompany notes issued by certain of its subsidiaries (not including Controlled) to Distributing 2. At the time of the assumption, the term of each note (as well as the term of existing intercompany notes issued to Distributing 2 on which Distributing 3, Corp Z, or Corp O is the obligor) will be extended to have a remaining term of ten years and three months. In consideration for the assumption by Distributing 3 of these notes, each former obligor will issue its note to Distributing 3.

(iii) Corp E will assume an existing intercompany note issued to Distributing 2 by Corp BB in exchange for a note of Corp BB. At the time of this assumption, the term of the note issued to Distributing 2 will be extended to have a remaining term of ten years and three months.

(iv) Corp T will distribute the stock of Corp AA to Distributing 3.

(v) Corp V will distribute certain of its assets and liabilities to Distributing 3.

(vi) Distributing 3 will contribute the stock of Corps P through X to Controlled (together with the Excess Proceeds distribution in step (i), the "Distributing 3 Contribution"). Controlled will not issue additional shares of its stock ("Controlled Common Stock") but will recapitalize so that the number of its outstanding shares equals a of the number of Distributing 1 common shares outstanding.

(vii) Controlled will form a single-member limited liability company under State A law ("Controlled LLC"), and Corp Y will merge into Controlled LLC (the "Corp Y Merger"). It is intended that Controlled LLC be disregarded for federal income tax purposes under § 301.7701-3 and therefore that Controlled be viewed as directly holding the assets and business (Business C) of Corp Y after the merger.

(viii) Corp Z will merge upstream into Corp O (the "Corp Z Merger").

(ix) Distributing 3 will form a single-member limited liability company under State A law ("Distributing 3 LLC"), and O will merge into Distributing 3 LLC (the "Corp O Merger"). It is intended that Distributing 3 LLC be disregarded for federal income tax purposes under § 301.7701-3 and therefore that Distributing 3 be viewed as directly holding the assets and business (Business D) of Corp O after the merger.

(x) Distributing 3 will distribute the Controlled Common Stock and a note for b dollars with a term of ten years and three months (the "Distributing 3 Note") to Distributing 2 (the "Distributing 3 Distribution").

(xi) Corp I (a subsidiary of Distributing 2 intended to be disregarded for federal income tax purposes) will contribute the stock of Corp F, Corp G, and Corp H to Corp E.

(xii) Corp E will cause Corp L to amend its charter or otherwise become an entity eligible to be disregarded for federal income tax purposes under § 301.7701-3. Corp L then will file a Form 8832, Entity Classification Election, electing to be disregarded as an entity separate from its owner.

(xiii) Corp E will cause each of Corp M and Corp N to amend its charter or otherwise become an entity eligible to be disregarded for federal income tax purposes under § 301.7701-3. Each of Corp M and Corp N then will file a Form 8832, Entity Classification Election, electing to be disregarded as an entity separate from its owner (together with the similar election by Corp L in step (xii), the "Corp L, M, and N Elections"). It is intended that these elections will result in Corp E being viewed as directly holding the assets and business (Business B) of Corp L, Corp M, and Corp N.

(xiv) Corp E will sell the stock of Corp K to Distributing 2 for fair market value in

cash, and Distributing 2 will contribute the Corp K stock and its one share of Corp J stock to Controlled (the "Distributing 2 Contribution").

(xv) Distributing 2 will distribute the Controlled Common Stock to Distributing 1 (the "Distributing 2 Distribution"). It is intended, through the transactions described above in steps (ix), (xii), and (xiii) that, at the time of the Distributing 2 Distribution, Distributing 2 will be viewed for federal income tax purposes as conducting Business D through Distributing 3 and Business B through Corp E.

(xvi) Distributing 1 will contribute the stock of Corp B to Controlled (the "Distributing 1 Contribution").

(xvii) Distributing 1 will distribute the Controlled Common Stock pro rata to its stockholders on the basis of one share of Controlled Common Stock for each c shares of Distributing 1 common stock (the "Distributing 1 Distribution"). No fractional shares of Controlled Common Stock will be distributed in the Distributing 1 Distribution. Instead, as soon as practicable after the Distributing 1 Distribution, the distribution agent will aggregate and sell all fractional shares in the open market at then prevailing market prices and distribute the aggregate proceeds (net of fees) ratably to stockholders entitled to them. It is intended that, at the time of the Distributing 1 Distribution, Distributing 1 will be viewed for federal income tax purposes as conducting Business A through Corp C, Business B through Corp E, and Business D through Distributing 3.

Distributing 1 and Controlled will have no continuing relationship following the proposed transaction except for a corporate transition agreement, an indemnification agreement, and a tax sharing agreement.

Representations

Corp Y Merger

The taxpayer has submitted the following representations concerning the Corp Y Merger:

(a) Controlled, on the date of the adoption of the plan of merger, and at all times until the Corp Y Merger is completed, will be the owner of at least 80 percent of the single outstanding class of Corp Y stock.

(b) No shares of Corp Y stock will have been redeemed during the three years preceding adoption of the merger plan.

(c) All transfers from Corp Y to Controlled LLC under the merger plan will be made within a single taxable year of Corp Y.

(d) When the Corp Y Merger occurs, the assets and liabilities of Corp Y will pass by operation of law to Controlled LLC, and Corp Y will cease to exist.

(e) Corp Y will retain no assets following the Corp Y Merger.

(f) Corp Y will not have acquired assets in any nontaxable transaction at any time, except for acquisitions occurring more than three years before adoption of the merger plan.

(g) No assets of Corp Y have been, or will be, disposed of by either Corp Y, Controlled LLC, or Controlled except for dispositions in the ordinary course of business and dispositions occurring more than three years before adoption of the merger plan.

(h) The Corp Y Merger will not be preceded or followed by the reincorporation in, or transfer or sale to, a recipient corporation ("Recipient") of any of the businesses or assets of Corp Y, if persons holding, directly or indirectly, more than 20 percent in value of the Corp Y stock also hold, directly or indirectly, more than 20 percent in value of the stock in Recipient. For purposes of this representation, ownership will be determined by applying the constructive ownership rules of § 318(a) of the Internal Revenue Code, as modified by § 304(c)(3).

(i) Before adoption of the merger plan, no assets of Corp Y will have been distributed in kind, transferred, or sold to Controlled except for (i) transactions occurring in the normal course of business and (ii) transactions occurring more than three years before adoption of the merger plan.

(j) Corp Y will report all earned income represented by assets that will be transferred to Controlled LLC, such as receivables being reported on a cash basis, unfinished construction contracts, commissions due, etc.

(k) The fair market value of the assets of Corp Y will exceed its liabilities both on the date of the adoption of the merger plan and immediately before the time the Corp Y Merger occurs. Further, Corp Y will be solvent before the cancellation of indebtedness, if any, from Corp Y to Controlled.

(l) Controlled is not an organization that is exempt from federal income tax under § 501 or any other provision of the Code.

(m) All other transactions undertaken contemporaneously with, in anticipation of, in conjunction with, or in any way related to, the Corp Y Merger have been fully disclosed.

(n) Controlled LLC is a domestic eligible entity with a single owner that has not elected to be treated as an entity separate from its owner.

Corp Z Merger

The taxpayer has submitted the following representations concerning the Corp Z Merger:

(o) Corp O, on the date of the adoption of the plan of merger, and at all times until the Corp Z Merger is completed, will be the owner of at least 80 percent of the single outstanding class of Corp Z stock.

(p) No shares of Corp Z stock will have been redeemed during the three years preceding adoption of the merger plan.

(q) All transfers from Corp Z to Corp O pursuant to the merger plan will be made within a single taxable year of Corp Z.

(r) When the Corp Z Merger occurs, the assets and liabilities of Corp Z will pass by operation of law to Corp O, and Corp Z will cease to exist.

(s) Corp Z will retain no assets following the Corp Z Merger.

(t) Corp Z will not have acquired assets in any nontaxable transaction at any time, except for acquisitions occurring more than three years before adoption of the merger plan.

(u) No assets of Corp Z have been, or will be, disposed of by either Corp Z or Corp O except for dispositions in the ordinary course of business, dispositions occurring more than three years before adoption of the merger plan, and transfers to Distributing 3 LLC pursuant to the Corp O Merger.

(v) The Corp Z Liquidation will not be preceded or followed by the reincorporation in, or transfer or sale to, a recipient corporation ("Recipient") of any of the businesses or assets of Corp Z, if persons holding, directly or indirectly, more than 20 percent in value of the Corp Z stock also hold, directly or indirectly, more than 20 percent in value of the stock in Recipient, except for transfers to Distributing 3 LLC pursuant to the Corp O Merger. For purposes of this representation, ownership will be determined by applying the constructive ownership rules of § 318(a), as modified by § 304(c)(3).

(w) Before adoption of the merger plan, no assets of Corp Z will have been distributed in kind, transferred, or sold to Corp O except for (i) transactions occurring in the normal course of business and (ii) transactions occurring more than three years before adoption of the merger plan.

(x) Corp Z will report all earned income represented by assets that will be distributed to Corp O, such as receivables being reported on a cash basis, unfinished

construction contracts, commissions due, etc.

(y) The fair market value of the assets of Corp Z will exceed its liabilities both on the date of the adoption of the merger plan and immediately before the time the Corp Z Merger occurs.

(z) There is no intercorporate debt existing between Corp O and Corp Z, and none has been canceled, forgiven, or discounted, except for transactions that occurred more than three years before adoption of the merger plan.

(2a) Corp O is not an organization that is exempt from federal income tax under § 501 or any other provision of the Code.

(2b) All other transactions undertaken contemporaneously with, in anticipation of, in conjunction with, or in any way related to, the Corp Z Merger have been fully disclosed.

Corp O Merger

The taxpayer has submitted the following representations concerning the Corp O Merger:

(2c) Distributing 3, on the date of the adoption of the plan of merger, and at all times until the Corp O Merger is completed, will be the owner of at least 80 percent of the single outstanding class of Corp O stock.

(2d) No shares of Corp O stock will have been redeemed during the three years preceding adoption of the merger plan.

(2e) All transfers from Corp O to Distributing 3 LLC pursuant to the merger plan will be made within a single taxable year of Corp O.

(2f) When the Corp O Merger occurs, the assets and liabilities of Corp O will pass by operation of law to Distributing 3 LLC, and Corp O will cease to be a going concern.

(2g) Corp O will retain no assets following the Corp O Merger.

(2h) Corp O will not have acquired assets in any nontaxable transaction at any time, except for (i) acquisitions occurring more than three years before adoption of the merger plan, (ii) assets acquired in the Corp Z Merger, and (iii) the acquisition of Corp Z stock and certain other assets from an affiliate.

(2i) No assets of Corp O have been, or will be, disposed of by either Corp O, Distributing 3 LLC, or Distributing 3 except for dispositions in the ordinary course of

business and dispositions occurring more than three years before adoption of the merger plan.

(2j) The Corp O Merger will not be preceded or followed by the reincorporation in, or transfer or sale to, a recipient corporation ("Recipient") of any of the businesses or assets of Corp O, if persons holding, directly or indirectly, more than 20 percent in value of the Corp O stock also hold, directly or indirectly, more than 20 percent in value of the stock in Recipient. For purposes of this representation, ownership will be determined by applying the constructive ownership rules of § 318(a), as modified by § 304(c)(3).

(2k) Before adoption of the merger plan, no assets of Corp O will have been distributed in kind, transferred, or sold to Distributing 3 except for (i) transactions occurring in the normal course of business and (ii) transactions occurring more than three years before adoption of the merger plan.

(2l) Corp O will report all earned income represented by assets that will be transferred to Distributing 3 LLC, such as receivables being reported on a cash basis, unfinished construction contracts, commissions due, etc.

(2m) The fair market value of the assets of Corp O will exceed its liabilities both on the date of the adoption of the merger plan and immediately before the time the Corp O Merger occurs.

(2n) There is no intercorporate debt existing between Distributing 3 and Corp O, and none has been canceled, forgiven, or discounted, except for transactions that occurred more than three years before adoption of the merger plan.

(2o) Distributing 3 is not an organization that is exempt from federal income tax under § 501 or any other provision of the Code.

(2p) All other transactions undertaken contemporaneously with, in anticipation of, in conjunction with, or in any way related to, the Corp O Merger have been fully disclosed.

(2q) Distributing 3 LLC is a domestic eligible entity with a single owner that has not elected to be treated as an entity separate from its owner.

Corp L, M, and N Elections

The taxpayer has submitted the following representations for the Corp L, M, and, N Elections (individually, an "Election"). For purposes of these representations and the rulings that follow, Corp L, Corp M, and Corp N each is referred to as an "Electing Corporation."

(2r) Corp E, on the date of the adoption of each plan to file an Election, and at

all times until the effective date of each Election, will be the sole owner, for federal tax law purposes, of the single outstanding class of each Electing Corporation's stock.

(2s) No shares of an Electing Corporation's stock will have been redeemed during the three years preceding adoption of the plan to file an Election.

(2t) No Electing Corporation will have acquired assets in any nontaxable transaction at any time, except for acquisitions occurring more than three years before adoption of the plan to file an Election.

(2u) No assets of an Electing Corporation have been, or will be, disposed of by the Electing Corporation or a shareholder of the Electing Corporation, except for dispositions in the ordinary course of business and dispositions occurring more than three years before adoption of the plan to file an Election.

(2v) No Election will be preceded or followed by the reincorporation in, or transfer or sale to, a recipient corporation ("Recipient") of any of the businesses or assets of the Electing Corporation, if persons holding, directly or indirectly, more than 20 percent in value of the Electing Corporation stock also hold, directly or indirectly, more than 20 percent in value of the stock in Recipient. For purposes of this representation, ownership will be determined by applying the constructive ownership rules of § 318(a), as modified by § 304(c)(3).

(2w) Before adoption of the plan to file an Election, no assets of the Electing Corporation will have been distributed in kind, transferred, or sold to Corp E except for (i) transactions occurring in the normal course of business and (ii) transactions occurring more than three years before adoption of the plan to file an Election.

(2x) Each Electing Corporation will report all earned income represented by assets that will be treated as distributed to Corp E, such as receivables being reported on a cash basis, unfinished construction contracts, commissions due, etc.

(2y) The fair market value of the assets of each Electing Corporation will exceed its liabilities both on the date of the adoption of the plan to file an Election and immediately before the effective date of the Election.

(2z) There is no intercorporate debt existing between an Electing Corporation and its shareholder, and none has been canceled, forgiven, or discounted, except for transactions that occurred more than three years before adoption of the plan to file an Election.

(3a) Corp E is not an organization that is exempt from federal income tax under § 501 or any other provision of the Code except that Corp E is a foreign corporation not engaged in a trade or business in the United States.

(3b) Each Electing Corporation will convert into a foreign eligible entity (as defined in § 301.7701-2) that will file a Form 8832, Entity Classification Election, and has not elected to change its classification within the 60 months before the date on which it will file such Form 8832.

(3c) Each Electing Corporation will be classified as a corporation under § 301.7701-2(b) immediately before the effective date of the Electing Corporation's Election. Each Electing Corporation will default into corporate status after it converts into an eligible entity (see § 301.7701-3(b)(2)(i)(B)).

(3d) No election will be filed under § 301.7701-3(c) for any Electing Corporation to be treated as an association.

(3e) Corp E is not and will not be after the Distributing 1 Distribution a passive foreign investment corporation (as defined in § 1297) but is and will continue to be a controlled foreign corporation as defined in § 957.

(3f) Neither Corp L, Corp M, nor Corp N will distribute any U.S. real property interests (as defined in § 1.897-1(c) of the Income Tax Regulations) when they are deemed liquidated pursuant to their elections to be disregarded entities.

(3g) Neither Corp L, Corp M, nor Corp N will distribute "qualified property," as described in § 1.367(e)-2(b)(2)(i)(B), that is used in the conduct of a trade or business within the United States at the time of distribution.

(3h) Neither Corp L, Corp M, nor Corp N will distribute property that had ceased to be used in the conduct of a U.S. trade or business within the ten-year period ending on the date of the distribution and that would have been subject to § 864(c)(7) had it been disposed.

(3i) Corp E will not dispose of an interest (treated for U.S tax purposes as a disposition of assets) in the liquidated subsidiaries during the twelve months after the deemed liquidations.

(3j) All other transactions undertaken contemporaneously with, in anticipation of, in conjunction with, or in any way related to, the Corp L, M, and N Elections have been fully disclosed.

Distributing 3 Contribution and Distribution

The taxpayer has submitted the following representations concerning the Distributing 3 Contribution and Distributing 3 Distribution:

(3k) Any indebtedness owed by Controlled to Distributing 3 after the Distributing 3 Distribution will not constitute stock or, except with respect to the Notes, if any,

securities.

(3l) None of the Controlled Common Stock distributed by Distributing 3 will be received by Distributing 2 as a creditor, employee, or in any capacity other than that of a shareholder of Distributing 3.

(3m) Immediately after the Distributing 3 Distribution, the gross assets of Distributing 3 comprising Business D (held through Distributing 3 LLC) will have a fair market value that is equal to or greater than five percent of the total fair market value of the gross assets of Distributing 3.

(3n) The five years of financial information submitted for Business D represents its present operations, and there have been no substantial operational changes since the date of the last financial statements submitted.

(3o) Immediately after the Distributing 3 Distribution, the gross assets of Controlled comprising Business C (held through Controlled LLC) will have a fair market value that is equal to or greater than five percent of the total fair market value of the gross assets of Controlled.

(3p) The five years of financial information submitted for Business C represents its present operation, and there have been no substantial operational changes since the date of the last financial statements submitted.

(3q) Following the Distributing 3 Distribution, Distributing 3 and Controlled will each continue the active conduct of its business independently and with its separate employees.

(3r) The Distributing 3 Distribution is to be carried out for the corporate business purpose of facilitating the Distribution. The Distributing 3 Distribution is motivated, in whole or substantial part, by this corporate business purpose.

(3s) Except in connection with the Distributing 2 Distribution and the Distributing 1 Distribution, there is no plan or intention on the part of Distributing 2 to sell, exchange, transfer by gift or otherwise dispose of any stock in, or securities of, Distributing 3 or Controlled after the Distributing 3 Distribution.

(3t) There is no plan or intention by Distributing 3 or Controlled, 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, 1996-1 C.B. 696, 705.

(3u) There is no plan or intention to liquidate either Distributing 3 or Controlled, 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.

(3v) The total adjusted basis and the fair market value of the assets to be transferred by Distributing 3 to Controlled in the Distributing 3 Contribution will, in each case, equal or exceed the liabilities to be assumed (as determined under § 357(d)) by Controlled.

(3w) The liabilities to be assumed (as determined under § 357(d)) by Controlled in the Distributing 3 Contribution were incurred in the ordinary course of business and are associated with the assets to be transferred.

(3x) Except with respect to the Notes, if any, acquired by Distributing 3, no intercorporate debt will exist between Distributing 3 and its subsidiaries, on the one hand, and Controlled and its subsidiaries, on the other hand, at the time of, or after, the Distributing 3 Distribution. The Notes, if any, acquired by Distributing 3 will be disposed of as soon as a disposition is warranted consistent with the corporate business purpose for retention, but in any event, not later than five years after the Distributing 3 Distribution.

(3y) Immediately before the Distributing 3 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).

(3z) Payments made in any continuing transactions between Distributing 3 and its subsidiaries, on the one hand, and Controlled and its subsidiaries, on the other hand, will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.

(4a) Neither Distributing 3 nor Controlled is an investment company as defined in § 368(a)(2)(F)(iii) and (iv).

(4b) The Distributing 3 Distribution is not part of a plan or series or related transactions (within the meaning of § 355(e)) pursuant to which one or more persons will acquire directly or indirectly stock possessing 50 percent or more of the total combined voting power of all classes of stock of either Distributing 3 or Controlled entitled to vote, or stock possessing 50 percent or more of the total value of all classes of stock of either Distributing 3 or Controlled.

Distributing 2 Contribution and Distribution

The taxpayer has submitted the following representations concerning the Distributing 2 Contribution and Distributing 2 Distribution:

(4c) Any indebtedness owed by Controlled to Distributing 2 after the Distributing 2 Distribution will not constitute stock or, except with respect to the Notes, if any, securities.

(4d) None of the Controlled Common Stock distributed by Distributing 2 will be received by Distributing 1 as a creditor, employee, or in any capacity other than that of a shareholder of Distributing 2.

(4e) Immediately after the Distributing 2 Distribution, at least 90 percent of the fair market value of the gross assets of Distributing 2 will consist of the stock and securities of controlled corporations (Corp E and Distributing 3) that are engaged in the active conduct of a trade or business, as defined in § 355(b)(2).

(4f) Immediately after the Distributing 2 Distribution, the gross assets of the businesses actively conducted (as defined in § 355(b)(2)) by Distributing 3 (Business D held through Distributing 3 LLC) and Corp E (Business B held through Corp L, Corp M, and Corp N) will have a fair market value that is equal to or greater than five percent of the total fair market value of such corporation's gross assets.

(4g) The five years of financial information submitted on behalf of Business D and Business B, respectively, represents their present operations, and there have been no substantial operational changes since the date of the last financial statements submitted.

(4h) Immediately after the Distributing 2 Distribution, the gross assets of Controlled comprising Business C (held through Controlled LLC) will have a fair market value that is equal to or greater than five percent of the total fair market value of the gross assets of Controlled.

(4i) The five years of financial information submitted on behalf of Business C represents its present operations, and there have been no substantial operational changes since the date of the last financial statements submitted.

(4j) Following the Distributing 2 Distribution, Distributing 2 (through Distributing 3 and Corp E) and Controlled will each continue the active conduct of its business(es), independently and with its separate employees.

(4k) The Distributing 2 Distribution is to be carried out for the corporate business purpose of facilitating the Distribution. The Distributing 2 Distribution is motivated, in whole or substantial part, by this corporate business purpose.

(4l) Except in connection with the Distributing 1 Distribution, there is no plan or intention on the part of Distributing 1 to sell, exchange, transfer by gift, or otherwise dispose of any stock in, or securities of, Distributing 2 or Controlled after the Distributing 2 Distribution.

(4m) There is no plan or intention by Distributing 2 or Controlled, 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.

(4n) There is no plan or intention to liquidate either Distributing 2 or Controlled, to merge either corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation after the Distributing 2 Distribution, except in the ordinary course of business.

(4o) The total adjusted basis and the fair market value of the assets to be transferred by Distributing 2 to Controlled in the Distributing 2 Contribution will, in each case, equal or exceed the liabilities to be assumed (as determined under § 357(d)) by Controlled.

(4p) The liabilities to be assumed (as determined under § 357(d)) by Controlled in the Distributing 2 Contribution were incurred in the ordinary course of business and are associated with the assets to be transferred.

(4q) Distributing 2 acquired its one share of Corp J stock from Corp D as part of a transaction intended to qualify under § 351 in which Corp D contributed all of its assets to Distributing 2 in exchange for Distributing 2 Preferred Stock and the assumption by Distributing 2 of the Corp D liabilities. Before that transaction, Corp D had held such stock since the formation of Corp J on Date A.

(4r) Except with respect to the Notes, if any, acquired by Distributing 2 or its subsidiaries, no intercorporate debt will exist between Distributing 2 and its subsidiaries, on the one hand, and Controlled and its subsidiaries, on the other hand, at the time of, or after, the Distributing 2 Distribution. The Notes, if any, acquired by Distributing 2 or its subsidiaries will be disposed of as soon as a disposition is warranted consistent with the corporate business purpose for retention, but in any event, not later than five years after the Distributing 2 Distribution.

(4s) Immediately before the Distributing 2 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, and as currently in effect; § 1.1502-13 as published by T.D. 8597).

(4t) Payments made in connection with any continuing transactions between Distributing 2 and its subsidiaries, on the one hand, and Controlled and its subsidiaries, on the other hand, will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.

(4u) Neither Distributing 2 nor Controlled is an investment company as defined

in § 368(a)(2)(F)(iii) and (iv).

(4v) The Distributing 2 Distribution is not part of a plan or series or related transactions (within the meaning of § 355(e)) pursuant to which one or more persons will acquire directly or indirectly stock possessing 50 percent or more of the total combined voting power of all classes of stock of either Distributing 2 or Controlled entitled to vote, or stock possessing 50 percent or more of the total value of all classes of stock of either Distributing 2 or Controlled.

Distributing 1 Contribution and Distribution

The taxpayer has submitted the following representations concerning the Distributing 1 Contribution and Distributing 1 Distribution:

(4w) Any indebtedness owed by Controlled to Distributing 1 after the Distributing 1 Distribution will not constitute stock or, except with respect to the notes, if any, securities.

(4x) No part of the Controlled Common Stock to be distributed by Distributing 1 will be received by a stockholder as a creditor, employee, or in any capacity other than that of a stockholder of Distributing 1.

(4y) Immediately after the Distributing 1 Distribution, (i) at least 90 percent of the fair market value of the gross assets of Distributing 1 will consist of Corp A and Corp C stock, (ii) at least 90 percent of the fair market value of the gross assets of Corp A will consist of Corp D stock, and (iii) at least 90 percent of the fair market value of the gross assets of Corp D will consist of Distributing 2 Preferred Stock.

(4z) Immediately after the Distributing 1 Distribution, the gross assets of each of Corp C, Distributing 3, and Corp E comprising Business A, Business D, and Business B, respectively, will have a fair market value equal to or greater than five percent of the total fair market value of the gross assets of Corp C, Distributing 3, and Corp E, respectively.

(5a) The five years of financial information submitted on behalf of Business A, Business D, and Business B, represents the present operations of each business, and there have been no substantial operational changes since the date of the last financial statements submitted.

(5b) Immediately after the Distributing 1 Distribution, the gross assets of Controlled comprising Business C will have a fair market value equal to or greater than five percent of the total fair market value of the gross assets of Controlled.

(5c) The five years of financial information submitted on behalf of Business C represents its present operations, and there have been no substantial operational

changes since the date of the last financial statements submitted.

(5d) Following the Distributing 1 Distribution, Distributing 1 (through Corp A and Corp C) and Controlled will each continue the active conduct of its business(es), independently and with its separate employees.

(5e) The Distributing 1 Distribution will be carried out (among other reasons) to resolve management, systemic, and other problems that arise through (or are aggravated by) the operation of Group 4 and the Core Group within the same affiliated group. The Distributing 1 Distribution is motivated, in whole or substantial part, by this corporate business purpose.

(5f) Except for the possible disposition of shares of Distributing 1 common stock and/or Controlled Common Stock pursuant to division of the Distributing 1 § 401(k) plan, the management of Distributing 1, to its best knowledge, is not aware of any plan or intention on the part of any particular stockholder of Distributing 1 to sell, exchange, transfer by gift, or otherwise dispose of any stock in, or securities of, either Distributing 1 or Controlled after the transaction.

(5g) There is no plan or intention by Distributing 1 or Controlled, directly or through any subsidiary corporation, to purchase any of its stock after the transaction, other than through stock purchases meeting the requirements of section 4.05(1)(b) of Rev. Proc. 96-30.

(5h) There is no plan or intention to liquidate either Distributing 1 or Controlled, to merge either corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation after the Distributing 1 Distribution, except in the ordinary course of business.

(5i) The total adjusted basis and the fair market value of the assets to be transferred by Distributing 1 to Controlled in the Distributing 1 Contribution will, in each case, equal or exceed the liabilities to be assumed (as determined under § 357(d)) by Controlled.

(5j) The liabilities to be assumed (as determined under § 357(d)) by Controlled in the Distributing 1 Contribution were incurred in the ordinary course of business and are associated with the assets to be transferred.

(5k) Except with respect to the Notes, if any, acquired by Distributing 1 or its subsidiaries, no intercorporate debt will exist between Distributing 1 and its subsidiaries, on the one hand, and Controlled and its subsidiaries, on the other hand, at the time of, or after, the Distributing 1 Distribution. The Notes, if any, acquired by Distributing 1 or its subsidiaries will be disposed of as soon as a disposition is warranted consistent with the corporate business purpose for retention, but in any event, not later than five years after the distribution.

(5l) None of Distributing 1's directors or officers will serve as directors or officers of Controlled.

(5m) Immediately before the Distributing 1 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, and as currently in effect; § 1.1502-13 as published by T.D. 8597). Further, any excess loss account Distributing 1 may have in the Controlled Common Stock will be included in income immediately before the Distributing 1 Distribution to the extent required by applicable regulations (see § 1.1502-19).

(5n) Payments made in connection with any continuing transactions between Distributing 1 and its subsidiaries, on the one hand, and Controlled and its subsidiaries, on the other hand, will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.

(5o) Neither Distributing 1 nor Controlled is an investment company as defined in § 368(a)(2)(F)(iii) and (iv).

(5p) The Distributing 1 Distribution is not part of a plan or series or related transactions (within the meaning of § 355(e)) pursuant to which one or more persons will acquire directly or indirectly stock possessing 50 percent or more of the total combined voting power of all classes of stock of either Distributing 1 or Controlled entitled to vote, or stock possessing 50 percent or more of the total value of all classes of stock of either Distributing 1 or Controlled.

(5q) The payment of cash, if any, to holders of Distributing 1 common stock in lieu of fractional shares of Controlled Common Stock is solely for the purpose of avoiding the expense and inconvenience to Distributing 1 of issuing fractional shares and does not represent separately bargained for consideration. The method used for handling fractional share interests is intended to limit the amount of cash received by any one shareholder to less than the value of one whole share of Controlled Common Stock.

(5r) Distributing 1 will not have been a U.S. real property holding corporation (as defined in § 897(c)(2)) at any time during the five-year holding period ending on the date of the Distributing 1 Distribution, and neither Distributing 1 nor Controlled will be a U.S. real property holding corporation immediately after the Distributing 1 Distribution.

Additional International Representation

The taxpayer has submitted the following additional representation:

(5s) Distributing 2 will enter into a gain recognition agreement with respect to the transfer of the Corp F, Corp G, and Corp H stock to Corp E.

Rulings

Corp Y Merger

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

(1) The Corp Y Merger will constitute a complete liquidation of Corp Y under § 332 (§ 301.7701-2(a), -2(c)(2)(i), -3(b)(1)(ii); §332(a); § 1.332-2(d)).

(2) No gain or loss will be recognized (or realized and deferred) by Controlled or Corp Y on the Corp Y Merger (§§ 337(a), 336(d)(3), and 332(a)).

(3) The basis of each asset in the hands of Controlled will equal the basis of that asset in the hands of Corp Y immediately before the Corp Y Merger (§ 334(b)(1)).

(4) The holding period of each asset in the hands of Controlled will include the period during which that asset was held by Corp Y (§ 1223(2)).

(5) Controlled will succeed to and take into account the items described in § 381(c), subject to applicable conditions and limitations specified in §§ 381, 382, and 383 (§ 381(a); § 1.381(a)-1).

(6) Controlled will succeed to and take into account the earnings and profits of Corp Y as of the date of complete liquidation (§ 381(c)(2)(A); § 1.381(c)(2)-1). Any deficit in earnings and profits of Corp Y or Controlled will be used only to offset earnings and profits accumulated after the date of complete liquidation (§ 381(c)(2)(B)).

Corp Z Merger

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

(7) The Corp Z Merger will constitute a complete liquidation of Corp Z under § 332 (§ 332(a); § 1.332-2(d)).

(8) No gain or loss will be recognized (or realized and deferred) by Corp O or Corp Z on the Corp Z Merger (§§ 337(a), 336(d)(3), and 332(a)).

(9) The basis of each asset in the hands of Corp O will equal the basis of that asset in the hands of Corp Z immediately before the Corp Z Merger (§ 334(b)(1)).

(10) The holding period of each asset in the hands of Corp O will include the period during which that asset was held by Corp Z (§ 1223(2)).

(11) Corp O will succeed to and take into account the items described in §381(c), subject to applicable conditions and limitations specified in §§ 381, 382, and 383 (§ 381(a); § 1.381(a)-1).

(12) Corp O will succeed to and take into account the earnings and profits of Corp Z as of the date of complete liquidation (§ 381(c)(2)(A); § 1.381(c)(2)-1). Any deficit in earnings and profits of Corp Z or Corp O will be used only to offset earnings and profits accumulated after the date of complete liquidation (§ 381(c)(2)(B)).

Corp O Merger

Based solely on the information submitted and the representations set forth above, we rule as follows with respect to the Corp O Merger:

(13) The Corp O Merger will constitute a complete liquidation of Corp O under § 332 (§ 301.7701-2(a), -2(c)(2)(i), -3(b)(1)(ii); § 332(a); § 1.332-2(d)).

(14) No gain or loss will be recognized (or realized and deferred) by Corp O or Distributing 3 on the Corp O Merger (§§ 337(a), 336(d)(3), and 332(a)).

(15) The basis of each asset in the hands of Distributing 3 will equal the basis of that asset in the hands of Corp O immediately before the Corp O Merger (§ 334(b)(1)).

(16) The holding period of each asset in the hands of Distributing 3 will include the period during which that asset was held by Corp O (§ 1223(2)).

(17) Distributing 3 will succeed to and take into account the items described in §381(c), subject to applicable conditions and limitations specified in §§ 381, 382, and 383 (§ 381(a); § 1.381(a)-1).

(18) Distributing 3 will succeed to and take into account the earnings and profits of Corp O as of the date of complete liquidation (§ 381(c)(2)(A); § 1.381(c)(2)-1). Any deficit in earnings and profits of Distributing 3 or Corp O will be used only to offset earnings and profits accumulated after the date of complete liquidation (§ 381(c)(2)(B)).

Corp L, M, and N Elections

Based solely on the information submitted and representations set forth above, we rule as follows on the Corp L, M, and N Elections (as in the representations above, each of Corp L, Corp M, and Corp N is referred to as an Electing Corporation, and each Election as an Election):

(19) Each Election by an Electing Corporation will qualify for federal income tax purposes as a complete liquidation of the Electing Corporation into Corp E under § 332 (§ 301.7701-2(a), -2(c)(2)(i), -3(b)(1)(ii); §332(a)).

(20) No gain or loss will be recognized (or realized and deferred) by an Electing Corporation or Corp E on the Electing Corporation's liquidation (§§ 337(a), 336(d)(3), and 332(a)).

(21) The basis of each asset in the hands of Corp E will equal the basis of that asset in the hands of the Electing Corporation immediately before the Electing Corporation's liquidation (§ 334(b)(1)).

(22) The holding period of each asset in the hands of Corp E will include the period during which that asset was held by the Electing Corporation (§ 1223(2)).

(23) Corp E will succeed to and take into account the items described in § 381(c), subject to applicable conditions and limitations specified in §§ 381, 382, and 383 (§ 381(a); § 1.381(a)-1).

(24) Corp E will succeed to and take into account the earnings and profits of each Electing Corporation as of the date of complete liquidation (§ 381(c)(2)(A); § 1.381(c)(2)-1). Any deficit in earnings and profits of Corp E or an Electing Corporation will be used only to offset earnings and profits accumulated after the date of complete liquidation (§ 381(c)(2)(B)).

Distributing 3 Contribution and Distribution

Based solely on the information submitted and representations set forth above, we rule as follows on the Distributing 3 Contribution and Distributing 3 Distribution:

(25) The Distributing 3 Contribution, followed by the Distributing 3 Distribution, will qualify as a reorganization under § 368(a)(1)(D), and Distributing 3 and Controlled each will be a "party to the reorganization" under § 368(b).

(26) No gain or loss will be recognized by Distributing 3 on the Distributing 3 Contribution (§ 361(b)(1)(A), (b)(2), (b)(3); § 357(a)).

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

(28) The basis of the each asset received by Controlled will equal the basis of that asset in the hands of Distributing 3 immediately before the Distributing 3 Contribution (§ 362(b)).

(29) The holding period of each asset received by Controlled will include the holding period of that asset in the hands of Distributing 3 (§ 1223(2)).

(30) No gain or loss will be recognized by Distributing 3 on the Distributing 3 Distribution (§ 361(c)(1)).

(31) The distribution by Distributing 3 to Distributing 2 of the Distributing 3 Note will be treated as a distribution of property immediately before the Distributing 3 Distribution to which § 301 applies (§ 1.1502-13(f)(3)).

(32) No gain or loss will be recognized by (and no amount will otherwise be included in the income of) Distributing 2 on its receipt of the Controlled Common Stock in the Distributing 3 Distribution (§ 355(a)).

(33) The holding period of the Controlled Common Stock received in the Distributing 3 Distribution will include the holding period of the Distributing 3 stock on which the Distributing 3 Distribution is made, provided that the Distributing 3 stock is held as a capital asset on the date of the Distributing 3 Distribution (§ 1223(1)).

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

Distributing 2 Contribution and Distribution

Based solely on the information submitted and representations set forth above, we rule as follows on the Distributing 2 Contribution and the Distributing 2 Distribution:

(35) The Distributing 2 Contribution, followed by the Distributing 2 Distribution, will qualify as a reorganization under § 368(a)(1)(D), and Distributing 2 and Controlled each will be a “party to the reorganization” under § 368(b).

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

(37) No gain or loss will be recognized by Controlled on the Distributing 2 Contribution (§ 1032(a)).

(38) The basis of the each asset received by Controlled will equal the basis of that asset in the hands of Distributing 2 immediately before the Distributing 2 Contribution (§ 362(b)).

(39) The holding period of each asset received by Controlled will include the holding period of that asset in the hands of Distributing 2 (§ 1223(2)).

(40) No gain or loss will be recognized by Distributing 2 on the Distributing 2 Distribution (§ 361(c)(1)).

(41) No gain or loss will be recognized by (and no amount will otherwise be included in the income of) Distributing 1 on its receipt of the Controlled Common Stock in the Distributing 2 Distribution (§ 355(a)).

(42) The holding period of the Controlled Common Stock received in the Distributing 2 Distribution will include the holding period of the Distributing 2 stock on which the Distributing 2 Distribution is made, provided that the Distributing 2 stock is held as a capital asset on the date of the Distributing 2 Distribution (§ 1223(1)).

(43) Earnings and profits will be allocated between Distributing 2 and Controlled in accordance with §§ 312(h), 1.312-10(a), and 1.1502-33(f)(2).

Distributing 1 Contribution and Distribution

Based solely on the information submitted and representations set forth above, we rule as follows on the Distributing 1 Contribution and the Distributing 1 Distribution:

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

(45) No gain or loss will be recognized by Distributing 1 on the Distributing 1 Contribution (§§ 361(a) and 357(a)).

(46) No gain or loss will be recognized by Controlled on the Distributing 1 Contribution (§ 1032(a)).

(47) The basis of the each asset received by Controlled will equal the basis of that asset in the hands of Distributing 1 immediately before the Distributing 1 Contribution (§ 362(b)).

(48) The holding period of each asset received by Controlled will include the holding period of that asset in the hands of Distributing 1 (§ 1223(2)).

(49) No gain or loss will be recognized by Distributing 1 on the Distributing 1 Distribution (§ 361(c)(1)).

(50) No gain or loss will be recognized by (and no amount will otherwise be included in the income of) the Distributing 1 shareholders on their receipt of the Controlled Common Stock in the Distributing 1 Distribution (§ 355(a)).

(51) The aggregate basis of the Distributing 1 stock and Controlled Common Stock in the hands of each Distributing 1 shareholder immediately after the Distributing 1 Distribution will equal the shareholder's basis in its, his, or her Distributing 1 stock immediately before the Distributing 1 Distribution, allocated in proportion to the fair market value of each in accordance with § 1.358-2(a)(2) (§ 358(a)(1), (b)(2), and (c)).

(52) The holding period of the Controlled Common Stock received in the Distributing 1 Distribution will include the holding period of the Distributing 1 stock on

which the Distributing 1 Distribution is made, provided that the Distributing 1 stock is held as a capital asset on the date of the Distributing 1 Distribution (§ 1223(1)).

(53) Earnings and profits will be allocated between Distributing 1 and Controlled in accordance with §§ 312(h), 1.312-10(a), and 1.1502-33(e)(3).

(54) The payment of cash, if any, in lieu of fractional shares of Controlled Common Stock will be treated for federal income tax purposes as if the fractional shares were distributed as part of the Distributing 1 Distribution and then sold by the holder. Accordingly, the stockholder will recognize gain or loss equal to the difference between the cash received and the portion of the basis of the Controlled Common Stock that is allocable to the fractional share. This gain or loss will be capital gain or loss provided that the fractional share was held by the holder as a capital asset at the time of the sale.

International Rulings

(55) The transfer by Distributing 2 of the stock of Corp F, Corp G, and Corp H will be taxable under § 367(a)(1), unless Distributing 2 enters into a gain recognition agreement with respect to the transferred stock and complies with all the provisions of § 1.367(a)-8.

(56) Because Corp E is a controlled foreign corporation within the meaning of § 957, gain from the sale by Corp E of the Corp K stock to Distributing 2 will constitute subpart F income to Distributing 2 under § 954(c)(1)(B) and the regulations thereunder, unless an exception under subpart F applies.

Caveats

No opinion is expressed about the tax treatment of the proposed transactions under other provisions of the Code and regulations or about 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 ruling. In particular, no opinion is expressed regarding:

(a) the contributions to capital, assumption of notes, term extension of notes, and issuance of new notes described above in steps (i), (ii) and (iii);

(b) the distribution of Corp AA stock described above in step (iv);

(c) the distribution by Corp V described above in step (v);

(d) the recapitalization described above in step (vi);

(e) the contribution by Corp I described above in step (xi);

(f) the validity of any Form 8832 election described above in steps (xii) and (xiii);

(g) the qualification of Controlled LLC, Distributing 3 LLC, or Corp I as a disregarded entity under § 301.7701-3; or

(h) the sale of Corp K stock described above in step (xiv).

Temporary or final regulations pertaining to one or more issues addressed in this ruling letter (including regulations under § 358(g)) have not yet been adopted. Therefore, this ruling letter may be revoked or modified, in whole or in part, on the issuance of temporary or final regulations (or a notice with respect to their future issuance). See § 12.04 of Rev. Proc. 99-1, 1999-1 I.R.B. 6, 47-48, which discusses the revocation or modification of ruling letters. However, when the criteria in § 12.05 of Rev. Proc. 99-1 are satisfied, a ruling will not be revoked or modified retroactively except in rare or unusual circumstances.

Procedural Statements

This ruling 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.

Each taxpayer affected by this ruling letter should attach a copy of this letter to its federal income tax return for the taxable year in which the transaction covered by this letter is completed.

Under a power of attorney on file in this office, a copy of this letter will be sent to your authorized representative.

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