Internal Revenue Service

Number: **201103026**
Release Date: 1/21/2011

Index Number: 165.00-00, 165.06-00, 165.06-02, 1502.00-00

Department of the Treasury
Washington, DC 20224

Third Party Communication: None
Date of Communication: Not Applicable

Person To Contact:
, ID No.
Telephone Number:

Refer Reply To:
CC:CORP:6
PLR-128096-10

Date:
September 22, 2010

Legend

Grandparent =

Parent =

Sub =

A =

B =

State A =

a =

b =

c =

d =

e =

f =

g =

h =

i =

Year j =

Year k =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Date 5 =

Date 6 =

Date 7 =

Date 8 =

Date 9 =

Date 10 =

Asset A =

:

This letter responds to your July 2, 2010 letter requesting a ruling regarding some of the federal income tax consequences of a proposed transaction. The information submitted in that request and in later correspondence is summarized below.

On Date 1, Parent (then an a%-owned subsidiary of Grandparent) purchased b% of the stock of Sub, a State A corporation, for $c. For state law purposes, Sub has only one class of stock (common stock) outstanding. On Date 2, Grandparent distributed d% of the stock of Parent to Grandparent's shareholders in a transaction intended to be described in section e of the Internal Revenue Code of 1986, as amended. Prior to the distribution, Grandparent, Parent, and Sub joined in the filing of a consolidated return with Grandparent as the common parent. After the distribution, Parent and Sub joined in the filing of a consolidated return with Parent as the common parent.

On Date 4, Parent obtained an appraisal of Sub that was prepared by A. The appraisal stated that the value of the common stock of Sub as of Date 3 was $f, assuming that certain open account indebtedness described in the next paragraph constitutes debt.

Sub has relatively few obligations to persons other than Parent. However, Sub owes Parent approximately $g in accounts payable under Parent's cash management system for amounts borrowed by Sub from Parent before Date 5 and approximately $h (as of Date 10) pursuant to a note that encompasses amounts borrowed by Sub from Parent on or after Date 5 under the same system. Under the system, Parent pays Sub's expenses and Parent collects Sub's revenues. Parent's payment of Sub's expenses gives rise to an account payable entry on Sub's books and a corresponding asset on Parent's books. Parent's collection of Sub's revenues gives rise to an account receivable entry on Sub's books and a corresponding liability on Parent's books. Under the system, the accounts payable of Sub to Parent are netted periodically against the accounts receivable of Sub from Parent. The accounts payable of Sub arising before Date 5 were not the subject of a note and no interest was charged with respect to such accounts payable. The accounts payable of Sub arising on or after Date 5 are, as alluded to above, the subject of a written demand note (the Note) issued by Sub to Parent that provides for an interest charge. Sub's obligation to Parent with respect to such accounts payable arising before, on, or after Date 5 is referred to below as an Intercompany Account, which is an asset on Parent's books and a liability on Sub's books.

During Year k, Parent decided to cause Sub to sell Sub's business and wind up Sub's affairs. On Date 6, Parent obtained a legal opinion regarding the priority claim on the assets of Sub in dissolution enjoyed by the Intercompany Account vis-à-vis the Sub common stock under the law of State A. On Date 7, Sub sold almost all of its assets to an acquisition subsidiary owned by B for $i. Since Date 7, Sub has been winding up its affairs and paying its debts, and Sub's activities have been limited to disposing of any assets excluded from the sale and resolving unsettled claims. No later than Date 8, Sub will convert to a limited liability company (the LLC) under the law of State A that is an eligible entity within the meaning of Treas. Reg. § 301.7701-3(a) (the Conversion). Eventually, the LLC will terminate its existence.

Parent requests a ruling regarding the application of section 165 to the liquidation of Sub, including the Conversion.

Parent makes the following representations:

1. Since Date 1, Sub has not made any distributions with respect to its common stock or redeemed any of its common stock.

2. The common stock of Sub was not worthless within the meaning of section 165(g)(1) (without regard to Treas. Reg. § 1.1502-80(c)) on or before Date 2. The common stock of Sub was not worthless within the meaning of section 165(g)(1) prior to Date 9, taking into account the deferral of section 165 under Treas. Reg. § 1.1502-80(c).

3. To the best knowledge of Parent, Grandparent's consolidated return will not reflect a claim for a loss under section 165 with respect to the common stock of Sub for a tax return year that precedes the date of the Conversion.

4. Since Date 1, Parent has owned directly, and until the Conversion will own directly, stock in Sub meeting the requirements of section 1504(a)(2), within the meaning of section 165(g)(3)(A).

5. As of the time of the Conversion, more than 90 percent of the aggregate of Sub's gross receipts for all taxable years will have been from sources other than royalties, rents (except rents derived from rental of properties to employees of the corporation in the ordinary course of its operating business) dividends, interest (except interest received on deferred purchase price of operating assets sold), annuities, and gains from sales or exchanges of stocks or securities, within the meaning of section 165(g)(3)(B), taking into account the fact that Sub has been a member of a consolidated group, the effect of payments and collections under the cash management system of Parent and Sub, and the effect of any acquisitions by Sub preceding the Conversion.

6. The full amount of the Intercompany Account (including the portion that is the subject of the Note) is entitled to a priority claim on the assets of Sub in dissolution that takes precedence over the claim embodied in the common stock of Sub and thus the Intercompany Account must be repaid, in a liquidation of Sub, before any payment or distribution can be made with respect to any claim in liquidation on Sub's assets that is attributable to the common stock of Sub.

7. Since the date of the adoption of the plan to liquidate Sub and continuing through the time of the Conversion, there will have been no distributions or other payments by Sub to Parent (including collections by Parent on behalf of Sub and deemed distributions by Sub to Parent upon the Conversion) that in the aggregate exceed the

balance of the Intercompany Account owed by Sub to Parent at the time of the adoption of such plan.

8. Since the date of the adoption of the plan to liquidate Sub and continuing through the time of the Conversion, the fair market value of the assets of Sub will not have exceeded: (i) the balance of the Intercompany Account (including the portion that is the subject of the Note) plus (ii) any liabilities of Sub that constitute debt for tax purposes (determined without regard to the Intercompany Account).

9. Neither Parent nor LLC has a plan or intention to reincorporate the assets of Sub received in the Conversion or in any other liquidating distribution by Sub, including a plan or intention to elect pursuant to Treas. Reg. § 301.7701-3 by Parent or the LLC for the LLC to be treated as other than an entity disregarded as separate from its owner for federal income tax purposes effective after the Conversion.

10. Either Asset A does not constitute a significant portion of the historic business assets of Sub within the meaning of Treas. Reg. § 1.368-1(d)(3) or Asset A will not be transferred or deemed transferred by Sub to Parent.

Based on the facts and representations described above, we rule as follows:

Provided that the requirements for claiming a worthless securities deduction under section 165(a) and 165(g) (taking into account Treas. Reg. § 1.1502-80(c)) are otherwise satisfied, Parent may claim a worthless securities deduction under sections 165(a) and 165(g)(3) for its Sub common stock upon the liquidation of Sub (including the Conversion), regardless of whether the Intercompany Account or a portion thereof constitutes debt or equity for federal income tax purposes. However, the provisions of Treas. Reg. § 1.1502-36 must be taken into account in determining: (1) Parent's basis in its Sub common stock, (2) Parent's basis in the Intercompany Account, to the extent that the Intercompany Account constitutes preferred stock for federal income tax purposes, and (3) the effect on Sub's attributes that will result from any deduction or loss on Sub stock.

The rulings contained in this letter are based on facts and representations submitted by the taxpayer and accompanied by a penalties of perjury statement executed by an appropriate party. 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.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter. In particular, no opinion is expressed concerning whether any of the other requirements of section 165 are met and no opinion is expressed concerning whether the stock of Sub became worthless in Year j or a prior year. In addition, the ruling in this

letter is conditioned on the standard representations contained in Revenue Procedure 2010-1 and on there not being claimed on Grandparent's consolidated return a deduction attributable to the worthlessness of Sub's common stock.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent. In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative. A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

Sincerely,

Stephen P. Fattman
Stephen P. Fattman
Special Counsel to the Associate
Chief Counsel (Corporate)
Office of the Associate Chief Counsel (Corporate)