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LEGEND

Distributing 3 =

Distributing 2 =

Distributing 1 =

Controlled 1 =

Controlled 2 =

Sub 1 =

Sub 2 =

LLC 1 =

Division 1 =

State 1 =

State 2 =

Business A =

Business B =

a =

b =

c =

d =

Dear :

This letter is in response to your October 7, 2011 request for rulings on certain U.S. federal income tax consequences of the Proposed Transaction (defined below). The information submitted in that request and in subsequent correspondence is summarized below.

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

Moreover, this office has not verified any information pertaining to, and has made no determination regarding whether the Proposed Transaction: (i) satisfies the business purpose requirement of § 1.355-2(b) of the Income Tax Regulations; (ii) is used principally as a device for the distribution of earnings and profits of any of the distributing corporations, the controlled corporations, or both (See § 355(a)(1)(B) and § 1.355-2(d)); and (iii) is part of a plan (or series or related transactions) pursuant to which one or more persons will acquire directly or indirectly stock representing a 50 percent or greater interest in any of the distributing corporations or the controlled corporations (See § 355(e) and § 1.355-7).

Summary of Facts

Distributing 3 is a publicly traded corporation organized under the laws of State 1. Distributing 3 is the common parent of an affiliated group of corporations that files a consolidated federal income tax return (the “Distributing 3 Consolidated Group”). Distributing 3 is a holding company and derives all of its operating income from its wholly owned subsidiary, Distributing 2, a State 1 corporation, and Distributing 2’s subsidiaries. Among its other subsidiaries and assets, Distributing 2 wholly owns Distributing 1, a State 1 corporation; Sub 2, a State 1 corporation; and LLC 1, a State 1 limited liability company which is treated as a disregarded entity for federal income tax purposes.

Distributing 1 owns the assets in Division 1, and the stock of Sub 1, a State 2 corporation. In addition to Sub 1, Distributing 1 owns other assets, which are treated as divisions of Distributing 1 and are engaged in the Retained Business (defined below). Sub 1 and the divisions of Distributing 1 will be collectively referred to as the “Retained Controlled 1 Assets and Liabilities.” Prior to the Proposed Transaction and as part of the overall restructuring, some or all of the Retained Controlled 1 Assets and Liabilities that are in divisional form may be incorporated (the “Division Incorporations”).

Distributing 1 has a note payable of approximately \$a, plus accrued interest, to LLC 1 (the “Distributing 1 Note Payable”). Additionally, Distributing 1 has accounts receivable of approximately \$b from Distributing 2 (the “Distributing 1 Accounts Receivable”).

Distributing 3 and its subsidiaries collectively engage in two lines of business: the “Spin Business” and the “Retained Business.” For purposes of satisfying the active trade or business requirements of § 355(b), the parties to each spin-off will be relying on Business A, which is conducted by Distributing 1 and is part of the Spin Business, and Business B, which is conducted by Sub 1 and is a part of the Retained Business. The taxpayer has submitted financial information indicating that Business A as conducted by Distributing 1 has had gross receipts and operating expenses representative of the active conduct of a trade or business for each of the past five years. The taxpayer also submitted financial information indicating that Business B as conducted by Sub 1 has had gross receipts and operating expenses representative of the active conduct of a trade or business for each of the past five years.

Distributing 3, Distributing 2, Distributing 1, Controlled 2 and Controlled 1 will enter into a series of customary agreements governing the Proposed Transaction, including: a tax sharing agreement and certain other liabilities and obligations arising from a separation agreement; a transition services agreement; and a continuing relationship agreement. It is anticipated that Distributing 3 and Controlled 2 may lease or sublease some amount of office space to one another under the terms of existing lease arrangements.

Proposed Transaction

For what are represented to be valid business purposes, Taxpayer has proposed the following steps (the “Proposed Transaction”):

- (i) Distributing 1 will form Controlled 1, a State 1 corporation, and contribute the Retained Controlled 1 Assets and Liabilities to Controlled 1 (“Contribution 1”).
- (ii) Distributing 1 will satisfy its approximately \$a note payable to LLC 1 by offsetting that portion of its approximately \$b accounts receivable to Distributing 2.
- (iii) Distributing 1 will borrow approximately \$c from one or more third party financing sources (the “Borrowed Funds”).
- (iv) Distributing 1 will declare and distribute approximately \$d of dividends, consisting of the proceeds of the Borrowed Funds and the remainder of the Distributing 1 Accounts Receivable that remains after the satisfaction of the Distributing 1 Note Payable in step (ii) above, to Distributing 2 (“Dividend Distribution”).
- (v) Distributing 1 will distribute Controlled 1 to Distributing 2 (“Distribution 1”).
- (vi) Distributing 2 will form Controlled 2, a State 1 corporation, and contribute Distributing 1 and Sub 2 to Controlled 2 (“Contribution 2”).
- (vii) Controlled 2 will contribute Sub 2 to Distributing 1 (“Contribution 3”).
- (viii) Distributing 2 will distribute Controlled 2 to Distributing 3 (“Distribution 2”).
- (ix) Distributing 3 will distribute Controlled 2 to its shareholders (“Distribution 3”).

Representations

The following representations have been made with respect to the Proposed Transaction:

Contribution 1 and Distribution 1

- (a) No part of the consideration to be distributed by Distributing 1 in Distribution 1 will be received by Distributing 2 as a creditor, employee, or in any capacity other than that of a shareholder of Distributing 1.
- (b) The five years of financial information submitted for Business A conducted by Distributing 1 is representative of the present operations and there have been no

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

(c) The five years of financial information submitted for Business B that will be conducted by Controlled 1, through its interest in Sub 1, is representative of the present operations and there have been no substantial operational changes since the date of the last financial statements submitted.

(d) Following Distribution 1, no person will hold a greater than 50 percent interest in either Distributing 1 or Controlled 1 (within the meaning of § 355(g)) who did not hold such an interest immediately before Distribution 1.

(e) Following Distribution 1, Distributing 1 will continue the active conduct of Business A, independently and with its separate employees.

(f) Following Distribution 1, Controlled 1, through its separate affiliated group, will continue the active conduct of Business B, independently and with its separate employees.

(g) Distribution 1 will be carried out for the corporate business purposes of aligning all the entities and assets related to the Retained Business under the ownership of Distributing 2 and facilitating Distributions 2 and 3. Distribution 1 is motivated in whole or substantial part by these corporate business purposes.

(h) Distribution 1 will not be used principally as a device for distributing the earnings and profits of Distributing 1 or Controlled 1 or both.

(i) For purposes of § 355(d), immediately after Distribution 1, no person (determined after applying the aggregation rules of § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Distributing 1 stock entitled to vote or 50 percent or more of the total value of shares of all classes of Distributing 1 stock that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five year period (determined after applying § 355(d)(6)) ending on the date of Distribution 1.

(j) For purposes of § 355(d), immediately after Distribution 1, no person (determined after applying the aggregation rules of § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Controlled 1 stock entitled to vote or 50 percent or more of the total value of shares of all classes of Controlled 1 stock that was either (i) acquired by purchase (as defined in § 355(d)(5) and (8)) during the five year period (determined after applying § 355(d)(6)) ending on the date of Distribution 1 or (ii) attributable to distributions on Distributing 1's stock or securities that were acquired by purchase (as defined in § 355(d)(5) and (8)) during the five year period (determined after applying § 355(d)(6)) ending on the date of Distribution 1.

(k) No intercorporate debt will exist between Distributing 1 and Controlled 1 at the time of Distribution 1, except that Distributing 1 (or its successors) may owe Controlled 1, or Controlled 1 may owe Distributing 1 (or its successors) amounts payable under the separation agreements and transition services agreement or indebtedness arising in the ordinary course of business. Any such indebtedness owed by Controlled 1 to Distributing 1 on completion of Distribution 1 will not constitute stock or securities.

(l) Except as set forth in the transition services agreement, payments made in connection with all continuing transactions following the Proposed Transaction between Distributing 1 and Controlled 1 will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.

(m) No party to Distribution 1 will be an investment company as defined in §368(a)(2)(F)(iii) and (iv).

(n) Distributing 1 and Controlled 1 each will pay its own expenses, if any, incurred in connection with Contribution 1 and Distribution 1.

(o) Distribution 1 is not part of a plan or series of related transactions (within the meaning of § 1.355-7) pursuant to which one or more persons will acquire directly or indirectly stock representing a 50-percent or greater interest (within the meaning of §355(d)(4)) in Distributing 1 or Controlled 1 (including any predecessor or successor to any such corporation).

(p) Neither Business A of Distributing 1 nor Business B of Controlled 1 nor control of any entity conducting these businesses was acquired during the five year period ending on the date of Distribution 1 in a transaction in which gain or loss was recognized or treated as recognized in whole or in part. Throughout the five-year period ending on the date of Distribution 1, Distributing 1 has been the principal owner of the goodwill and significant assets of Business A and Business B and Controlled 1 will continue to be the principal owner of Business B following Distribution 1.

(q) Immediately before Distribution 1, 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, 1995-32 I.R.B. 6, and as currently in effect; § 1.1502-13 as published by T.D. 8597). Further, any excess loss account of Distributing 1 in the stock of Controlled 1 that is required to be taken into account by § 1.1502-19 will be included in income immediately before Distribution 1.

(r) At the time of Distribution 1, Distributing 1 will not have an excess loss account in the stock of Controlled 1.

(s) The total adjusted basis of the assets to be transferred to Controlled 1 by Distributing 1 will equal or exceed the sum of the liabilities assumed (as determined

under § 357(d)) by Controlled 1 plus any liabilities to which the transferred assets are subject. The liabilities assumed, if any, (as determined under § 357(d)) by Controlled 1 will be incurred in the ordinary course of business and will be associated with the assets transferred.

(t) The total fair market value of the assets transferred to Controlled 1 by Distributing 1 in the Contribution 1 will exceed the sum of: (i) the amount of any liabilities assumed (within the meaning of § 357(d)) by Controlled 1 in connection with the exchange, (ii) the amount of any liabilities owed to Controlled 1 by Distributing 1 that are discharged or extinguished in connection with the exchange, and (iii) the amount of cash and the fair market value of any other property (other than stock and securities permitted to be received under § 361(a) without the recognition of gain) received by Distributing 1 in connection with the exchange. The fair market value of the assets of Controlled 1 will exceed the amount of its liabilities immediately after the exchange.

Contribution 2 and Distribution 2

(u) No part of the consideration to be distributed by Distributing 2 in Distribution 2 will be received by Distributing 3 as a creditor, employee, or in any capacity other than that of a shareholder of Distributing 2.

(v) The five years of financial information submitted for the Business B conducted by Distributing 2 is representative of the present operations and there have been no substantial operational changes since the date of the last financial statements submitted.

(w) The five years of financial information submitted for Business A that will be conducted by Controlled 2 is representative of the present operations and there have been no substantial operational changes since the date of the last financial statements submitted.

(x) Following Distribution 2, no person will hold a greater than 50 percent interest in either Distributing 2 or Controlled 2 (within the meaning of § 355(g)) who did not hold such an interest immediately before Distribution 2.

(y) Following Distribution 2, Distributing 2, through its separate affiliated group, will continue the active conduct of Business B, independently and with its separate employees. Following Distribution 2, Controlled 2, through its separate affiliated group, will continue the active conduct of Business A, independently and with its separate employees.

(z) Distribution 2 will be carried out for the corporate business purpose of facilitating Distribution 3 by aligning the entities conducting the Spin Business under Controlled 2.

Distribution 2 is motivated in whole or substantial part by this corporate business purpose.

(aa) Distribution 2 will not be used principally as a device for distributing the earnings and profits of Distributing 2 or Controlled 2 or both.

(bb) For purposes of § 355(d), immediately after Distribution 2, no person (determined after applying the aggregation rules of § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Distributing 2 stock entitled to vote or 50 percent or more of the total value of shares of all classes of Distributing 2 stock that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five year period (determined after applying § 355(d)(6)) ending on the date of Distribution 2.

(cc) For purposes of § 355(d), immediately after Distribution 2, no person (determined after applying the aggregation rules of § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Controlled 2 stock entitled to vote or 50 percent or more of the total value of shares of all classes of Controlled 2 stock that was either (i) acquired by purchase (as defined in § 355(d)(5) and (8)) during the five year period (determined after applying § 355(d)(6)) ending on the date of Distribution 2 or (ii) attributable to distributions on Distributing 2's stock or securities that were acquired by purchase (as defined in § 355(d)(5) and (8)) during the five year period (determined after applying § 355(d)(6)) ending on the date of Distribution 2.

(dd) No intercorporate debt will exist between Distributing 2 and Controlled 2 at the time of Distribution 2, except that Distributing 2 (or its successors) may owe Controlled 2, or Controlled 2 may owe Distributing 2 (or its successors) amounts payable under the separation agreements and transition services agreement or indebtedness arising in the ordinary course of business. Any such indebtedness owed by Controlled 2 to Distributing 2 on completion of Distribution 2 will not constitute stock or securities.

(ee) Except as set forth in the transition services agreement, payments made in connection with all continuing transactions following the Proposed Transaction between Distributing 2 and Controlled 2 will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.

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

(gg) Distributing 2 and Controlled 2 each will pay its own expenses, if any, incurred in connection with Contribution 2 and Distribution 2.

(hh) Distribution 2 is not part of a plan or series of related transactions (within the meaning of § 1.355-7) pursuant to which one or more persons will acquire directly or

indirectly stock representing a 50-percent or greater interest (within the meaning of §355(d)(4)) in Distributing 2 or Controlled 2 (including any predecessor or successor to any such corporation).

(ii) Neither Business A nor Business B nor control of any entity conducting these businesses was acquired during the five year period ending on the date of Distribution 2 in a transaction in which gain or loss will be recognized or treated as recognized in whole or in part. Throughout the five-year period ending on the date of Distribution 2, Distributing 2 has been the principal owner of the goodwill and significant assets of Business A and Business B and Controlled 2 will continue to be the principal owner of Business A following Distribution 2.

(jj) Immediately before Distribution 2, 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, 1995-32 I.R.B. 6, and as currently in effect; § 1.1502-13 as published by T.D. 8597). Further, any excess loss account of Distributing 2 in the stock of Controlled 2 that is required to be taken into account by § 1.1502-19 will be included in income immediately before Distribution 2.

(kk) At the time of Distribution 2, Distributing 2 will not have an excess loss account in the stock of Controlled 2.

(ll) The total adjusted basis of the assets transferred to Controlled 2 by Distributing 2 will equal or exceed the sum of the liabilities assumed (as determined under § 357(d)) by Controlled 2 plus any liabilities to which the transferred assets are subject. The liabilities to be assumed, if any, (as determined under § 357(d)) by Controlled 2 will be incurred in the ordinary course of business and will be associated with the assets transferred.

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

Contribution 3

(nn) No stock or securities will be issued for services rendered to or for the benefit of Distributing 1 and no stock or securities will be issued for indebtedness of Distributing 1.

- (oo) Contribution 3 will not be the result of the solicitation by a promoter, broker or investment house.
- (pp) Controlled 2 will not retain any rights in the property transferred to Distributing 1.
- (qq) There will be no assumption of any liabilities of Controlled 2 by Distributing 1 as a result of Contribution 3.
- (rr) There will be no indebtedness between Distributing 1 and Controlled 2, and there will be no indebtedness created in favor of Controlled 2 as a result of Contribution 3.
- (ss) Contribution 3 will occur under a plan agreed upon before the transactions in which the rights of the parties are defined.
- (tt) There is no plan or intention on the part of Distributing 1 to redeem or otherwise reacquire any stock to be issued in Contribution 3.
- (uu) Taking into account any issuance of additional shares of Distributing 1 stock; any issuance of stock for services; the exercise of any Distributing 1 stock rights, warrants, or subscriptions; a public offering of Distributing 1 stock; and the sale, exchange, transfer by gift, or other disposition of any of the stock of Distributing 1 to be received in the exchange, Controlled 2 will be in "control" of Distributing 1 within the meaning of §368(c).
- (vv) Controlled 2 will receive or be deemed to receive stock approximately equal in value to the fair market value of the property transferred to Distributing 1.
- (ww) Each of Distributing 1 and Sub 2 will remain in existence.
- (xx) There is no plan or intention by Distributing 1 to dispose of the shares of Sub 2 transferred in Contribution 3.
- (yy) Each of the parties to Contribution 3 will pay its own expenses, if any, incurred in connection with Contribution 3.
- (zz) Distributing 1 will not be an investment company within the meaning of §351(e)(1) and § 1.351-1(c)(1)(ii).
- (aaa) Neither Controlled 2, Distributing 1, nor Sub 2 are under the jurisdiction of a court in a title 11 or similar case (within the meaning of § 368(a)(3)(A)).
- (bbb) Distributing 1 will not be a "personal service corporation" within the meaning of §269A.

(ccc) Contribution 3 will be undertaken for the corporate business purpose of facilitating the execution of the financing arrangements that are expected to be established at the Distributing 1 level.

Distribution 3

(ddd) No part of the consideration to be distributed by Distributing 3 in Distribution 3 will be received by the Distributing 3 shareholders as creditors, employees, or in any capacity other than that of shareholders of Distributing 3.

(eee) The five years of financial information submitted for Business B operations conducted by Distributing 3 is representative of the present operations and there have been no substantial operational changes since the date of the last financial statements submitted.

(fff) The five years of financial information submitted for Business A that will be conducted by Controlled 2 is representative of the present operations and there have been no substantial operational changes since the date of the last financial statements submitted.

(ggg) Following Distribution 3, no person will hold a greater than 50 percent interest in either Distributing 3 or Controlled 2 (within the meaning of § 355(g)) who did not hold such an interest immediately before Distribution 3.

(hhh) Following Distribution 3, Distributing 3, through its separate affiliated group, will continue the active conduct of Business B, independently and with its separate employees.

(iii) Following Distribution 3, Controlled 2, through its separate affiliated group, will continue the active conduct of Business A, independently and with its separate employees.

(jjj) Distribution 3 will be carried out for the following corporate business purposes: (i) to separate the Spin Business from the Retained Business in order to facilitate the adoption of different business models, management practices and objectives appropriate to the business environment in which each operates; and (ii) to enable both Distributing 3 and Controlled 2 to provide equity incentives that are tied exclusively to each respective business. Distribution 3 is motivated in whole or substantial part by these corporate business purposes.

(kkk) Distribution 3 will not be used principally as a device for distributing the earnings and profits of Distributing 3 or Controlled 2 or both.

(III) For purposes of § 355(d), immediately after Distribution 3, no person (determined after applying the aggregation rules of § 355(d)(7)) will hold stock possessing 50

percent or more of the total combined voting power of all classes of Distributing 3 stock entitled to vote or 50 percent or more of the total value of shares of all classes of Distributing 3 stock that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five year period (determined after applying § 355(d)(6)) ending on the date of Distribution 3.

(mmm) For purposes of § 355(d), immediately after Distribution 3, no person (determined after applying the aggregation rules of § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Controlled 2 stock entitled to vote or 50 percent or more of the total value of shares of all classes of Controlled 2 stock that was either (i) acquired by purchase (as defined in § 355(d)(5) and (8)) during the five year period (determined after applying § 355(d)(6)) ending on the date of Distribution 3 or (ii) attributable to distributions on Distributing 3's stock or securities that were acquired by purchase (as defined in § 355(d)(5) and (8)) during the five year period (determined after applying § 355(d)(6)) ending on the date of Distribution 3.

(nnn) No intercorporate debt will exist between Distributing 3 and Controlled 2 at the time of Distribution 3, except that Distributing 3 (or its successors) may owe Controlled 2, or Controlled 2 may owe Distributing 3 (or its successors) amounts payable under the separation agreements and transition services agreement or indebtedness arising in the ordinary course of business. Any such indebtedness owed by Controlled 2 to Distributing 3 on completion of Distribution 3 will not constitute stock or securities.

(ooo) Except as set forth in the transition services agreement, payments made in connection with all continuing transactions following the Proposed Transaction between Distributing 3 and Controlled 2 will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.

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

(qqq) Distributing 3 and Controlled 2 each will pay its own expenses, if any, incurred in connection with Distribution 3.

(rrr) Distribution 3 is not part of a plan or series of related transactions (within the meaning of § 1.355-7) pursuant to which one or more persons will acquire directly or indirectly stock representing a 50-percent or greater interest (within the meaning of §355(d)(4)) in Distributing 3 or Controlled 2 (including any predecessor or successor to any such corporation).

(sss) Neither Business A nor Business B nor control of any entity conducting these businesses was acquired during the five year period ending on the date of Distribution 3 in a transaction in which gain or loss was recognized or treated as recognized in whole or in part. Throughout the five-year period ending on the date of Distribution 3,

Distributing 3 has been the principal owner of the goodwill and significant assets of Business A and Business B and Controlled 2 will continue to be the principal owner of Business A following Distribution 3.

(ttt) Immediately before Distribution 3, 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, 1995-32 I.R.B. 6, and as currently in effect; § 1.1502-13 as published by T.D. 8597). Further, any excess loss account of Distributing 3 in the stock of Controlled 2 that is required to be taken into account by § 1.1502-19 will be included in income immediately before Distribution 3.

(uuu) The payment of cash in lieu of fractional shares of Controlled 2 will be solely for the purpose of avoiding the expense and inconvenience to Controlled 2 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 of the shareholders to less than the value of one full share of Controlled 2 stock. The fractional share interests of each Distributing 3 shareholder will be aggregated and no Distributing 3 shareholder will receive cash in an amount equal to or greater than the value of one full share of Controlled 2 stock.

Rulings

Based solely upon the information submitted and the representations made, we rule as follows on the Proposed Transaction:

Contribution 1 and Distribution 1

(1) Contribution 1 together with Distribution 1 will qualify as a reorganization within the meaning of § 368(a)(1)(D). Distributing 1 and Controlled 1 each will be “a party to a reorganization” within the meaning of § 368(b).

(2) Distributing 1 will not recognize any gain or loss pursuant to Contribution 1. (§§361(a) and 357(a))

(3) Controlled 1 will not recognize any gain or loss on Contribution 1. (§ 1032(a))

(4) Controlled 1’s basis in each asset received from Distributing 1 pursuant to Contribution 1 will be the same as the basis of that asset in the hands of Distributing 1 immediately before its transfer. (§ 362(b))

(5) Controlled 1’s holding period in each asset received from Distributing 1 pursuant to Contribution 1 will include the period during which Distributing 1 held that asset. (§1223(2)).

- (6) Distributing 1 will not recognize any gain or loss upon the distribution of Controlled 1 stock in Distribution 1. (§ 361(c))
- (7) Distributing 2 will not recognize any gain or loss (and will not otherwise include any amount in income) on the receipt of shares of Controlled 1 stock in Distribution 1. (§355(a)(1))
- (8) The Dividend Distribution will be treated as a distribution to which § 301 applies. (§ 356(b) and § 1.356-2(a)) The amount of the Dividend Distribution will not be included in the gross income of Distributing 2 and will reduce Distributing 2's basis in its Distributing 1 stock. (§§1.1502-13(f)(2) and 1.1502-32(b)(2))
- (9) The aggregate basis of the Distributing 1 stock and the Controlled 1 stock in the hands of Distributing 2 immediately after Distribution 1 will be the same as Distributing 2's aggregate basis in the Distributing 1 stock held immediately before Distribution 1, allocated in the manner described in § 1.358-2, in accordance with § 358(a) through (c).
- (10) The holding period of the Controlled 1 stock received by Distributing 2 in Distribution 1 will include the holding period of the Distributing 1 stock with respect to which Distribution 1 was made, provided that the Distributing 1 stock is held as a capital asset on the date of Distribution 1. (§ 1223(1))
- (11) Earnings and profits of Distributing 1, if any, will be allocated between Distributing 1 and Controlled 1 in accordance with § 1.312-10.

Contribution 2 and Distribution 2

- (12) Contribution 2 together with the Distribution 2 will qualify as a reorganization within the meaning of § 368(a)(1)(D). Distributing 2 and Controlled 2 each will be "a party to a reorganization" within the meaning of § 368(b).
- (13) Distributing 2 will not recognize any gain or loss pursuant to Contribution 2. (§§361(a) and 357(a))
- (14) Controlled 2 will not recognize any gain or loss on Contribution 2. (§ 1032(a))
- (15) Controlled 2's basis in each asset received from Distributing 2 pursuant to Contribution 2 will be the same as the basis of that asset in the hands of Distributing 2 immediately before its transfer. (§ 362(b))
- (16) Controlled 2's holding period in each asset received from Distributing 2 pursuant to Contribution 2 will include the period during which Distributing 2 held that asset. (§1223(2))

- (17) Distributing 2 will not recognize any gain or loss upon the distribution of Controlled 2 stock in Distribution 2. (§ 361(c))
- (18) Distributing 3 will not recognize any gain or loss (and will not otherwise include any amount in income) on the receipt of shares of Controlled 2 stock in Distribution 2. (§355(a)(1))
- (19) The aggregate basis of the Distributing 2 stock and the Controlled 2 stock in the hands of Distributing 3, immediately after Distribution 2 will be the same as the Distributing 3's aggregate basis in the Distributing 2 stock held immediately before Distribution 2, allocated in the manner described in § 1.358-2, in accordance with §358(a) through (c).
- (20) The holding period of the Controlled 2 stock received by Distributing 3 in Distribution 2 will include the holding period of the Distributing 2 stock with respect to which Distribution 2 was made, provided that the Distributing 2 stock is held as a capital asset on the date of Distribution 2. (§ 1223(1))
- (21) Earnings and profits of Distributing 2, if any, will be allocated between Distributing 2 and Controlled 2 in accordance with § 1.312-10.

Contribution 3

- (22) Contribution 3 will constitute a transfer to a controlled corporation meeting the requirements of § 351. No gain or loss will be recognized by Controlled 2 upon the transfer of the Sub 2 stock solely in exchange for Distributing 1's stock. (§351(a))
- (23) The basis of the Distributing 1 stock received by Controlled 2 in Contribution 3 will be the same as Controlled 2's basis in the Sub 2 stock transferred to Distributing 1. (§ 358(a))
- (24) No gain or loss will be recognized by Distributing 1 on the receipt of the Sub 2 stock in exchange for Distributing 1's stock. (§ 1032(a))
- (25) The basis of the Sub 2 stock received by Distributing 1 will be the same as it would be in the hands of Controlled 2, increased by the amount of gain, if any, recognized. (§ 362(a))
- (26) The holding period for the Sub 2 stock received by Distributing 1 will include the period during which such stock was held by Controlled 2. (§ 1223(2))

Distribution 3

(27) The shareholders of Distributing 3 will not recognize any gain or loss (and will not otherwise include any amount in income) on the receipt of shares of Controlled 2 stock in the Distribution 3. (§ 355(a)(1))

(28) No gain or loss will be recognized by Distributing 3 on the distribution of Controlled 2 stock in the Distribution 3. (§ 355(c))

(29) The aggregate basis of the Distributing 3 stock and the Controlled 2 stock in the hands of the Distributing 3 shareholders, immediately after Distribution 3 will be the same as the Distributing 3 shareholders' aggregate basis in the Distributing 3 stock held immediately before Distribution 3, allocated in the manner described in § 1.358-2, in accordance with § 358(a) through (c).

(30) The holding period of the Controlled 2 stock received by the Distributing 3 shareholders in Distribution 3 will include the holding period of the Distributing 3 stock with respect to which Distribution 3 was made, provided that the Distributing 3 stock is held as a capital asset on the date of Distribution 3. (§1223(1))

(31) Earnings and profits of Distributing 3, if any, will be allocated between Distributing 3 and Controlled 2 in accordance with § 1.312-10.

(32) The payment of cash in lieu of any fractional shares of Distributing 3, if any, will be treated for federal income tax purposes as if the fractional shares were distributed as part of Distribution 3 and then sold by the Distributing 3 shareholders. The cash payments will be treated as having been received in exchange for the fractional Distributing 3 shares sold. Any gain or loss will be treated as capital gain or loss, provided that such fractional shares are held as capital assets on the date of Distribution 3. (§§ 1221 and 1222)

Caveats

Except as expressly provided herein, no opinion is expressed about the tax treatment of the Proposed Transaction under 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 is not specifically covered by the above rulings. In particular, no opinion is expressed regarding: (i) whether the Proposed Distribution satisfies the business purpose requirement of § 1.355-2(b); (ii) whether the Proposed Distribution is used principally as a device for the distribution of the earnings and profits of Distributing 3, Distributing 2, Distributing 1, Controlled 1, Controlled 2, or any combination thereof (See § 355(a)(1)(B) and § 1.355-2(d)); (iii) whether the Proposed Distribution is part of a plan (or series or related transactions) pursuant to which one or more persons will acquire directly or indirectly stock representing a 50 percent or greater interest in any of the distributing or controlled corporations (See § 355(e)(2)(A)(ii) and § 1.355-7); (iv) any non-arm's length transactions between Distributing 3, Distributing 2, Distributing 1, Controlled 2 and Controlled 1; (v) except as otherwise necessary to the rulings herein,

the federal income tax consequences of steps (ii) and (iii) of the Proposed Transaction; and (vi) whether the Division Incorporations qualify as § 351 exchanges.

Procedural Statements

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

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of this letter ruling.

In accordance with the power of attorney on file with this office, a copy of this ruling letter is being sent to your authorized representatives.

Sincerely,

Richard K. Passales

Senior Counsel, Branch 4

Office of Associate Chief Counsel (Corporate)

cc: