

Internal Revenue Service

Department of the Treasury

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Person to Contact:

Telephone Number:

Refer Reply To:
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Controlled B =
Target =
Holdco B1 =
Date B =
Date C =

This letter responds to your October 30, 2000 request that we further supplement our letter ruling dated March 30, 1999 (PLR-121425-98) (the "Original Letter Ruling"), as supplemented by our letter rulings dated April 28, 1999 (PLR-107269-99), July 5, 2000 (PLR-102442-00), July 20, 2000 (PLR-102440-00), August 2, 2000 (PLR-104655-00), September 22, 2000 (PLR-105635-00), and February 5, 2001 (PLR-115079-00) (together, the "Prior Letter Rulings"). Capitalized terms not defined in this letter retain the meanings assigned them in the Original Letter Ruling.

The Prior Letter Rulings address certain federal income tax consequences of the Distributions by Distributing 2 of the stock of Controlled A and Controlled B and related transactions. The Distributions were consummated on Date B.

Facts

Publicly traded Target is a State X corporation that has outstanding, and will have outstanding at the time of the transactions described below, (i) common stock, (ii) compensatory stock options convertible into Target common stock, and (iii) debentures convertible into Target common stock ((i), (ii), and (iii) together, "Target Securities," and the holders of Target Securities, "Target Equity Holders"). Target also has an employee stock purchase plan in effect.

As a result of certain developments since the Distributions, including the appreciation of Controlled B stock by more than 100 percent, Controlled B proposes to acquire Target. To this end, Controlled B and Target entered into an Agreement and Plan of Merger on Date C (a date that is more than six months after the Distributions), under which Target will merge with and into Controlled B in a transaction that Controlled B believes will qualify as a reorganization described in § 368(a)(1)(A) of the Internal Revenue Code and, potentially, § 368(a)(1)(D) (the "Merger"). In the Merger, the stockholders of Target will receive a combination of cash and Controlled B common stock. All or a part of the Target debentures will be converted into Target common stock before the Merger. Any unconverted Target debentures will be assumed by Controlled B and will become convertible into the same combination of cash and Controlled B common stock that is being issued to stockholders of Target in the Merger (the "Debenture Assumption"). In connection with the Merger, compensatory options to acquire Target stock, at the election of each holder, will be converted into either options to acquire Controlled B common stock or a combination of cash and Controlled B common stock. Target's employee stock purchase plan will be terminated before the Merger, and amounts that are allocated to the accounts of participants, at the election of each participant, will be used to purchase Target common stock at a discount or returned to the participant.

Based on the amount of Controlled B common stock, Target common stock and Target debentures outstanding on Date C, and assuming that all Target debentures are converted into Target common stock before the Merger, the Controlled B common stock to be issued to Target shareholders in the Merger will represent more than 50 percent of the total number of shares of Controlled B common stock outstanding immediately following the Merger. The actual percentage of Controlled B common stock to be issued in the Merger may vary depending on, among other things, the number of shares of Controlled B common stock and Target common stock outstanding at that time.

Before the Merger, Holdco B1 will merge with and into Controlled B in a transaction that Controlled B believes will qualify as a liquidation described in §§ 332(a) and 337(a) (the "Liquidation").

Representations

Controlled B makes the following representations:

(a) Controlled B and Target or any potential acquirer of Controlled B (or any of their respective controlling shareholders) did not discuss the Merger or a similar acquisition before the Distributions or within six months thereafter.

(b) There was an identifiable, unexpected change in market or business

conditions occurring after the Distributions that resulted in the Merger that was unexpected at the time of the Distributions.

Distributing 2 makes the following representations:

(c) Distributing 2 and Target or any potential acquirer of Controlled B (or any of their respective controlling shareholders) did not discuss the Merger or a similar acquisition before the Distributions or within six months thereafter.

(d) The Distributions were motivated in whole or substantial part by a corporate business purpose (within the meaning of § 1.355-2(b)) other than a business purpose to facilitate the Merger or a similar acquisition of Controlled B.

(e) The Distributions would have occurred at approximately the same time and in similar form regardless of the Merger or a similar acquisition.

Distributing 2 reaffirms the following representation that appears in the Original Letter Ruling:

(fff) The Distributions are carried out for the following corporate business purposes: to enable each Controlled Corporation to (i) attract, motivate and retain key management and other employees by adopting separate ESOPs and providing compensation packages that include other equity incentives tied directly and exclusively to the stock of the Controlled Corporation and (ii) solve operational problems inherent in the current corporate structure and enhance the Controlled Corporation's performance and earnings by permitting its management to focus attention on smaller, strategically aligned markets and adopt strategies and pursue objectives that are appropriate to the unique characteristics and needs of local communities within those markets. The Distributions are motivated, in whole or substantial part, by one or more of these corporate business purposes.

Distributing 2 reaffirms the following representation that appears in the Original Letter Ruling, modified as set forth below:

(ppp) Provided the Service rules as the taxpayer requests, neither Distribution is part of a "plan (or series of related transactions)" 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 the Distributing Corporation or either Controlled Corporation entitled to vote, or stock possessing 50 percent or more of the total value of all classes of stock of the Distributing Corporation or either Controlled Corporation, within the meaning of § 355(e).

Rulings

Based solely on the information submitted in the original and supplemental ruling requests and the representations set forth above, we rule as follows:

(1) Regardless of whether Target is a predecessor to Controlled B under § 355(e)(4)(D), none of (i) any acquisition of Target Securities before the Merger, (ii) the Debenture Assumption, (iii) any acquisition of Controlled B common stock pursuant to the conversion of debentures following the Merger, (iv) the acquisition of Controlled B common stock by Target Equity Holders in connection with the Merger, (v) the acquisition of options to acquire Controlled B common stock by holders of options to acquire Target stock in connection with the Merger, or (vi) the exercise of options to acquire Controlled B common stock that are received by former holders of options to acquire Target stock in connection with the Merger will constitute an acquisition that is part of a plan (or series of related transactions) within the meaning of § 355(e) that includes the Distributions.

(2) The consummation of the proposed transactions described above, and the additional information and representations contained in the supplemental ruling request, will not adversely affect the Prior Letter Rulings, and the Prior Letter Rulings retain full force and effect.

Caveats

We express no opinion about the tax treatment of the transactions described above under any provisions of the Code or regulations or the tax treatment of any condition existing at the time of, or effect resulting from, the transactions that is not specifically covered by the above rulings. In particular, no opinion is expressed about the tax effect of the Merger and the Liquidation that is not specifically covered by the above rulings.

Procedural Matters

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

Each taxpayer affected by the Prior Letter Rulings should attach copies of those rulings and this supplemental ruling to the taxpayer's federal income tax return for the taxable year in which the transactions covered by these rulings are completed.

Under a power of attorney on file in this office, a copy of this supplemental letter will be forwarded to each of your authorized representatives.

Sincerely,

Associate Chief Counsel (Corporate)

By: _____
Wayne T. Murray
Senior Technician/Reviewer
Branch 4