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Date:  
June 20, 2001

Distributing =

Controlled =

Old Controlled =

Sub 1 =

Sub 2 =

Sub 3 =

Sub 4 =

Sub 5 =

Sub 6 =

Sub 7 =

Sub 8 =

Sub 9 =

Sub 10 =

Sub 11 =

Sub 12 =

Sub 13 =

Sub 14 =

Sub 15 =

Sub 16 =

Sub 17 =

Sub 18 =

Sub 19 =

Sub 20 =

Sub 21 =

Sub 22 =

Sub 23 =

Controlled LLC =

LLC 1 =

LLC 2 =

LLC 3 =

LLC 4 =

LLC 5 =

New LLC 1 =

New LLC 2 =

New LLC 3 =

FSub 1 =

FSub 2 =

FSub 3 =

FSub 4 =

FSub 5 =

FSub 6 =

FSub 7 =

FSub 8 =

FSub 9 =

FSub 10 =

FSub 11 =

FSub 12 =

FSub 13	=
FSub 14	=
FSub 15	=
FSub 16	=
FSub 17	=
FSub 18	=
FSub 19	=
FSub 20	=
FSub 21	=
FSub 22	=
FSub 23	=
FSub 24	=
FSub 25	=
FSub 26	=
FSub 26A	=
FSub 27	=
FSub 28	=
FSub 29	=
FNewco 1	=
FNewco 2	=
FNewco 3	=
FNewco 4	=

State A	=
Country A	=
Country B	=
Country C	=
Country D	=
Country E	=
Country F	=
Country G	=
Country H	=
Country I	=
Country J	=
Country K	=
Country L	=
Country M	=
Country N	=
Country O	=
Country P	=
Country Q	=
Country R	=
Country S	=
Country T	=
Country U	=
Country V	=
Country W	=
Country X	=
Country Y	=
Business A	=
Business B	=
Business C	=
Business D	=
Distributing Savings Plans	=
Controlled Savings Plans	=
Investment Banker	=
Date A	=
<u>a</u>	=
<u>b</u>	=
<u>c</u>	=

d =  
e =  
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This letter responds to your January 12, 2001 request for rulings on certain federal income tax consequences of a proposed transaction. The information provided in that request and in later correspondence is summarized below.

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

### Summary of Facts

Publicly traded Distributing is the common parent of an affiliated group that files a consolidated federal income tax return. Distributing has only one class of common stock outstanding. Attached to each share of the common stock is a purchase right not exercisable or transferable separately from the stock unless and until certain events occur (the "Share Purchase Rights").

Distributing conducts Business A through LLC 1 and certain other subsidiaries, and Business B through Old Controlled, subsidiaries of Old Controlled, and certain other entities. LLC 1 is a single member limited liability company that is disregarded as an entity separate from its owner for federal tax purposes under § 301.7701-3 of the Procedure and Administrative Regulations.

Distributing owns all of LLC 1, Old Controlled, Sub 1, Sub 2, Sub 3, and FSub 1 (through LLC 1), a percent of LLC 2 (which is treated as a partnership for federal tax purposes), d percent of FSub 28 (through LLC 1), and e percent of FSub 26 (through LLC 1). LLC 2 wholly owns FSub 2, FSub 3, and FSub 4. FSub 2 wholly owns FSub 5, and FSub 3 wholly owns FSub 6.

Old Controlled owns all of Sub 4 through Sub 22 and FSub 7 through FSub 25, b percent of LLC 2, c percent each of LLC 3 and LLC 4, d percent of FSub 26, and e

percent of FSub 28. Old Controlled and FSub 4 own f and g percent, respectively, of FSub 27. Sub 14 wholly owns FSub 29. The balance of LLC 3 and LLC 4 is owned by an unrelated corporation.

Sub 1 wholly owns LLC 5 (which is disregarded as an entity separate from its owner for federal tax purposes under § 301.7701-3), and LLC 5 wholly owns Sub 23.

Business A is conducted by Sub 4 (which is a holding company for Business A and Business B subsidiaries), Sub 23, FSub 1, FSub 4, FSub 6, FSub 7, FSub 10, FSub 11, FSub 13, FSub 14, FSub 15, FSub 16, FSub 17, FSub 18, FSub 19, FSub 20, FSub 21, FSub 22, FSub 23, FSub 24, FSub 25, FSub 26, FSub 27, and FSub 28. Business B is conducted by Old Controlled, Sub 3, Sub 4, Sub 5, Sub 6, Sub 7, Sub 8, Sub 9, Sub 10, Sub 11, Sub 12, Sub 13, Sub 14, Sub 15, LLC 3, LLC 4, FSub 3, FSub 5, FSub 7, FSub 8, FSub 9, FSub 10, FSub 26, and FSub 29. Business C is conducted by Sub 2, Sub 3, FSub 2, and FSub 29.

Sub 1 conducts Business D. On Date A, (a) Sub 1, then a disregarded subsidiary of Sub 2, elected under § 301.7701-3 to be treated as a corporation, (b) Sub 2 distributed the stock of Sub 1 to Distributing, (c) Distributing formed LLC 5, (d) LLC 1 contributed certain Business A intellectual property to LLC 5, (e) Distributing contributed LLC 5 to Sub 1, and (f) Sub 1 contributed certain Business B intellectual property to LLC 5. This series of transactions (collectively, the "Date A Transactions") combined Business D with the Business A technology and Business B technology in a single company structure and separated these technology operations from Business C.

All of the above-described entities are domestic except for FSub 1 (a Country F corporation), FSub 2 (a Country A corporation), FSub 3 (a Country A corporation), FSub 4 (a Country C corporation), FSub 5 (a Country A corporation), FSub 6 (a Country C corporation), FSub 7 (a Country E corporation), FSub 8 (a Country F corporation), FSub 9 (a Country G corporation), FSub 10 (a Country H corporation), FSub 11 (a Country I corporation), FSub 12 (a Country J corporation), FSub 13 (a Country K corporation), FSub 14 (a Country L corporation), FSub 15 (a Country M corporation), FSub 16 (a Country N corporation), FSub 17 (a Country O corporation), FSub 18 (a Country P corporation), FSub 19 (a Country Q corporation), FSub 20 (a Country R corporation), FSub 21 (a Country S corporation), FSub 22 (a Country T corporation), FSub 23 (a Country U corporation), FSub 24 (a Country V corporation), FSub 25 (a Country W corporation), FSub 26 (a Country B corporation), FSub 27 (a Country X corporation), FSub 28 (a Country Y corporation), FSub 29 (a Country H corporation), and LLC 2 (a Country A corporation).

Distributing has established various employee savings plans under § 401 of the Internal Revenue Code (the "Distributing Savings Plans"). In the aggregate, the Distributing Savings Plans own over five percent of Distributing's outstanding stock on behalf of more than 40,000 employee-participants. Distributing knows of no other person who owns five percent or more of Distributing's outstanding stock.

Employee-participants in the Distributing Savings Plans who, following the Distribution (defined below at step (xxviii)) are employed by Controlled (or its subsidiaries), will be allowed either to (a) remain as participants in the Distributing Savings Plans or (b) transfer the assets credited to their accounts to new § 401 savings plans established by Controlled (the "Controlled Savings Plans"). Each employee-participant in the Distributing Savings Plans has, and each employee-participant in the Controlled Savings Plans will have, the sole authority to vote and sell the Distributing or Controlled stock credited to his or her account.

Distributing also has various stock option plans containing customary terms and conditions under which options to purchase shares of Distributing common stock have been and will be granted to employees and directors of Distributing (the "Distributing Compensatory Options"). Similarly, Controlled will adopt stock option plans containing customary terms and conditions under which options to purchase shares of Controlled common stock will be granted to employees and directors of Controlled (the "Controlled Compensatory Options").

Distributing contemplates treating Distributing Compensatory Options outstanding at the time of the Distribution as follows: (a) stock options held by Business A and Business C employees will remain as Distributing Compensatory Options, adjusted in accordance with § 424 of the Internal Revenue Code; (b) stock options held by Business B employees will be converted into Controlled Compensatory Options in accordance with § 424; and (c) stock options held by other employees, former employees, and directors will be split into Distributing Compensatory Options and Controlled Compensatory Options in accordance with § 424.

Financial information has been received indicating that Business A (as conducted by Distributing through LLC 1) and Business B (as conducted directly by Old Controlled) each has had gross receipts and operating expenses representing the active conduct of a trade or business for each of the past five years.

Business A and Business B have markedly different financial and operating characteristics, growth potential, and investment risk profiles. In particular, the two businesses have largely separate groups of customers and competitors and exhibit significantly different product, sales channel, and customer-support requirements. As a result, the managerial needs of the two businesses conflict in a variety of significant respects, including resource allocation and employee recruiting and retention. The management of Business A and the management of Business B have determined, based on the advice of Investment Banker and other information, that separating these businesses (the "Separation") will permit each to more efficiently operate and develop.

### **Proposed Transaction**

To accomplish the Separation, the following series of transactions has been proposed (collectively, the "Transaction"):



I. Business A and Business C asset sales

(i) New LLC 2 (which will be treated as a partnership for federal tax purposes) will be formed and owned d percent by Distributing and e percent by Sub 4. New LLC 2 will in turn form wholly owned subsidiaries FNewco 2 and FNewco 3. FNewco 2 and FNewco 3 will acquire the Business A assets of FSub 7 in exchange for an aggregate of h dollars in cash and the assumption of related liabilities. FSub 7, which also conducts Business B, will remain with the Controlled group.

(ii) Sub 2 will form FNewco 4 as a wholly owned subsidiary. FNewco 4 will purchase the Business C assets of FSub 29 for i dollars in cash and the assumption of related liabilities. FSub 29, which also conducts Business B, will remain with the Controlled group.

II. Business B asset sales

(iii) Old Controlled will form FNewco 1 as a wholly owned subsidiary, and FNewco 1 will purchase the Business B assets of FSub 1 for j dollars in cash and the assumption of related liabilities. FSub 1, which also conducts Business A, will remain with the Distributing group.

(iv) FSub 8 will purchase the Business B assets of Sub 4 for k dollars in cash and the assumption of related liabilities. Sub 4, which also conducts Business A, will be a Controlled group entity at the time of acquisition but a Distributing group entity at the time of the Distribution. FSub 8, which conducts only Business B, will remain with the Controlled group.

III. Country A Restructuring

(v) Sub 4 will contribute l dollars to LLC 2 in exchange for an e percent interest.

(vi) FSub 5 will distribute m dollars to FSub 2 for Country A tax reasons.

(vii) FSub 2 will distribute FSub 5 to LLC 2.

(viii) As described below in step (xix), LLC 2 will distribute FSub 5 to Controlled LLC following Liquidation 1 (described below at step (xviii)).

(ix) As described below in step (xx), Controlled LLC will distribute its n percent interest in LLC 2 to Distributing before Controlled LLC is contributed to Controlled in step (xxi).

(x) As described below in step (xxiii), Distributing will contribute an o percent interest in each of LLC2 and New LLC 2 to Sub 4 after both the Country C Restructuring (described below beginning at step (xvi)) and Liquidation 1.

#### IV. Country B Restructuring

(xi) Under Country B law, FSub 26 will divide by tax-free demerger into two separate operating companies, FSub 26, which will conduct Business A, and newly formed FSub 26A, which will conduct Business B (the "Demerger Transaction"). For Country B corporate purposes, the Demerger Transaction will occur as follows: FSub 26A will come into existence owning the assets and liabilities associated with Business B, and the shareholders of FSub 26 will be issued stock in FSub 26A in the same number and the same class as their interests in FSub 26 (d percent to Old Controlled and e percent to Distributing (through its ownership in LLC 1)). For federal tax purposes, the taxpayer intends to treat the Demerger Transaction as if FSub 26 (a) had created wholly owned FSub 26A, (b) had transferred the Business B assets to FSub 26A in exchange for FSub 26A stock and the assumption of related liabilities, and (c) had distributed the FSub 26A stock to its shareholders pro rata.

(xii) LLC 1 will transfer its e percent interests in FSub 26 and FSub 26A to Distributing.

(xiii) As part of Liquidation 1 (see step (xviii)(A) below), Old Controlled will transfer its d percent interest in FSub 26 to Distributing, making Distributing the sole owner of FSub 26.

(xiv) After Contribution 1 described below in step (xxi), Distributing will contribute its e percent interest in FSub 26A to Controlled LLC, making Controlled LLC the sole owner of FSub 26A. Because Controlled LLC will be a disregarded entity owned by Controlled (see steps (xviii)(B) and (xxi) below), Distributing will be treated as contributing the e percent interest directly to Controlled ("Contribution 2").

(xv) After Liquidation 1, Distributing will contribute its FSub 26 stock to New LLC 2.

#### V. Country C Restructuring

(xvi) FSub 3 will distribute its FSub 6 stock to LLC 2.

(xvii) As described below in step (xix), LLC 2 will distribute its FSub 3 stock to Controlled LLC after Liquidation 1 (but before step (xx)).

#### VI. Old Controlled Restructuring (including Liquidation 1)

(xviii) Old Controlled will adopt a plan of liquidation ("Liquidation 1") under which:

(A) Old Controlled will distribute its stock in Sub 4, Sub 16, Sub 17, Sub 18, Sub 19, Sub 20, Sub 21, Sub 22, F Sub 11, FSub 12, FSub 13, FSub 14, FSub 15, FSub 16, FSub 17, FSub 18, FSub 19, FSub 20, FSub 21, FSub 22, FSub 23, FSub 24, FSub 25, FSub 26 (d percent), FSub 27, and FSub 28 (e

percent), each of which is engaged in Business A, to Distributing; and

(B) Old Controlled then will convert into Controlled LLC under State A law. Controlled LLC will be disregarded as an entity separate from its owner for federal tax purposes under § 301.7701-3. Controlled LLC will hold business assets and stock formerly held by Old Controlled, including stock or interests in Sub 5, Sub 6, Sub 7, Sub 8, Sub 9, Sub 10, Sub 11, Sub 12, Sub 13, Sub 14, Sub 15, LLC 3 (c percent), LLC 4 (c percent), FSub 7, FSub 8, FSub 9, FSub 10, FSub 26A (d percent), and FSub 29 (indirectly through Sub 14). These business assets and entities all are involved in Business B.

(xix) As described above in steps (viii) and (xvii), LLC 2 will distribute the stock of FSub 3 and FSub 5 to Controlled LLC. In addition, before Contribution 1 described below in step (xxi), Distributing will contribute the stock of Sub 3 to Controlled LLC in a transaction intended to be disregarded for federal tax purposes.

(xx) As described above in step (ix), Controlled LLC will distribute its n percent interest in LLC 2 to Distributing.

(xxi) Distributing will contribute its interest in Controlled LLC to newly formed Controlled in exchange for all of the Controlled stock ("Contribution 1").

(xxii) Distributing will contribute to New LLC 2 (see step (i) above) the stock of all foreign subsidiaries received from Old Controlled in Liquidation 1 (step (xviii) above), except for FSub 12, FSub 14, and FSub 28. New LLC 2 will serve as a holding company for the foreign subsidiaries received from Distributing. FSub 12 will remain a first-tier subsidiary of Distributing, and Distributing will contribute the stock of FSub 14 to New LLC 3, a newly formed Country L unlimited liability company owned d percent by Distributing and e percent by Sub 4. New LLC 3 will be treated as a partnership for federal tax purposes. Distributing's e percent interest in FSub 28 will remain with Distributing.

(xxiii) As described above in step (x), Distributing will contribute an o percent interest in each of LLC 2 and New LLC 2 to Sub 4.

(xxiv) Distributing will contribute an o percent interest in New LLC 3 to Sub 4.

(xxv) Controlled LLC will merge into Controlled under applicable State A law. Because Controlled LLC will be a disregarded entity, it is intended that this transaction be disregarded for federal tax purposes.

## VII. Sub 1 Restructuring (including Liquidation 2)

(xxvi) Sub 1 will undergo the following restructuring:

(A) LLC 5 will contribute Business A intellectual property to Sub 23.

(B) Distributing will form New LLC 1 as a wholly owned limited liability company. New LLC 1 will be disregarded as an entity separate from its owner for federal tax purposes under § 301.7701-3. Sub 1 will adopt a plan of liquidation ("Liquidation 2") under which it will effectively dissolve under applicable State A law, and all of the Sub 1 assets and liabilities (including the interest in LLC 5) will be transferred by Distributing to New LLC 1.

(C) LLC 5, now a disregarded entity of New LLC 1, will distribute the Sub 23 stock to New LLC 1, and New LLC 1 will distribute the Sub 23 stock to Distributing. It is intended that this step be disregarded for federal tax purposes.

(D) Distributing will transfer the Sub 23 stock to LLC 1. It is intended that this step be disregarded for federal tax purposes.

(E) Distributing will contribute the Business B intellectual property held by LLC 5 (but treated for federal tax purposes as held by Distributing through disregarded entities LLC 1 and LLC 5) to Controlled ("Contribution 3").

(F) Distributing will contribute a c percent interest in New LLC 1 to Controlled ("Contribution 4") (Contribution 4, together with Contribution 1, Contribution 2, and Contribution 3, the "Contribution").

(G) Distributing will transfer the interest in New LLC 1 not transferred to Controlled in Contribution 4 to LLC 1. LLC 1 then will contribute the interest to Sub 23.

#### VIII. The Distribution and Other Transactions

(xxvii) Controlled will borrow funds from an unrelated party and distribute p dollars of these funds to Distributing. Distributing will immediately transfer all of the distributed funds to its creditors pursuant to the plan of reorganization.

(xxviii) Distributing will distribute the Controlled stock pro rata to its shareholders (the "Distribution"). It is expected that share purchase rights similar to the Share Purchase Rights will attach to the Controlled Stock.

In determining the amount of debt that Controlled should borrow in step (xxvii) above, Distributing and Investment Banker considered, among other factors, the absence of other debt carried by Controlled, the level of debt carried by competitors of Controlled, the projected future cash flow and capital needs of Controlled, and the ability of Controlled to secure an investment grade credit rating.

In connection with the Distribution, Distributing and Controlled will enter into certain short-term transition agreements including an Employee Matters Agreement, a Transition Agreement, a Continuing Services Agreement, and an ECD Manufacturing Agreement (collectively, the "Ancillary Agreements"). In addition, Distributing and

Controlled will enter into a tax sharing agreement that will set forth each party's rights and obligations regarding tax matters for periods before and after the date of the Distribution (the "Tax Allocation Agreement"). The Tax Allocation Agreement will detail the responsibilities of Distributing and Controlled for tax payments and refunds, the filing of returns, and the conduct of audits. The Tax Allocation Agreement will also provide for cooperation regarding certain tax matters and for the exchange of information and retention of records that may affect the tax liability of either party. Certain payments may be made after the Distribution between Distributing, Controlled, or their respective subsidiaries pursuant to the Tax Allocation Agreement.

## **Representations**

### Liquidation 1

Distributing has submitted the following representations concerning step (xviii) above based on its characterization as a complete liquidation by ruling (1) below:

- (a) Distributing, on the date of adoption of the plan of complete liquidation, and at all times until the final liquidating distribution is completed, will be the owner of at least 80 percent of the single outstanding class of stock of Old Controlled.
- (b) No shares of Old Controlled stock will have been redeemed during the three years preceding the adoption of the plan of complete liquidation.
- (c) Distributions from Old Controlled to Distributing pursuant to the plan of complete liquidation will be made within a single taxable year of Old Controlled.
- (d) As soon as the first liquidating distribution has been made, Old Controlled will cease to be a going concern, and its activities will be limited to winding up its affairs, paying its debts, and distributing its remaining assets.
- (e) Old Controlled will retain no assets following the final liquidating distribution.
- (f) Old Controlled will not have acquired assets in any nontaxable transactions at any time, except for acquisitions occurring more than three years before the date of adoption of the plan of liquidation.
- (g) No assets of Old Controlled have been, or will be, disposed of by either Old Controlled or Distributing except for dispositions in the ordinary course of business, dispositions occurring more than three years before adoption of the plan of liquidation, and dispositions described in this letter ruling.
- (h) The liquidation of Old Controlled will not be preceded or followed by the reincorporation in, or transfer or sale to, a recipient corporation of any of the businesses or assets of Old Controlled, if persons holding, directly or indirectly, more than 20 percent in value of the Old Controlled stock also hold, directly or indirectly, more than

20 percent in value of the stock in the recipient corporation. For purposes of this representation, ownership will be determined immediately after the Distribution and by applying the constructive ownership rules of § 318(a) as modified by § 304(c)(3).

(i) Before the adoption of the plan of liquidation, no assets of Old Controlled will have been distributed in kind, transferred, or sold to Distributing, except for transactions occurring in the ordinary course of business and transactions occurring more than three years before adoption of the liquidation plan.

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

(k) The fair market value of the assets of Old Controlled will exceed its liabilities both at the date of the adoption of the plan of complete liquidation and immediately before the time the first liquidating distribution is made.

(l) There is no intercorporate debt existing between Distributing and Old Controlled, and none has been canceled, forgiven, or discounted, except for transactions that occurred more than three years before the date of adoption of the liquidation plan.

(m) Distributing is not an organization exempt from federal income tax under § 501 or any other provision.

(n) All transactions undertaken contemporaneously with, in anticipation of, in conjunction with, or in any way related to, Liquidation 1 have been fully disclosed.

#### Liquidation 2

Distributing has submitted the following representations concerning Liquidation 2:

(o) Distributing, on the date of adoption of the plan of complete liquidation, and at all times until the final liquidating distribution is completed, will be the owner of at least 80 percent of the single outstanding class of stock of Sub 1.

(p) No shares of Sub 1 stock will have been redeemed during the three years preceding the adoption of the plan of complete liquidation.

(q) Distributions from Sub 1 to Distributing pursuant to the plan of complete liquidation will be made within a single taxable year of Sub 1.

(r) As soon as the first liquidating distribution has been made, Sub 1 will cease to be a going concern, and its activities will be limited to winding up its affairs, paying its debts, and distributing its remaining assets.

(s) Sub 1 will retain no assets following the final liquidating distribution.

(t) Sub 1 will not have acquired any assets in any nontaxable transactions at any time, except in the Date A Transactions.

(u) No assets of Sub 1 have been, or will be, disposed of by either Sub 1 or Distributing, except for dispositions in the ordinary course of business, dispositions occurring more than three years before adoption of the plan of liquidation, and dispositions described in this letter ruling.

(v) The liquidation of Sub 1 will not be preceded or followed by the reincorporation in, or transfer or sale to, a recipient corporation of any of the businesses or assets of Sub 1, if persons holding, directly or indirectly, more than 20 percent in value of the Sub 1 stock also hold, directly or indirectly, more than 20 percent in value of the stock in the recipient corporation. For purposes of this representation, ownership will be determined immediately after the Distribution and by applying the constructive ownership rules of § 318(a) as modified by § 304(c)(3). After Liquidation 2, LLC 1 (a disregarded entity owned by Distributing) will hold the Sub 23 stock formerly held indirectly by Sub 1. Sub 23 in turn will hold Business A intellectual property formerly held indirectly by Sub 1, a c percent interest in New LLC 1 (which will hold other assets formerly held by Sub 1), and certain other assets previously held by Sub 23. These assets together will represent approximately 50 percent by fair market value of the business assets Sub 1 held immediately before Liquidation 2.

(w) Before the adoption of the liquidation plan, no assets of Sub 1 will have been distributed in kind, transferred, or sold to Distributing, except for transactions occurring in the ordinary course of business and transactions occurring more than three years before adoption of the liquidation plan.

(x) Sub 1 will report all earned income represented by assets that will be distributed to its shareholders such as receivables being reported on a cash basis, unfinished construction contracts, commissions due, etc.

(y) The fair market value of the assets of Sub 1 will exceed its liabilities both at the date of the adoption of the plan of complete liquidation and immediately before the time the first liquidating distribution is made.

(z) There is no intercorporate debt existing between Distributing and Sub 1, and none has been canceled, forgiven, or discounted, except for transactions that occurred more than three years before the date of adoption of the liquidation plan.

(aa) Distributing is not an organization exempt from federal tax under § 501 or any other provision.

(bb) All transactions undertaken contemporaneously with, in anticipation of, in conjunction with, or in any way related to, Liquidation 2 have been fully disclosed.

Contribution and Distribution

Distributing has made the following representations concerning the Contribution and the Distribution:

(cc) Any debt owned by Controlled to Distributing after the Distribution will not constitute stock or securities.

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

(ee) The five years of financial information submitted on behalf of Distributing and LLC 1 (regarding Business A) and Old Controlled (regarding Business B) represents the present operations of each entity, and with regard to each, there have been no substantial operational changes since the date of the last submitted financial statements.

(ff) Immediately after the Distribution, the gross assets of the trade or businesses directly conducted by LLC 1 and relied on by Distributing to satisfy the active trade or business requirement of § 355(b) will have a fair market value equal to at least five percent of the total fair market value of the gross assets of Distributing.

(gg) Immediately after the Distribution, the gross assets of the trade or businesses relied on by Controlled to satisfy the active trade or business requirement of § 355(b) will have a fair market value equal to at least five percent of the total fair market value of the gross assets of Controlled.

(hh) Following the Distribution, Distributing (through LLC 1) and Controlled each will continue the active conduct of its business, independently and with its own employees.

(ii) The Distribution is being carried out to permit the management of Business A and the management of Business B each to more efficiently operate and develop its business. The Distribution is motivated, in whole or substantial part, by this corporate business purpose. It is also motivated by other business reasons.

(jj) There is no plan or intention by any shareholder who owns five percent or more of the stock of Distributing, and the management of Distributing, to its best knowledge, is not aware of any plan or intention on the part of any particular remaining shareholder or security holder of Distributing to sell, exchange, transfer by gift, or otherwise dispose of any stock in, or securities of, either Distributing or Controlled after the Transaction.

(kk) There is no plan or intention by Distributing 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 § 4.05(1) (b) of Rev. Proc. 96-30, 1996-1 C.B. 696, 705.

(ll) There is no plan or intention to liquidate Distributing 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.

(mm) The total adjusted basis and the fair market value of the assets transferred to Controlled in the Contribution each equals or exceeds the sum of the liabilities assumed (within the meaning of § 357(d)) by Controlled. The liabilities of Distributing assumed (within the meaning of § 357(d)) by Controlled were incurred in the ordinary course of business and are associated with the assets being transferred.

(nn) No intercorporate debt will exist between Distributing (or any of its subsidiaries) and Controlled (or any of its subsidiaries) at the time of, or after, the Distribution, other than indebtedness incurred in the ordinary course of business or resulting from the Ancillary Agreements.

(oo) Immediately before the Distribution, items of income, gain, loss, deduction, and credit will be taken into account as required by the applicable intercompany transaction regulations (see § 1.1502-13 and § 1.1502-14 of the Income Tax Regulations 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). Further, any excess loss account Distributing may have in the Controlled stock will be included in income immediately before the Distribution under the applicable regulations (see § 1.1502-19).

(pp) Payments made in connection with any continuing transactions between Distributing and Controlled will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.

(qq) No two parties to the Transaction are investment companies as defined in § 368(a)(2)(F)(iii) and (iv).

(rr) For purposes of § 355(d), immediately after the Distribution, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Distributing stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Distributing 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 the Distribution.

(ss) For purposes of § 355(d), immediately after the Distribution, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Controlled stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Controlled 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 the Distribution or (ii) attributable to distributions on Distributing 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 the Distribution.

(tt) The Transaction is not 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 Distributing or Controlled stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Distributing or Controlled stock, within the meaning of § 355(e).

(uu) Neither Distributing nor Controlled will have been a United States real property holding corporation (as defined in § 897(c)(2)) at any time during the five-year period ending on the date of the Distribution, and neither will be a United States real property holding corporation immediately after the Distribution.

### **Rulings**

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

#### Liquidation 1

(1) The distributions described above in step (xviii)(A), combined with the conversion of Old Controlled into Controlled LLC under State A law described above in step (xviii)(B), will be treated as a complete liquidation of Old Controlled under § 332 (Liquidation 1).

(2) No gain or loss will be recognized by Distributing on Liquidation 1 (§ 332(a)).

(3) No gain or loss will be recognized by Old Controlled on Liquidation 1 (§§ 336(d)(3), 337(a), and 337(b)).

(4) The basis of Distributing in each asset received from Old Controlled in Liquidation 1 will equal the basis of that asset in the hands of Old Controlled immediately before Liquidation 1 (§ 334(b)(1)).

(5) The holding period Distributing will have for each asset received from Old Controlled in Liquidation 1 will include the period during which that asset was held by Old Controlled (§ 1223(2)).

(6) Distributing will succeed to and take into account the items of Old Controlled described in § 381(c), subject to the conditions and limitations specified in §§ 381, 382, 383, and 384 and the regulations thereunder (§§ 381(a) and 1.381(a)-1).

(7) Except to the extent the earnings and profits of Old Controlled are reflected in the earnings and profits of Distributing, Distributing will succeed to and take into account the earnings and profits, or deficit in earnings and profits, of Old Controlled as of the date of Liquidation 1 (§§ 381(c)(2)(A), 1.381(c)(2)-1, and 1.1502-33(a)(2)). Any deficit in the earnings and profits of Old Controlled or Distributing will be used only to offset earnings and profits accumulated after the date of Liquidation 1 (§ 381(c)(2)(B)).

#### Liquidation 2

(8) Liquidation 2 will qualify as a complete liquidation under § 332.

(9) No gain or loss will be recognized by Distributing as a result of Liquidation 2 (§ 332(a)).

(10) No gain or loss will be recognized by Sub 1 as a result of Liquidation 2 (§§ 336(d)(3), 337(a), and 337(b)).

(11) The basis Distributing has in each asset received in Liquidation 2 will equal the basis of that asset in the hands of Sub 1 immediately before Liquidation 2 (§ 334(b)(1)).

(12) The holding period Distributing has in each asset received in Liquidation 2 will include the period during which that asset was held by Sub 1 (§ 1223(2)).

(13) Distributing will succeed to and take into account the items of Sub 1 described in § 381(c), subject to the conditions and limitations specified in §§ 381, 382, 383, and 384 and the regulations thereunder (§ 381(a); §§ 1.381(a)-1).

(14) Except to the extent the earnings and profits of Sub 1 are reflected in the earnings and profits of Distributing, Distributing will succeed to and take into account the earnings and profits, or deficit in earnings and profits, of Sub 1 as of the date of Liquidation 2 (§§ 381(c)(2)(A), 1.381(c)(2)-1, and 1.1502-33(a)(2)). Any deficit in the earnings and profits of Sub 1 or Distributing will be used only to offset earnings and profits accumulated after the date of Liquidation 2 (§ 381(c)(2)(B)).

#### Contribution and Distribution

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

(16) No gain or loss will be recognized by Distributing on the Contribution, followed by the Distribution, provided Distributing distributes all the cash it receives from Controlled in step (xxvii) above, and as a result of ruling (26) below, to its creditors pursuant to its plan of reorganization (§§ 357(a) and 361(a), (b), and (b)(3)).

(17) No gain or loss will be recognized by Controlled on receipt of the assets in the Contribution (§ 1032(a)).

(18) The basis of each asset received by Controlled in the Contribution will equal the basis of that asset in the hands of Distributing immediately before its transfer, increased by the amount of gain, if any, recognized by Distributing (§ 362(b)).

(19) The holding period of each asset received by Controlled in the Contribution will include the period during which that asset was held by Distributing (§ 1223(2)).

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

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

(22) The aggregate basis of the stock of Distributing and Controlled in the hands of each Distributing shareholder immediately after the Distribution will equal the aggregate basis the shareholder has in his, her, or its Distributing stock immediately before the Distribution. This aggregate basis will be allocated between the Distributing and Controlled stock in proportion to the fair market value of each in accordance with § 1.358-2(a)(2) (§ 358(b)(2) and (c)).

(23) The holding period of the Controlled stock received by each Distributing shareholder in the Distribution will include the holding period of the Distributing stock on which the Distribution is made, provided the Distributing stock is held as a capital asset on the date of the Distribution (§ 1223(1)).

(24) Provided that, at the time of the Distribution, the Share Purchase Rights remain contingent, non-exercisable, and subject to redemption if issued, the receipt of these rights by Distributing and its shareholders will not be a distribution or receipt of property, an exchange of stock or property (either taxable or nontaxable), or any other event giving rise to the realization of income by Distributing, Controlled, or the Distributing shareholders (Rev. Rul. 90-11, 1990-1 C.B. 10).

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

(26) Payments made by Distributing to Controlled or by Controlled to Distributing under the Tax Allocation Agreement (i) that have arisen or will arise for a taxable period ending before the Distribution or for a taxable period beginning on or before and ending after the Distribution and (ii) that will not become fixed and ascertainable until after the Distribution will be treated as occurring immediately before the Distribution. Payments treated as made by Distributing to Controlled under this ruling will be included in the Contribution. Payments treated as made by Controlled to Distributing under this ruling

will be tested under §§ 361(b) and (b)(3) (see ruling (16) above).

### **Caveats**

No opinion is expressed about the tax treatment of the Transaction under any other provision of the Code or Regulations, or the tax treatment of any conditions existing at the time of, or effects resulting from, the Transaction that are not specifically covered by the above rulings. In particular, no opinion is expressed concerning the tax consequences associated with:

- (i) The Date A Transactions;
- (ii) Creation of the Controlled Savings Plans and the Controlled Compensatory Options;
- (iii) The Business A, Business B, and Business C asset sales described above in steps (i) through (iv);
- (iv) The Country A, Country B, and Country C Restructurings described above in steps (v) through (xvii);
- (v) The contributions described in steps (xxii), (xxiii), (xxiv), (xxvi)(A), and (xxvi)(G);
- (vi) The Demerger Transaction described in step (xi);
- (vii) The merger described above in step (xxv); and
- (viii) Any payments made under the Ancillary Agreements.

Also, (ix) regarding (a) the distribution of FSub 5 by FSub 2 described in step (vii) of the Country A Restructuring, (b) the distribution of FSub 26A by FSub 26 described in step (xi) of the Country B Restructuring, and (c) the distribution of FSub 6 by FSub 3 described in step (xvi) of the Country C Restructuring, see § 355 and §1.367(b)-5(c); and (x) regarding the sale of assets (a) by FSub 7 to FNewco 2 and FNewco 3 described in step (i), (b) by FSub 29 to FNewco 4 described in step (ii), and (c) by FSub 1 to FNewco 1 described in step (iii), see §§ 951, 954, and 367(b).

### **Procedural Statements**

This ruling letter is directed only to the taxpayer who requested 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 the federal income tax return of each taxpayer involved for the taxable year in which the Transaction is consummated.

Under a power of attorney on file in this office, a copy of this letter is being sent to the taxpayer.

Sincerely,  
Associate Chief Counsel (Corporate)

By: Wayne J. Murray

Senior Technician/Reviewer  
Branch 4