

Internal Revenue Service

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Legend

Distributing =

Controlled =

F Parent =

Newco =

F Sub 1 =

F Sub 2 =

F Sub 3 =

F Sub 4 =

F Sub 5 =

F Entity 1 =

F Entity 2 =

Sub =

Business A =

Business B =

a =

b =

c =

d =

e =

Country X =

Country X Transaction =

Country X Entity =

State Y =

Dear _____ :

This letter responds to your October 19, 2007 request for rulings on certain federal income tax consequences of a series of proposed transactions. The information submitted in that letter and in later correspondence is summarized below.

The rulings contained in this letter are based on facts and representations submitted by the taxpayer and accompanied by penalty of perjury statements executed by the 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.

In particular, this office has not reviewed any information pertaining to, and has made no determination regarding, whether the distribution of certain stock of Controlled (defined below) by Distributing (defined below) to its shareholders: (i) satisfies the business purpose requirement of § 1.355-2(b) of the Income Tax Regulations; (ii) is being used principally as a device for the distribution of earnings and profits of Distributing or Controlled or both (see § 355(a)(1)(B) of the Internal Revenue Code (the "Code") and § 1.355-2(d)); or (iii) is part of a plan (or series of related transactions) pursuant to which one or more persons will acquire directly or indirectly stock representing a 50% or greater interest in Distributing or Controlled (see § 355(e) and § 1.355-7).

Summary of Facts

Publicly traded F Parent is the parent of a group of domestic and foreign entities that engage in various businesses, including Business A and Business B. F Parent's only class of outstanding stock is owned by both foreign and domestic shareholders.

F Parent wholly owns F Sub 1 and F Sub 2. F Sub 1 and F Sub 2 jointly own all of the stock of F Sub 3. F Sub 3 wholly owns F Entity 1, an entity that is disregarded as separate from its single owner for U.S. federal income tax purposes. F Entity 1 wholly owns F Entity 2, an entity that is disregarded as separate from its single owner for U.S. federal income tax purposes. F Entity 1 also wholly owns F Sub 4, an entity treated as a corporation for U.S. federal income tax purposes. F Entity 2 wholly owns Controlled, a domestic corporation which currently has one class of stock outstanding. Following the Controlled Recapitalization, the Internal Restructuring, and the Controlled B Shares Disposition (all defined below), F Parent will own Controlled stock constituting "control" of Controlled as that term is defined in § 368(c).

Newco is a domestic corporation that was recently formed in order to effectuate the proposed transaction. Newco is a shell corporation with nominal assets and has a single share of stock outstanding held by F Parent.

F Parent indirectly operates Business A through several of its lower tier affiliates, including F Sub 5. Controlled indirectly operates Business B through its lower tier affiliates, including domestic Sub.

Financial information has been received which indicates that Business A (conducted by F Sub 5) and Business B (conducted by Sub) each 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 Proposed Transaction

For what are represented to be valid business reasons, F Parent has decided to separate Business A from Business B by means of a Country X Transaction (the "Separation"). In order to accomplish the Separation, the following transactions will occur (collectively, the "Proposed Transaction"):

- (i) Through a Country X a undertaken pursuant to section b of c, a new Country X holding company ("Distributing") will be inserted above F Parent. The existing ordinary shares of F Parent will be cancelled (with new F Parent ordinary shares being issued to Distributing), and two new classes of Distributing stock will be issued: (i) Distributing ordinary shares, which will represent the shareholder's interests in Business A and (ii) Distributing Business B Shares, which will represent the shareholder's interests in Business B.
- (ii) Immediately after step (i) above, F Parent will convert to a Country X Entity and elect to be treated as a entity that is disregarded from its single owner under § 301.7701-3 (steps (i) and (ii), the "F Parent Reorganization").
- (iii) Controlled will recapitalize by issuing two new classes of stock, Controlled A Shares and Controlled B Shares (the "Controlled Recapitalization"). The Controlled A Shares, in the aggregate, will constitute control of Controlled as that term is defined in § 368(c).
- (iv) A series of internal transactions between certain affiliates of Distributing will occur (collectively, the "Internal Restructuring"), after which F Parent will own both the Controlled A Shares and the Controlled B shares.
- (v) The Controlled B Shares will be sold to a third party or to third parties (the "Controlled B Shares Disposition").

The Controlled Distribution and the Controlled Reorganization

- (vi) F Parent will distribute the Controlled A Shares to Distributing.
- (vii) F Parent will transfer certain intercompany debt owed by the Controlled group to the F Parent group to Distributing.
- (viii) Newco will recapitalize with both Newco A Shares and Newco B Shares (the "Newco Recapitalization"). The Newco A Shares and the Newco B Shares will possess vote and value terms that are identical to the terms of the Controlled A Shares and the Controlled B Shares, respectively. The one share of Newco stock owned by F Parent will either be cancelled or will be redeemed from F Parent at the same price at which it was originally issued.

- (ix) Newco will borrow funds from external sources, which will be used to satisfy certain debt owed by the Controlled group to the F Parent group and to Distributing.
- (x) Distributing will transfer the Controlled A Shares to Newco. Newco will issue its Newco A Shares to the holders of Distributing's Business B Shares and such shares will begin trading on the d stock exchange. The Business B Shares of Distributing will be cancelled in exchange for the receipt by the Distributing Business B shareholders of the Newco A Shares. Newco will issue all of its Newco B Shares to the holders of the Controlled B Shares in exchange for their Controlled B Shares.
- (xi) Immediately after step (x) above, Controlled will be converted into a domestic limited liability company under State Y law.

The transactions in steps (x) and (xi) are being undertaken in the manner described due to certain Country X laws.

Representations

The taxpayer has made the following representations regarding the Proposed Transaction:

The F Parent Reorganization

- (a) The fair market value of the Distributing shares received by the F Parent shareholders will be approximately equal to the fair market value of the F Parent shares surrendered in the F Parent Reorganization.
- (b) Immediately following the consummation of the F Parent Reorganization, the F Parent shareholders will own all of the outstanding Distributing stock and will own such stock solely by reason of their ownership of F Parent stock immediately prior to the F Parent Reorganization.
- (c) Immediately before the F Parent Reorganization, Distributing will not hold any property or have any tax attributes, except any nominal assets (and associated attributes) necessary to satisfy minimum capitalization or similar requirements.
- (d) At the time of the F Parent Reorganization, F Parent will not have any outstanding warrants, options, convertible securities, or any other type of right pursuant to which any person could acquire shares of F Parent, except for options to purchase ordinary shares of F Parent, or other rights to acquire F Parent ordinary shares that were granted pursuant to F Parent incentive compensation plans in effect prior to the F Parent Reorganization.

After the F Parent Reorganization becomes effective, any such F Parent ordinary shares issued pursuant to such F Parent incentive compensation plans will be, as a matter of Country X law, acquired by Distributing immediately after they are issued and replaced with ordinary shares of Distributing, or exchanged for cash, or shares of Newco, or a combination thereof.

- (e) The liabilities of F Parent assumed by Distributing plus the liabilities, if any, to which the transferred assets are subject, were incurred by F Parent in the ordinary course of its business and are associated with the assets transferred.
- (f) F Parent is not under the jurisdiction of a court in a Title 11 or similar case within the meaning of § 368(a)(3)(A).
- (g) Each of F Parent, Distributing, and the F Parent shareholders will pay their own expenses, if any, incurred in connection with the F Parent Reorganization.

The Controlled Distribution

- (h) The indebtedness (if any) owed by Newco to Distributing after the Proposed Transaction will not constitute stock or securities.
- (i) With the possible exception of the issuance of stock or shares pursuant to adjustments to F Parent's existing compensatory options, restricted stock, or deferred share arrangements, no part of the consideration to be distributed by Distributing in the Controlled Distribution will be received by a Distributing shareholder as a creditor, employee, or in any capacity other than that of a shareholder of Distributing.
- (j) F Sub 5 will constitute a member of the separate affiliated group of Distributing within the meaning of § 355(b)(3) at the time of the Controlled Distribution.
- (k) The five years of financial information submitted on behalf of F Sub 5 is representative of F Sub 5's present operations, and with regard to F Sub 5 there have been no substantial changes since the date of the last financial statements submitted.
- (l) Sub will constitute a member of the separate affiliated group of Controlled within the meaning of § 355(b)(3) at the time of the Controlled Distribution.

- (m) The five years of financial information submitted on behalf of Sub is representative of Sub's present operations, and with regard to Sub there have been no substantial changes since the date of the last financial statements submitted.
- (n) No person will hold a 50% or greater interest in the shares of Distributing or Newco after the Proposed Transaction, within the meaning of § 355(g), who did not hold such an interest immediately before the Proposed Transaction.
- (o) Following the Controlled Distribution, Distributing (through F Sub 5) will continue the active conduct of Business A independently and with its separate employees or employees of the other members of its affiliated group.
- (p) Following the Controlled Distribution, Controlled (through Sub) will continue the active conduct of Business B, independently and with its separate employees or employees of the other members of its affiliated group. Subsequent to the Controlled Distribution, Distributing may provide Controlled with certain transitional services for a period not expected to exceed 6 months. Distributing's post-Controlled Distribution transitional services will include tax compliance, pension and insurance services. Any compensation for such services provided by Distributing to Controlled (including its affiliated entities conducting Business B) will be based on the total allocated costs incurred by Distributing.
- (q) The Controlled Distribution is being undertaken for the following corporate business purposes: (i) fit and focus, and (ii) providing equity based compensation plans to key employees in each business. The Controlled Distribution is motivated, in whole or substantial part, by these corporate business purposes.
- (r) The Controlled Distribution is not used principally as a device for the distribution of the earnings and profits of F Parent, Distributing, Controlled, Newco, or any combination thereof.
- (s) For purposes of § 355(d), immediately after the Controlled Distribution, no person (determined after applying the aggregation rules of § 355(d)(7)) will hold shares possessing 50% or more of the total combined voting power of all classes of Distributing's shares entitled to vote or 50% or more of the total value of all classes of Distributing shares 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 Controlled Distribution.

- (t) For purposes of § 355(d), immediately after the Controlled Distribution no person (determined after applying the aggregation rules of § 355(d)(7)) will hold stock possessing 50% or more of the total combined voting power of all classes of Newco stock entitled to vote or 50% or more of the total value of shares of all classes of Newco 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 Controlled Distribution.
- (u) Other than trade account indebtedness created in the ordinary course of business through continuing transactions at terms arrived at by the parties bargaining at arm's length and payables created for transitional services, no intercorporate debt will exist between Distributing and Controlled (or Newco) after the Proposed Transaction.
- (v) Payments made in connection with all continuing transactions between Distributing and its subsidiaries (on the one hand), and Newco and its subsidiaries (on the other), will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length, except for certain transactions and arrangements, which may be provided based on the total allocated cost incurred by the provider of such services.
- (w) F Parent, Distributing, Controlled, Newco, and the shareholders of F Parent each will pay their own expenses, if any, incurred in connection with the Proposed Transaction.
- (x) The Controlled Distribution is not part of a plan or a 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% or greater interest (within the meaning of § 355(d)(4)) in Distributing or Newco (including any predecessor or successor of any such corporation).
- (y) Following the Proposed Transaction, Newco (through Sub) will continue the active conduct of Business B, independently and with its separate employees or employees of other members of its affiliated group.
- (z) Neither Business A nor Business B nor control of an entity conducting these businesses were acquired during the five-year period ending on the date of the Controlled Distribution in a transaction in which gain or loss was recognized (or treated as recognized) in whole or in part.
- (aa) Neither Distributing nor Controlled (nor Newco) have been or will be 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 Proposed Transaction, and neither Distributing nor Controlled (nor Newco) will be a

United States real property holding corporation, as defined in § 897(c)(2), immediately after the Proposed Transaction.

The Controlled Reorganization

- (bb) Since its formation, Newco has not engaged in any activities or business other than those in connection with the Proposed Transaction.
- (cc) Immediately before the Controlled Reorganization, Newco will not hold any property or have any tax attributes, except any nominal assets (and associated attributes) necessary to satisfy minimum capitalization or similar requirements, or otherwise to participate in the Proposed Transaction.
- (dd) The fair market value of the Newco A Shares received by the Controlled A Share shareholders will be approximately equal to the fair market value of the Controlled A Shares surrendered in the Controlled Reorganization.
- (ee) The fair market value of the Newco B Shares received by the Controlled B Share shareholders will be approximately equal to the fair market value of the Controlled B Shares surrendered in the Controlled Reorganization.
- (ff) Immediately following the consummation of the Controlled Reorganization, the Controlled A Share shareholders will own all of the outstanding Newco A Shares and will own such stock solely by reason of their ownership of Controlled A Shares immediately prior to the Controlled Reorganization.
- (gg) Immediately following the consummation of the Controlled Reorganization, the Controlled B Share shareholders will own all of the outstanding Newco B Shares and will own such stock solely by reason of their ownership of Controlled B Shares immediately prior to the Controlled Reorganization.
- (hh) At the time of the Controlled Reorganization, Controlled will not have any outstanding warrants, options, convertible securities, or any other type of right pursuant to which any person could acquire stock in Controlled.
- (ii) The liabilities of Controlled assumed by Newco plus the liabilities, if any, to which the transferred assets are subject were incurred by Controlled in the ordinary course of its business and are associated with the assets being transferred.
- (jj) Controlled is not under the jurisdiction of a court in a Title 11 or similar case within the meaning of § 368(a)(3)(A).

- (kk) Each of Controlled, Newco, and the Controlled shareholders will pay their own expenses, if any, incurred in connection with the Controlled Reorganization.
- (ll) The one share of Newco stock held by F Parent will either be cancelled or redeemed by Newco at the same price at which it was acquired by F Parent.

Rulings

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

The F Parent Reorganization

- (1) For U.S. federal income tax purposes, steps (i) and (ii) above will be treated as if the F Parent shareholders contributed all of their F Parent stock to Distributing in exchange for Distributing stock, followed by the immediate conversion of F Parent into a single member disregarded entity. These transactions viewed together will constitute a reorganization within the meaning of § 368(a)(1)(F) (see Rev. Rul. 96-29, 1996-1 C.B. 50).
- (2) No gain or loss will be recognized by the shareholders of F Parent upon their exchange of F Parent shares for Distributing shares (§ 354(a)(1)).
- (3) No gain or loss will be recognized by Distributing in the F Parent Reorganization (§ 1032(a)).
- (4) No gain or loss will be recognized by F Parent in the F Parent Reorganization (§§ 361(a) and 357(a)).
- (5) The basis of each asset of F Parent acquired by Distributing will be the same as the basis of that asset in the hands of F Parent immediately before the F Parent Reorganization (§ 362(b)).
- (6) The holding period of each asset of F Parent in the hands of Distributing will include the period during which such asset was held by F Parent (§ 1223(2)).
- (7) The basis of the Distributing shares received by each shareholder of F Parent will be the same as the basis of the F Parent shares held by the shareholder immediately before the F Parent Reorganization, allocated in the manner described in § 1.358-2(a).
- (8) The holding period of the Distributing shares received by each shareholder of F Parent will include the holding period of the F Parent shares exchanged

therefore, provided that the F Parent shares are held as a capital asset on the date of the F Parent Reorganization (§ 1223(1)).

- (9) For purposes of § 381, Distributing will be treated as F Parent would have been treated had there been no reorganization. Therefore, the taxable year of F Parent will not end on the date of the F Parent Reorganization. The tax attributes of F Parent will be taken into account by Distributing as if there had been no reorganization (§ 381 and § 1.381(b)-1(a)(2)).

The Controlled Distribution

- (10) For U.S. federal income tax purposes, step (x) above will be treated as if Distributing distributed the Controlled A Shares (on a pro rata basis) to the shareholders of Distributing under § 355 (see Rev. Rul. 83-142, 1983-2 C.B. 68; Rev. Rul. 77-191, 1977-1 C.B. 94).
- (11) No gain or loss will be recognized by (and no amount will be included in the income of) the shareholders of Distributing on their receipt of the Controlled A Shares (§ 355(a)(1)).
- (12) No gain or loss will be recognized by Distributing on the distribution of the Controlled A Shares to the Distributing shareholders in the Controlled Distribution (§ 355(c)).
- (13) The aggregate basis of the Distributing stock and the Controlled A Shares in the hands of each Distributing shareholder will be equal to the aggregate basis of the Distributing stock held by that shareholder immediately before the Controlled Distribution. Such aggregate basis will be allocated between the Distributing stock and the Controlled A Shares in proportion to the fair market value of each, in accordance with § 1.358-2(a) (§ 358(a)(1), (b), and (c)).
- (14) The holding period of the Controlled stock received by each Distributing shareholder in the Controlled Distribution will include the holding period of the Distributing stock on which the Controlled Distribution is made, provided the Distributing stock is held as a capital asset on the date of the Controlled Distribution (§ 1223(1)).
- (15) Earnings and profits will be allocated between Distributing and Controlled in accordance with § 1.312-10.

The Controlled Reorganization

- (16) For U.S. federal income tax purposes, steps (x) and (xi) above will be treated as if the shareholders of Distributing transferred their Controlled A Shares, and the holders of the Controlled B Shares transferred their Controlled B

- Shares, to Newco solely in exchange for Newco A Shares and Newco B Shares, respectively, after which Controlled immediately converted to a domestic limited liability company under applicable State Y law. These transactions viewed together will constitute a reorganization within the meaning of § 368(a)(1)(F) (see Rev. Rul. 96-29, 1996-1 C.B. 50).
- (17) No gain or loss will be recognized by the Controlled A Shares shareholders on their exchange of Controlled A Shares for Newco A Shares. No gain or loss will be recognized by the Controlled B Shares shareholders on their exchange of Controlled B shares for Newco B Shares (§ 354(a)(1)).
 - (18) No gain or loss will be recognized by Newco in the Controlled Reorganization (§ 1032(a)).
 - (19) No gain or loss will be recognized by Controlled on the transfer of its assets and liabilities to Newco (§§ 361(a) and 357(a)).
 - (20) The basis of each Controlled asset in the hands of Newco will be the same as the basis of that asset in the hands of Controlled immediately prior to its transfer (§ 362(b)).
 - (21) The holding period of each Controlled asset in the hands of Newco will include the period during which the asset was held by Controlled (§ 1223(2)).
 - (22) The basis of the Newco stock received by each Controlled A Shares shareholder will be the same as the basis of the Controlled A Shares held by the shareholder immediately before the Controlled Reorganization, allocated in the manner described in § 1.358-2(a). The basis of the Newco stock received by each Controlled B Shares shareholder will be the same as the basis of the Controlled B Shares held by the shareholder immediately before the Controlled Reorganization, allocated in the manner described in § 1.358-2(a).
 - (23) The holding period of the Newco stock received by each Controlled A Shares shareholder will include the holding period of the Controlled A Shares, provided that the Controlled A Shares are held as capital assets by the shareholder on the date of the Controlled Reorganization. The holding period of the Newco stock received by each Controlled B Shares shareholder will include the holding period of the Controlled B Shares, provided that the Controlled B Shares are held as capital assets by the shareholder on the date of the Controlled Reorganization (§ 1223(1)).
 - (24) For purposes of § 381, Newco will be treated as Controlled would have been treated had there been no reorganization. Therefore, the taxable year of Controlled will not end on the date of the Controlled Reorganization. The tax

attributes of Controlled will be taken into account by Newco as if there had been no reorganization (§ 381 and § 1.381(b)-1(a) (2)).

Caveats

We express no opinion about the tax treatment of the Proposed Transaction under any other provisions of the Code and regulations, or the tax treatment of any condition existing at the time of, or effects resulting from, the Proposed Transaction that are not specifically covered by the above rulings. In particular, we express no opinion regarding:

- (1) whether the Controlled Distribution satisfies the business purpose requirement of § 1.355-2(b);
- (2) whether the Controlled Distribution is being used principally as a device for the distribution of the earnings and profits of Distributing, Controlled, or both (see § 355(a)(1)(B) and § 1.355-2(d));
- (3) whether the Controlled Distribution is part of a plan (or series of related transactions) under § 355(e)(2)(A)(ii);
- (4) the federal income tax consequences of the Controlled Recapitalization, the Internal Restructuring, and the Controlled B Shares Disposition, except as described herein,
- (5) the potential application of § 482 to any transitional services provided by the Distributing group to the Newco (Controlled) group that are based upon the total allocated costs incurred by the Distributing group for such services, and
- (6) the application of §§ 367, 897, and 1248 to any transaction that may be undertaken in connection with the Proposed Transaction.

Procedural Statements

This letter is directed only to the taxpayers 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 any federal 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.

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

Sincerely,

Richard K. Passales _____

Richard K. Passales
Senior Counsel, Branch 4
Office of Associate Chief Counsel
(Corporate)

cc: