

Internal Revenue Service

Department of the Treasury

Index Number: 0368.04-00, 0355.00-00
Number: **199912019**
Release Date: 3/26/1999

Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:

CC:DOM:CORP:4 PLR-122028-98

Date:

December 22, 1998

Date 1 =

Date 2 =

Date 4 =

Property W =

Contract A =

Contract B =

e =

f =

Dear

This letter responds to your November 23, 1998 request for a supplement to our prior letter ruling dated November 12, 1998 (the "Prior Letter Ruling"). The legend abbreviations, factual summary, and representations appearing in our Prior Letter Ruling are incorporated by reference unless otherwise indicated.

Pursuant to your request, the Prior Letter Ruling has been modified as follows:

(A) The descriptions of Date 1, Date 2, and Property W in the legend have been

amended, and Contract A, Contract B, Date 4, e, and f have been added.

(B) The description of the Proposed Transaction has been amended to read as follows:

Before Date 1:

(i) Sub 7 has sold its assets in the ordinary course of Business C and will be liquidated into Parent.

(ii) Parent and its Subsidiaries (including several of its foreign subsidiaries) will sell assets in the ordinary course of business. The foreign subsidiaries that sell their assets will be liquidated into Parent after such sales. Parent will also attempt to sell Business B and the Other Businesses, because none of Group A, Group B, or Group C wishes to acquire them. Any proceeds from the above sales (including the sale by Sub 7 in step (i)) will be used to pay liabilities or purchase assets for use in Business A or Business C, or will be allocated among Sub 2, Controlled 1, and Controlled 2.

(iii) Sub 2 will sell all of its Corp D and Corp G stock and part of its Corp A stock. The proceeds of these sales will be used by Sub 2 to equate the value of each shareholder group's stock in Parent with the value of the corporation that group will own after the Transactions are completed.

On or before Date 1:

(iv) Parent will transfer Property W to Controlled 2.

(v) Sub 2 will form two domestic holding company subsidiaries ("DHC 2" and "DHC 3"). Sub 2 will transfer to DHC 2 d percent of its stock in Corp A, Corp B, and Corp E. Sub 2 will transfer to DHC 3 e percent of its stock in Corp A, Corp B, and Corp E.

(vi) Sub 1 will merge into Sub 2 (the "First Merger").

(vii) Parent will merge into Sub 2 (the "Second Merger").

(viii) A plan of liquidation will be adopted for Sub 3, and the assets of Sub 3 will be distributed to Sub 2 (the "Sub 3 Distribution").

(ix) Unless Sub 14 is sold before Date 1, Sub 2 (or Parent before the merger described in step (vi)) will contribute the stock of Sub 14 to a newly formed limited liability company ("New LLC"), which will be treated for federal tax purposes as a division of Sub 2. On or before Date 1, a plan of complete liquidation will be adopted for Sub 14, and the assets of Sub 14 will be distributed to New LLC (the "Sub 14 Distribution").

(x) Sub 2 will transfer to a wholly owned liability company (“LLC 1”) (a) the assets and liabilities of Business B and the Other Businesses not sold in step (ii) (including stock of corporations engaged in the Other Businesses), (b) stock of Corp F, and (c) Property V. As described below in steps (xii) and (xiii), Sub 2 will transfer to Controlled 1 and Controlled 2 partial interests in LLC 1, which will be treated as a partnership for federal tax purposes. The joint ownership of LLC 1 will be terminated as expeditiously as possible (see step (xviii) below).

(xi) Sub 2 will transfer to a second wholly owned limited liability company (“LLC 2”) assets necessary to perform certain transitional support services for Sub 2, Controlled 1, Controlled 2, their respective subsidiaries, and LLC 1. As described below in steps (xii) and (xiii), Sub 2 will transfer to Controlled 1 and Controlled 2 partial interests in LLC 2, which will be treated as a partnership for federal tax purposes. The joint ownership of LLC 2 will be terminated as expeditiously as possible.

(xii) Sub 2 will contribute to Controlled 1 (a) Property X and Property Y, (b) c percent of its stock in Corp A, Corp B, Corp E, LLC 1, and LLC 2, (c) Contract A, (d) part of its pension assets and liabilities, (e) part of its split dollar life insurance assets, and (f) cash, and Controlled 1 will distribute Property Z to Sub 2 (collectively, “Contribution 1”). Sub 2 will also contribute to Controlled 1 its stock in Sub 4, Sub 8, Sub 10, Sub 11, and Sub 12.

(xiii) Sub 2 will contribute to Controlled 2 (a) its Corp C and DHC 2 stock, (b) d percent of its stock in LLC 1 and LLC 2, (c) Contract B, (d) part of its pension assets and liabilities, and (e) cash (collectively, “Contribution 2”). The Group A, Group B, and Group C shareholders have agreed to a tentative value for the Corp C stock, but have agreed to re-value the Corp C stock after release of the Corp C Date 4 earnings report. If the Date 4 report and other relevant information alter the agreed upon tentative value of the Corp C stock, appropriate adjustments will be made amongst Sub 2, Controlled 1, and Controlled 2 to reflect the difference.

(xiv) Controlled 1 will form a domestic holding company subsidiary (“DHC 1”) and will transfer to DHC 1 stock of Corp A and other investment assets.

(xv) On Date 1 at f, Sub 2 will distribute its Controlled 1 stock to the Group A shareholders in exchange for their Sub 2 stock (“Distribution 1”) and its Controlled 2 stock to the Group B shareholders in exchange for their Sub 2 stock (“Distribution 2”) (together, the “Distributions”).

After Date 2:

(xvi) Controlled 1 will elect under § 1361(a) to be treated as an S corporation and will elect under § 1361(b)(3) to have Sub 4, Sub 8, Sub 10, Sub 11, Sub 12, and DHC 1 treated as qualified subchapter S subsidiaries (“QSubs”). Controlled 2 will elect

under § 1361(a) to be treated as an S corporation and will elect under § 1361(b)(3) to have DHC 2 treated as a QSub. All elections will take effect on Date 2.

(xvii) Sub 2 will elect under § 1361(a) to be treated as an S corporation (the "Sub 2 S Election"). Sub 2 will elect under § 1361(b)(3) to have Sub 5, Sub 6, Sub 9, Sub 13, and DHC 3 treated as QSubs. All elections will take effect on Date 2.

(xviii) LLC 1 will undertake to sell all the assets received from Sub 2 in step (x) above (including the stock of Corp F). The proceeds of the sales will be distributed among Sub 2, Controlled 1, and Controlled 2 in proportion to their interests in LLC 1. Sub 2, Controlled 1, and Controlled 2 intend to have LLC 1 sell the assets as expeditiously as possible, after which LLC 1 will be dissolved.

(C) Representations (k) and (cc) have been modified to read as follows:

(k) Other than any § 303 redemptions that may be effected by Controlled 1, and other than possible inter vivos gifts to lineal descendants before or after Distribution 1, there is no plan or intention by the Group A or Group C shareholders to sell, exchange, transfer by gift, or otherwise dispose of any stock in Sub 2 or Controlled 1 after the Transactions.

(cc) Other than any § 303 redemptions that may be effected by Controlled 2, and other than possible inter vivos gifts to lineal descendants before or after Distribution 2, there is no plan or intention by the Group B or Group C shareholders to sell, exchange, transfer by gift, or otherwise dispose of any stock in Sub 2 or Controlled 2 after the Transactions.

(D) The following representations regarding Distribution 1 and Distribution 2 have been added:

(t2) Distribution 1 is not part of a plan or series of related transactions (within the meaning of § 355(e)) 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 either Sub 2 or Controlled 1, or stock possessing 50 percent or more of the total value of all classes of stock of either Sub 2 or Controlled 1.

(mm) Distribution 2 is not part of a plan or series of related transactions (within the meaning of § 355(e)) 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 either Sub 2 or Controlled 2, or stock possessing 50 percent or more of the total value of all classes of stock of either Sub 2 or Controlled 2.

The above changes do not adversely affect the rulings contained in the Prior Letter Ruling, and those rulings retain full force and effect.

No opinion is expressed about the tax treatment of the above changes under other provisions of the Code and Federal Income Tax Regulations, or the tax treatment of any conditions existing at the time of, or effects resulting from, the above changes that are not specifically covered by the rulings contained in the Prior Letter Ruling.

The caveats contained in the Prior Letter Ruling remain unchanged, except that all references to the steps of the Transactions in these caveats are amended to conform to the revised steps set forth above.

This supplemental letter is directed only to the taxpayer who requested it. Section 6110(k)(3) provides that it cannot be used or cited as precedent.

Copies of this supplemental letter and the Prior Letter Ruling must be attached to the federal income tax return of each taxpayer involved for the taxable year in which the Transactions are completed.

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

Sincerely,

Assistant Chief Counsel
(Corporate)

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