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January 22, 1999

Acquiring =

Target =

State X =

a =

b =

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d =

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This letter responds to your representative's July 21, 1998 request for rulings on the Federal income tax consequences of a proposed transaction. Additional information was submitted in letters dated December 10 and December 29, 1998, and January 20, 1999. The information submitted for consideration is summarized below.

Acquiring is organized under the laws of State X and registered under the Investment Company Act of 1940 (the "1940 Act") as a diversified, open-end management investment company. Acquiring has elected to be taxed as a regulated investment company ("RIC") under §§ 851-855 of the Internal Revenue Code (the

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“Code”). Acquiring’s investment objective is to provide shareholders with long-term growth of capital by investing in a diversified portfolio of equity securities, placing particular emphasis on companies that have shown above-average growth rates in earnings.

Target is organized under the laws of State X and registered under the the 1940 Act as a diversified, open-end management investment company. Target has elected to be taxed as a RIC under §§ 851-855 of the Code. Target’s investment objective is to provide investors with long-term growth of capital by investing in a quality-oriented portfolio of securities, primarily common stocks of companies that Target’s management believes are particularly well-positioned to benefit from demographic and cultural changes, primarily as they affect future consumer markets.

Acquiring and Target each has four classes of voting common stock outstanding: Class A, Class B, Class C, and Class D. The other significant features of the Class A, B, C, and D stock of both Acquiring and Target are as follows. The Class A shares, offered to a limited group of investors, have a maximum initial sales charge of a percent. The Class B shares have no initial sales charge, but are subject to an account maintenance fee of b percent, a distribution fee of c percent, and a contingent deferred sales charge ranging from d to e percent if redeemed within four years from purchase. The Class B shares automatically convert to Class D shares eight years from purchase. The Class C shares have no initial sales charge, but are subject to a maintenance fee of b percent, a distribution fee of c percent, and a contingent deferred sales charge of e percent if redeemed within one year from purchase. The Class D shares have a maximum initial sales charge of a percent and are subject to a maintenance fee of b percent.

Acquiring and Target have entered into an agreement and plan of reorganization for what are represented to be valid business reasons. Pursuant to the agreement, the transaction consists of the following steps:

(i) Target will transfer all of its assets and liabilities to Acquiring in exchange for an equal value of newly issued Acquiring Class A, Class B, Class C and Class D common voting stock;

(ii) Target will distribute to its shareholders all of the Acquiring shares received in the exchange, such that each Target shareholder will receive, on a pro rata basis, shares of the class of Acquiring shares with the same class designation and the same distribution fees, account maintenance fees and sales charges, if any, as the Target shares held by such shareholder immediately prior to the transaction; and

(iii) Target will liquidate, dissolve in accordance with the laws of State X, and terminate its registration under the 1940 Act.

After the transaction, Acquiring may sell up to 66 percent of the assets received

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from Target to unrelated parties, and will reinvest the proceeds consistent with its investment objectives and policies.

The following representations have been made in connection with the proposed transaction:

(a) The fair market value of the Acquiring stock received by each Target shareholder will be approximately equal to the fair market value of the Target stock surrendered in the exchange.

(b) Acquiring will acquire at least 90 percent of the fair market value of the net assets and at least 70 percent of the fair market value of the gross assets held by Target immediately prior to the transaction. For purposes of this representation, amounts used by Target to pay its reorganization expenses, amounts paid by Target to shareholders who receive cash or other property, and all redemptions and distributions (except for redemptions pursuant to a demand of a shareholder in the ordinary course of Target's business as an open-end investment company pursuant to § 22(e) of the 1940 Act and regular, normal dividends) made by Target immediately preceding the transfer will be included as assets of Target held immediately prior to the transaction. There will be no payments to dissenters, as shareholders may redeem their shares at any time.

(c) Acquiring has no plan or intention to sell or otherwise dispose of any of the assets of Target acquired in the transaction, except for dispositions made in the ordinary course of business.

(d) Pursuant to the plan of reorganization, Target will distribute to its shareholders the stock of Acquiring it receives in the transaction.

(e) The liabilities of Target assumed by Acquiring and any liabilities to which the transferred assets of Target are subject were incurred by Target in the ordinary course of its business.

(f) Following the transaction, Acquiring will continue the historic business of Target or use a significant portion of Target's historic business assets in a continuing business.

(g) Acquiring, Target and Target's shareholders will pay their respective expenses, if any, incurred in connection with the transaction.

(h) There is no intercorporate indebtedness existing between Target and Acquiring that was issued, acquired, or will be settled at a discount.

(i) Acquiring and Target each meets the requirements of a regulated investment company as referred to in § 368(a)(2)(F).

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(j) Acquiring does not own, directly or indirectly, nor has it owned during the past five years, directly or indirectly, any stock of Target.

(k) The fair market value of the assets of Target transferred to Acquiring will equal or exceed the sum of the liabilities assumed by Acquiring, plus the amount of liabilities, if any, to which the transferred assets are subject.

(l) Target is not under the jurisdiction of a court in a Title 11 or similar case within the meaning of § 368(a)(3)(A).

(m) Acquiring and Target have elected to be taxed as RICs under § 851 and, for all their taxable periods (including the last short taxable period ending on the date of the transaction, for Target) have qualified for the special tax treatment afforded RICs under the Code, and after the transaction, Acquiring intends to continue to so qualify.

(n) There is no plan or intention by Acquiring or any person related to Acquiring (as defined in § 1.368-1(e)(3) of the Income Tax Regulations) to acquire or redeem any of the Acquiring stock issued in the transaction either directly or through any transaction, agreement, or arrangement with any other person, other than redemptions in the ordinary course of Acquiring's business as an open-end investment company as required by § 22(e) of the 1940 Act.

(o) During the five-year period ending on the date of the proposed transaction, neither Target nor any person related to Target (as defined in § 1.368-1(e)(3) of the Income Tax Regulations without regard to § 1.368-1(e)(3)(i)(A)) will have directly or through any transaction, agreement, or arrangement with any other person, (i) acquired stock of Target with consideration other than shares of Acquiring or Target, except for stock redeemed in the ordinary course of Target's business as an open-end investment company as required by § 22(e) of the 1940 Act, or (ii) made distributions with respect to Target stock, except for (a) distributions described in §§ 852 and 4982 of the Internal Revenue Code of 1986, as amended (the "Code"), and (b) additional distributions, to the extent such distributions do not exceed 50 percent of the value (without giving effect to such distributions) of the proprietary interest in Target on the effective date of the proposed transaction.

(p) Prior to or in the transaction, neither Acquiring nor any person related to Acquiring (as defined in § 1.368(e)(3)) will have acquired directly or through any transaction, agreement or arrangement with any other person, stock of Target with consideration other than shares of Acquiring.

Based solely upon the information and representations set forth above, we hold as follows:

- (1) The acquisition by Acquiring of substantially all the assets of Target in exchange for voting shares of Acquiring stock and Acquiring's assumption

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of Target's liabilities, followed by the distribution by Target to its shareholders of Acquiring shares and any remaining assets, in complete liquidation, will constitute a reorganization within the meaning of § 368(a)(1)(C) of the Code. Acquiring and Target will each be a "party to a reorganization" within the meaning of § 368(b).

- (2) No gain or loss will be recognized by Target upon the transfer of substantially all of its assets to Acquiring solely in exchange for Acquiring voting common stock and Acquiring's assumption of Target's liabilities or upon the distribution of such Acquiring stock to Target shareholders (§§ 361(a) and (c), 357(a)).
- (3) Acquiring will recognize no gain or loss upon the receipt of substantially all of the assets of Target in exchange solely for Acquiring voting stock (§ 1032(a)).
- (4) The shareholders of Target will recognize no gain or loss on the receipt of voting stock of Acquiring (including any fractional share interests to which they may be entitled) solely in exchange for their Target stock (§ 354(a)(1)).
- (5) The basis of the assets of Target in the hands of Acquiring is the same as the basis of such assets in the hands of Target immediately prior to the transfer (§ 362(b)).
- (6) The holding period of the assets of Target in the hands of Acquiring will include the period during which those assets were held by Target (§ 1223(2)).
- (7) The basis of the Acquiring stock received by each Target shareholder will be the same as the basis of the Target stock surrendered in exchange therefor (§ 358(a)(1)).
- (8) The holding period of the Acquiring stock received by the Target shareholders in exchange for their Target stock (including fractional shares to which they may be entitled) will include the period that the shareholder held the Target stock exchanged therefor, provided that the shareholder held such stock as a capital asset on the date of the exchange (§ 1223(1)).
- (9) Pursuant to § 381(a) of the Code and § 1.381(a)-1 of the Income Tax Regulations, the taxable year of Target will end on the effective date of the reorganization and Acquiring will succeed to and take into account the items Target described in § 381(c) of the Code, subject to the provisions and limitations specified in §§ 381, 382, 383, and 384 of the Code and

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regulations thereunder.

No opinion is expressed about the tax treatment of the transaction under other provisions of the Code and regulations or about the tax treatment of any conditions existing at the time of, or effects resulting from, the transactions that are not specifically covered by the above rulings. Specifically, no opinion was requested, and none is expressed, about whether Acquiring or Target qualified as a RIC that is taxable under Subchapter M, Part I of the Code.

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

A copy of this letter should be attached to the Federal income tax return of each taxpayer involved for the taxable year in which the transaction covered by this letter is consummated.

Pursuant to a power of attorney on file in this office, a copy of this letter has been sent to your authorized representative.

Sincerely,

Assistant Chief Counsel (Corporate)

By Richard Osborne

Richard Osborne  
Senior Technician Reviewer,  
Branch 2