

Internal Revenue Service

Department of the Treasury

Number: **200230002**
Release Date: 7/26/2002
Index Number: 302.04-00

Washington, DC 20224

Person to Contact:

Telephone Number:
(202) 622-7770
Refer Reply To:
CC:CORP-PLR-133889-01
Date:
March 26, 2002

Legend

Distributing =

Sub 1 =

Sub 2 =

Sub 3 =

Unrelated =

LLC1 =

LP1 =

LP2 =

LP3 =

LLC3 =

LLC2(LP) =

LLC4 =

AA	=
Business A	=
Business B	=
Business C	=
Business D	=
Business E	=
State X	=
State Y	=
State Z	=
Date 1	=
Date 2	=
Date 3	=
Date 4	=
Date 5	=
Date 6	=
M	=
N	=
O	=
P	=
Q	=
R	=
S	=

T =

This letter is in reply to a letter from your authorized representative, dated June 18, 2001, requesting rulings concerning the federal income tax consequences of a proposed transaction. Additional information was supplied in subsequent letters.

The information submitted for consideration indicates that Distributing, a State X corporation, is the common parent of a consolidated group of corporations which includes Sub 1, Sub 2, and Sub 3. The Distributing group files a federal consolidated tax return on a calendar year basis using the accrual method of accounting. Distributing has four classes of stock outstanding: voting common, nonvoting common, voting preferred, and nonvoting preferred. All of Distributing's shareholders are individuals except one, which is an S corporation. There are no other outstanding rights, such as warrants, options or convertible securities, affecting Distributing's stock.

Distributing directly conducts Business E. On Date 5, which is more than 5 years prior to the date of the proposed distribution (Distribution Date), Distributing purchased a O percent undivided interest in a AA, which Distributing used in a business. Distributing indirectly owned all of the stock of Sub 3, a State X corporation. Sub 3 operated Business B from Date 6 until Date 1.

Distributing and Unrelated agreed to form a partnership. In furtherance of this venture, on Date 1, Distributing formed Sub 1 and Sub 2. Sub 1 and Sub 2 are both State Y corporations and have only a single class of stock outstanding (common stock). Distributing owns all of the stock of Sub 1. Distributing owns directly M percent of the stock of Sub 2 and owns indirectly N percent (M plus N equals 100). Sub 3 owns directly the remaining N percent of the stock of Sub 2.

On Date 1, Distributing contributed P percent of its O percent interest in the AA to Sub 1 and Q percent of its O percent interest in the AA to Sub 2. In addition, on Date 1, Sub 3 transferred all of its Business B employees to Sub 1 and the remainder of its Business B assets to Sub 2. On Date 1, Sub 1 retained all of its employees (including the Business B employees) and contributed its interest in the AA to LLC1 in exchange for a R percent managing member interest. LLC1 is a State Y limited liability company taxed as a partnership for federal income tax purposes. On Date 1, LLC1 formed LP1, a State Z limited partnership. Sub 2 contributed its interest in the AA and its Business B assets to LP1 in exchange for a S percent limited partnership interest. LP1, in turn, formed LP2 and LP3, also State Z limited partnerships. LP1 contributed certain assets to LP2 and LP3 in exchange for a Q percent limited partnership interest in each. LLC1 owns a P percent general partnership interest in each of LP1, LP2 and

LP3. (LLC1, LP1, LP2, and LP3 are sometimes referred to collectively as “the Entities.”)

On Date 1, Unrelated contributed its Business C and its Business D to the Entities. In exchange for its contributions, Unrelated received a R percent managing interest in LLC1 and a S percent limited partnership interest in LP1.

Sub 1 and Sub 2 have identical officers who make management decisions with respect to Business A and Business B. Management decisions made by such officers with respect to Business A and Business B are made for the benefit of Sub 1 and Sub 2. In general, Sub 1 provides the operational employees for the AA and Business B. Unrelated provides the operational employees for Businesses C and D.

State Z law authorizes a limited partner to approve mergers, serve on committees of the limited partnership, designate members of a governing board, act on the governing board, and approve indemnifications, any or all of which actions are not grounds for deeming the limited partner to be a general partner. Further, under LP1’s partnership agreement, partnership actions of any significance are ineffective without the consent of the limited partners. Such actions include: (1) mergers or consolidations of LP1; (2) the sale, lease, exchange or other dispositions of all or substantially all of the property and assets of LP 1; (3) amendment of the partnership agreement; (4) a dissolution, winding-up, or liquidation of LP1; (5) a change in the purpose of LP1; (6) the admission of new partners; and, (7) amendment of LP1’s distribution policies.

The Entities sold Business C on Date 2 and Business D on Date 3. They sold Business B (excluding the working capital associated with Business B) on Date 4. The Entities were unable to find a purchaser for their O percent interest in the AA. LP1 will form a state law partnership made up of three tiers of single member limited liability companies, which will be disregarded as entities separate from LP1 for federal income tax purposes. LP1 will transfer to LLC2(LP) (the top-tier single member limited liability company), its O percent interest in the AA, but not cash or cash equivalents. LLC2(LP) will not receive any working capital or other cash associated with the operation of the AA. LP1 will distribute to its partners (LLC1, Unrelated, and Sub 2) in proportion to their interests in LP1, the membership interests in LLC2(LP) and its other assets over the period of time during which it winds up its affairs. LLC1 will distribute all its assets, including the LLC2(LP) interests received from LP1, to its members, Unrelated and Sub 1, in proportion to their ownership interest in LLC1 as it winds up its affairs.

As a result of the termination of LP1, LP2, LP3, and LLC1, Sub 1 and Sub 2 will receive, in the aggregate:

- R percent of the proceeds from the sale of Business B and R percent of the working capital associated with Business B (the “Distributing Business B Proceeds”);

- R percent of the proceeds from the sale of Business C (the “Distributing C Proceeds”);
- R percent of the proceeds of Business D (the “Distributing D Proceeds”);
- R percent membership interest in LLC2(LP) and the portion of working capital that was held by the Entities attributable to a T percent interest in the AA (collectively, a T percent undivided interest in the AA and the working capital associated with such T percent interest in the AA is referred to as the “Distributing Business A Interests”). [Just prior to the termination of the Entities, LLC2(LP) will hold an O percent interest in the AA. Thus, Sub 1 and Sub 2's ownership in LLC2(LP) will reflect their aggregate ownership of a T percent undivided interest in the AA (R percent times O percent equals T percent)].

Likewise, Unrelated will receive R percent of the proceeds from the sale of Business B, R percent of the proceeds from the sale of Business C, and R percent of the proceeds from the sale of Business D.

Unrelated will also receive a R percent membership interest in LLC2(LP) and the portion of working capital that was held by the Entities attributable to a T percent interest in the AA.

It is intended that Unrelated will then sell its R percent membership interest in LLC2(LP) to Distributing or an entity that is disregarded for federal income tax purposes controlled by Distributing. (The R percent membership interest in LLC2(LP) that Distributing purchases from Unrelated will be hereafter referred to as the “Purchased A Interests”.) Distributing represents that the sale will be at fair market value based on terms and conditions arrived at by parties bargaining at arm’s length.

As part of a plan of partial liquidation, Distributing plans to distribute the Distributing Business B Proceeds, the Distributing Business A Interests, and the Purchased A Interests to its common shareholders (the “Distribution”). In addition, Distributing plans to distribute cash to its voting preferred shareholders. To that end, the following steps will be or have been completed:

- i. Sub 3 adopted a plan of complete liquidation. As part of the plan, Sub 3 distributed to Distributing its N percent of the stock of Sub 2.
- ii. Sub 1 and Sub 2 will each adopt a plan of complete liquidation. As part of the plan, Sub 1 and Sub 2 will distribute to Distributing the sale proceeds and assets received from the Entities (such proceeds and assets as described above);

- iii. Distributing has formed LLC3 and LLC4. LLC3 and LLC4 are each a single member limited liability company disregarded as an entity separate from Distributing for federal income tax purposes.
- iv. LLC3 will hire employees necessary for the operation of the AA. The employees will be responsible for the day-to-day operation and management of Distributing's shareholders' interests' in the AA after the distribution.
- v. Distributing will transfer to LLC2(LP) its 100 percent interest in LLC3.
- vi. Distributing will transfer to LLC4 the Distributing's Business A Interests and the Purchased A Interests.
- vii. Distributing will adopt a plan of partial liquidation.
- viii. Distributing will redeem all of the outstanding voting preferred stock of Distributing. Distributing represents that none of the outstanding voting preferred stock to be redeemed is § 306 stock. The Distribution with respect to the preferred stock will consist of cash other than cash from the Distributing Business B Proceeds.
- ix. Distributing will then make a pro rata distribution with respect to the outstanding shares of common voting and nonvoting stock of Distributing. The Distribution with respect to the common stock will consist of the Distributing Business B Proceeds and the Distributing Business A Interests.
- x. Distributing will also distribute, with respect to its common stock, all of the Purchased A Interests.

After the Distribution, LLC4 will hold both the Distributing Business A Interests and the Purchased A Interests. For a transition period of no more than one year from the day of the Distribution, LLC4 may purchase from the Distributing group, on an as-needed basis, nonoperational services (i.e., accounting, engineering, environmental, human resources, information technology, health and safety, and legal services) related to day-to-day operation and management of the AA. During or after the transition period, some such service providers now employed by Distributing or one of its controlled entities may become employed by LLC4 or one of its controlled entities. Also, during or after the transition period, LLC4 or one of its controlled entities may provide nonoperational services to Distributing or its controlled entities.

REPRESENTATIONS

Distributing has made the following representations:

- a. The distribution of the Distributing Business A Interests, the Purchased A Interests, and the Distributing Business B Proceeds will be made within the taxable year in which the plan of partial liquidation is adopted or within the succeeding taxable year.
- b. Distributing will make a distribution of both the Distributing Business A Interests and its Purchased A Interests. The Distributing Business A Interests and the Purchased A Interests will be in the form of a distribution of its 100 percent membership interest in LLC4 which will hold a 100 percent membership interest in LLC2(LP) at the time of the distribution.
- c. Distributing will treat LLC4 and LLC2(LP) each as disregarded as an entity separate from its owner for federal tax purposes for such period of time that Distributing holds 100 percent of the membership interests in LLC4, See Treas. Reg. § 301.7701-3. Moreover, Distributing will take no action to cause the default classification of Treas. Reg. § 301.7701-3 (which treats a single member limited liability company as an entity disregarded from its owner for federal tax purposes) not to apply. Distributing will simultaneously distribute its 100 percent membership interest in LLC4 to its shareholders in the Distribution.
- d. The Distributing Business A Interests to be distributed by Distributing will represent assets that were actively used in the operation of Business A, or replacements of assets actively used in the operation of Business A, and will be neither passive or investment assets nor substituted assets
- e. Distributing will make a distribution of its Distributing Business B Proceeds reduced to reflect any losses on the temporary investment of such Proceeds, less R percent of the expenses and liabilities (including taxes) incurred in connection with the sale the Business B assets that gave rise to the Business B Proceeds and the expenses and liabilities (including taxes) incurred in connection with the distribution of the Distributing Business B Proceeds.
- f. The Distributing Business B Proceeds to be distributed by Distributing represent the value of the assets that were actively used in Business B, or replacements of assets actively used in Business B, and represent neither

the proceeds from the sale of passive or investment assets nor substituted assets.

- g. The proceeds and other assets to be distributed will not be from the following: (1) a reserve for expansion; (2) a mere decline in, or loss of, business; (3) a mere decrease in need for working capital; (4) proceeds of a sale of a business which is nominal in relation to the entire business of Distributing; and (5) a business operated at a loss which acquired assets from another business of Distributing.
- h. The following distributions will be made pursuant to the plan of liquidation:
 - (i) the Distributing Business A Interests;
 - (ii) the Purchased A Interests; and
 - (iii) the Distributing Business B Proceeds.
- i. During the period from the sale of Business B until the Distribution, the proceeds from the sale of Business B will be segregated in a special account and will not be used in Distributing's continuing business. The proceeds will be temporarily invested in savings accounts, money market certificates, certificates of deposit, mutual fund accounts, or similar liquid short-term investments.
- j. Business A will have been continuously and actively conducted by the employees of Distributing or one or more members of Distributing's consolidated group for the five years ending on the day of the Distribution.
- k. Business B will have been continuously and actively conducted by the employees of Distributing or one or more members of Distributing's consolidated group for the five years ending on the day of its sale (Date 4).
- l. Business E will have been continuously and actively conducted for the five years ending on the day of the Distribution. Distributing will continue to actively conduct Business E immediately after the Distribution.
- m. There is no plan or intention to completely liquidate Distributing.
- n. Distributing has no plan or intention to re-enter Business A or Business B or expand its continuing business through other than normal internal growth.
- o. No assets representing income earned on the short-term investment of the proceeds of Business B will be distributed pursuant to the plan of

partial liquidation.

- p. All distributions made pursuant to the plan of partial liquidation will be made in cash or its equivalent, and, in form, the membership interests in LLC4 which will hold 100 percent of the membership interests in LLC2(LP) (which, at the time of distribution will hold only those assets specifically listed above).
- q. The cash and other assets distributed to each holder of Distributing common stock will be proportionate to the number of shares held by the holder relative to the total number of common stock shares outstanding. None of the holders of common stock will surrender any shares in the Distribution.
- r. The cash and other assets distributed to each holder of Distributing voting preferred stock will approximately equal the fair market value of the voting preferred stock surrendered by each holder.
- s. Following the complete redemption of the voting preferred stock of Distributing, an actual surrender of common voting and nonvoting stock in the Distribution would be meaningless.
- t. There are no declared but unpaid dividends on any of the stock to be redeemed and there will be no declared but unpaid dividends on the stock redeemed before the Distribution (other than the Distribution itself, which is treated as a dividend under relevant state law).
- u. None of the consideration received pursuant to the proposed transaction will be received by any shareholder as a debtor, creditor, employee, or in any capacity other than as a shareholder.
- v. The amount of the distribution in partial liquidation will not include any amounts attributable to indebtedness of Sub 1 or Sub 2 to Distributing that was cancelled upon their liquidation into Distributing.

The following additional representations have been made in connection with the complete liquidations of Sub 1 and Sub 2:

- w. Distributing, on the date of adoption of the plan of liquidation, and at all times until the final liquidating distribution is completed, will be the owner of at least eighty percent of the single outstanding class of Sub 1 stock.
- x. Distributing, on the date of adoption of the plan of liquidation, and at all times until the final liquidating distribution is completed, will be the owner

of at least eighty percent of the single outstanding class of Sub 2 stock.

- y. The distribution of the N percent interest in Sub 2 to Distributing in the liquidation of Sub 3 will be a nonrecognition transaction to both Distributing and Sub 3 pursuant to section 332 and section 337, respectively.
- z. No shares of Sub 1 stock will have been redeemed during the three years preceding the adoption of the plan of complete liquidation of Sub 1.
- aa. No shares of Sub 2 stock will have been redeemed during the three years preceding the adoption of the plan of complete liquidation of Sub 2.
- bb. All distributions from Sub 1 to Distributing pursuant to the plan of complete liquidation will be made within a single taxable year of Sub 1.
- cc. All distributions from Sub 2 to Distributing pursuant to the plan of complete liquidation will be made within a single taxable year of Sub 2.
- dd. 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 to its shareholders.
- ee. As soon as the first liquidating distribution has been made, Sub 2 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 to its shareholders.
- ff. Sub 1 will retain no assets following the final liquidating distribution.
- gg. Sub 2 will retain no assets following the final liquidating distribution.
- hh. Sub 1 will not have acquired assets in any nontaxable transaction at any time, except for acquisitions occurring more than three years prior to the date of adoption of the plan of liquidation.
- ii. Sub 2 will not have acquired assets in any nontaxable transaction at any time, except for acquisitions occurring more than three years prior to the date of adoption of the plan of liquidation.
- jj. Other than the sales by the Entities, as specifically described above, 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 and

dispositions occurring more than three years prior to adoption of the plan of liquidation.

- kk. Other than the sales by the Entities, as specifically described above, no assets of Sub 2 have been, or will be, disposed of by either Sub 2 or Distributing except for dispositions in the ordinary course of business and dispositions occurring more than three years prior to adoption of the plan of liquidation.
- ll. The liquidation of Sub 1 will not be preceded or followed by the reincorporation in, or transfer or sale to, a recipient corporation (Recipient) of any of the businesses or assets of Sub 1, if persons holding, directly or indirectly, more than twenty percent in value of the Sub 1 stock also hold, directly or indirectly, more than twenty percent in value of the stock in Recipient. For purposes of this representation, ownership will be determined by application of the constructive ownership rules of section 318(a) as modified by section 304(c)(3).
- mm. The liquidation of Sub 2 will not be preceded or followed by the reincorporation in, or transfer or sale to, a recipient corporation (Recipient) of any of the businesses or assets of Sub 2, if persons holding, directly or indirectly, more than twenty percent in value of the Sub 2 stock also hold, directly or indirectly, more than twenty percent in value of the stock in Recipient. For purposes of this representation, ownership will be determined by application of the constructive ownership rules of section 318(a) as modified by section 304(c)(3).
- nn. Prior to adoption of the liquidation plan, no assets of Sub 1 will have been distributed in kind, transferred, or sold to Distributing, except for (i) transactions occurring in the normal course of business and (ii) transactions occurring more than three years prior to adoption of the liquidation plan.
- oo. Prior to adoption of the liquidation plan, no assets of Sub 2 will have been distributed in kind, transferred, or sold to Distributing, except for (i) transactions occurring in the normal course of business and (ii) transactions occurring more than three years prior to adoption of the liquidation plan.
- pp. 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.
- qq. Sub 2 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.

- rr. 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 prior to the time the first liquidating distribution is made.
- ss. The fair market value of the assets of Sub 2 will exceed its liabilities both at the date of the adoption of the plan of complete liquidation and immediately prior to the time the first liquidating distribution is made.
- tt. There is intercorporate debt existing between Distributing and Sub 1; however, none has been canceled, forgiven, or discounted, except for transactions that occurred more than three years prior to the date of adoption of the liquidation plan. In connection with the liquidation of Sub 1 into Distributing, the intercorporate debt will be paid from (in order): (i) from earnings from the proceeds of the sale of any of the Businesses; (ii) any proceeds from the sale of Business C and Business D, and then; (iii) to the extent necessary, from proceeds from the sale of Business B. Any amounts paid from the proceeds from the sale of Business B will reduce the amount available to be distributed to Distributing's shareholders in the partial liquidation (Rev. Rul. 77-375, 1977-2 C.B. 106).
- uu. There is intercorporate debt existing between Distributing and Sub 2; however, none has been canceled, forgiven, or discounted, except for transactions that occurred more than three years prior to the date of adoption of the liquidation plan. In connection with the liquidation of Sub 2 into Distributing, the intercorporate debt will be paid from (in order): (i) from earnings from the proceeds of the sale of any of the Businesses; (ii) any proceeds from the sale of Business C and Business D; and then, (iii) to the extent necessary, from proceeds from the sale of Business B. Any amounts paid from the proceeds from the sale of Business B will reduce the amount available to be distributed to Distributing's shareholders in the partial liquidation (Rev. Rul. 77-375, 1977-2 C.B. 106).
- vv. Distributing is not an organization that is exempt from federal income tax under section 501 or any other provision of the Code.
- ww. The fair market value of the consideration received by Distributing for each share of Sub 1 stock will approximately equal the fair market value of that stock.
- xx. The fair market value of the consideration received by Distributing for each share of Sub 2 stock will approximately equal the fair market value

of that stock.

- yy. All other transactions undertaken contemporaneously with, in anticipation of, in conjunction with, or in any way related to, the proposed liquidation of Sub 1 have been fully disclosed.
- zz. All other transactions undertaken contemporaneously with, in anticipation of, in conjunction with, or in any way related to, the proposed liquidation of Sub 2 have been fully disclosed.

Section 3.01(30) of Rev. Proc. 2002-3, 2002-1 I.R.B. 117, provides that the Internal Revenue Service will not rule on the qualification of a transaction as a tax-free liquidation under section 332. The Service will rule under section 332 in connection with a ruling concerning significant collateral issues where the consequences of qualification are not adequately addressed by a statute, regulation, decision of the Supreme Court, tax treaty, revenue ruling, revenue procedure, notice or other authority published in the Internal Revenue Bulletin.

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

1. The liquidation of Sub 1 and Sub 2 into Distributing will each qualify as a complete liquidation under section 332(a) and section 1.332-2.
2. No gain or loss will be recognized by Distributing on the receipt of the assets from Sub 1 and Sub 2 that are distributed pursuant to the plan of complete liquidation. (Section 332(a)).
3. The basis of each asset received by Distributing in complete liquidation from Sub 1 and Sub 2 will be the same as it was in the hands of Sub 1 and Sub 2. (Section 334(b)(1)).
4. The distribution of the membership interests in LLC4 will be treated as a distribution of the assets of LLC4, LLC3 and LLC2(LP) for federal income tax purposes.
5. No gain or loss will be recognized by either Sub 1 or Sub 2 on the distribution of its assets to Distributing in complete liquidation. (Section 337(a)).
6. The Distribution of the Distributing Business A Interests (a T percent undivided interest in the AA and the working capital associated with

such T percent interest in the AA) and the Distributing Business B Proceeds (R percent of the proceeds from the Entities' sale of Business B and R percent of the working capital associated with Business B, reduced to reflect any losses on the temporary investment of such Proceeds, less R percent of the expenses and liabilities (including taxes) incurred in connection with the sale the Business B assets that gave rise to the Business B Proceeds and the expenses and liabilities (including taxes) incurred in connection with the distribution of the Distributing Business B Proceeds) will be treated as a distribution in partial liquidation under sections 302(b)(4) and 302(e), provided the Distribution is made in the taxable year in which the plan of partial liquidation is adopted and/or in the succeeding taxable year. (Rev. Rul. 75-223, 1975-1 C.B. 109).

7. The maximum amount of the Distribution considered in partial liquidation of Distributing under sections 302(b)(4) and 302(e) will equal the value of the Distributing Business A Interests and the Distributing Business B Proceeds, reduced by fifty percent of liabilities (including the taxes and expenses incurred in connection with the sale of Business B and the Distribution) paid out of the proceeds from of the sale of Business B.
8. The required distribution of the Purchased A Interests does not qualify as a distribution in partial liquidation under sections 302(b)(4) and 302(e) of the Code.
9. Any distribution (in whole or in part) of the Distributing C Proceeds or the Distributing D Proceeds will not qualify as a distribution in partial liquidation under sections 302(b)(4) and 302(e) of the Code.
10. Any amount distributed to Distributing's shareholders that exceeds the amount described in Ruling 6, or otherwise fails to qualify as a distribution in partial liquidation under section 302(b)(4), such as the required distribution of the Purchased A Interests, may, pursuant to section 302(a), constitute a distribution in redemption under section 302(b)(1), (2), or (3) that will be treated as in full payment for the stock redeemed or, alternatively, depending on the circumstances of the particular shareholder, may be treated as a distribution of property under sections 301 and 316.
11. Distributing will recognize gain on the Distribution with respect to the distribution to the extent the fair market value of any distributed asset exceeds its adjusted basis. (Section 311(b)). No gain or loss will be recognized to Distributing on the Distribution of net sale proceeds

consisting solely of cash. (Section 311(a)).

12. The Distribution of the Distributing Business A Interests and the Distributing Business B Proceeds will be treated as in full payment in exchange for the Distributing common stock (constructively) redeemed. (Section 302(a); Rev. Rul. 90-13, 1990-1 C.B. 65). To the extent of this exchange, gain or loss will be recognized to Distributing's common shareholders to the extent of the difference between the amount distributed and the adjusted basis of the shares surrendered in exchange therefor. Provided that the Distributing stock is a capital asset in the hands of the Distributing shareholders and that section 341(a) (relating to collapsible corporations) is not applicable, gain or loss will be considered capital gain or loss subject to the provisions of Subchapter P of Chapter 1 of the Code.

No opinion is expressed about the tax treatment of the proposed 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 proposed transaction that are not directly covered by the above rulings.

In particular, no opinion is expressed as to whether Distributing's S corporation shareholder, in its capacity as a shareholder of Distributing, will be treated as a noncorporate shareholder for purposes of section 302(b)(4).

No opinion is expressed as to whether Unrelated's sale of all of its membership interests in LLC2(LP) to Distributing or an entity controlled by Distributing is at fair market value.

No opinion is expressed as to the amount of working capital that may be distributed as part of the Distributing Business A Interests and the Distributing Business B Proceeds.

No opinion is expressed with respect to the tax treatment to Distributing's preferred shareholders upon the redemption of their preferred voting stock. Pursuant to section 302(a), the distribution to a preferred shareholder may constitute a distribution in redemption under section 302(b)(1), (2), or (3) that will be treated as in full payment for the stock redeemed or, alternatively, depending on the circumstances of the particular shareholder, may be treated as a distribution of property under sections 301 and 316.

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

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. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

A copy of this letter must be attached to any income tax return to which it is relevant.

Sincerely,

Marlene Oppenheim

Marlene P. Oppenheim
Assistant to the Chief, Branch 2
Office of Associate Chief Counsel
(Corporate)