

Internal Revenue Service

Department of the Treasury

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Person to Contact:

Telephone Number:

Refer Reply To:

CC:CORP:B06-PLR-163794-02

Date:

January 7, 2003

Legend

Distributing

Controlled

Date 1

Date 2

Date 3

Date 4

Date 5

Date 6

Date 7

Year 1

Business 1

Dear :

This letter is in reply to your letter dated November 15, 2002, requesting supplemental rulings regarding the distribution by Distributing to its shareholders of the stock of Controlled, formerly a directly wholly owned subsidiary of Distributing (the "Distribution").

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Distributing distributed the stock of Controlled to its shareholders on Date 1 (the "Distribution Date"). Distributing filed the Distributing group's consolidated income tax return for Year 1 on Date 2. Prior to the Distribution, the Internal Revenue Service ("IRS") issued two ruling letters concerning the federal income tax consequences of the Distribution and related transactions: (i) ruling letter control number PLR-132455-00, dated July 11, 2001 (the "Prior Ruling"), and (ii) ruling letter control number PLR-156443-01, dated November 9, 2001 (the "First Supplemental Ruling").

The Prior Ruling and First Supplemental Ruling included rulings to the effect that Distributing would not recognize gain or loss as a result of the Distribution and related transactions and that the Distribution would qualify for tax-free treatment under Section 355. Distributing and Controlled propose that the service period relating to certain services to be provided under the transitional services agreement between Distributing and Controlled be extended through Date 3, with a possible further extension to Date 4. This extension relates solely to the provisions of information technology services.

All capitalized terms in this supplemental ruling request not otherwise defined herein have the meanings assigned to them in the Prior Ruling and First Supplemental Ruling and all identifying and other factual information, representations and discussions of authority set forth in the request for the Prior Ruling (the "Original Ruling Request") and the request for the First Supplemental Ruling (the "Supplemental Ruling Request") are hereby incorporated by reference.

Background

As described in the Original Ruling Request and the Prior Ruling, Controlled has entered into an agreement with Distributing (the "Transitional Services Agreement") under which Distributing or one of its subsidiaries is to provide the following services ("Transitional Services") to Controlled at cost through Date 5:

- (a) finance
- (b) information technology
- (c) benefits administration;
- (d) legal;
- (e) accounting and tax
- (f) service dispatch; and
- (g) logistics and warehouse services.

It was represented in the Prior Ruling that Distributing will provide these services for a period no longer than the year ending Date 5, subject in each case to an extension period not to exceed six months. The terms of the Transitional Services Agreement allow for this six-month extension to be invoked (i) if required by a governmental entity,

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(ii) if Distributing or Controlled fail to perform any of their respective obligations under the agreement, or (iii) if Controlled and Distributing are unable to obtain a suitable replacement for the services provided after applying reasonable efforts.

It was also represented in the Prior Ruling that Distributing and Controlled have no plan or intention to enter into any other agreements with respect to the above mentioned Transitional Services.

The purpose of the Transitional Services Agreement is to facilitate the successful conversion of Business 1 from within the Distributing group to a stand-alone company, by providing Controlled with continuity of support services for a fixed period during which Controlled positions itself to either assume responsibility for the Transitional Services or obtain independent service providers.

Controlled has encountered significant technical and supplier-related problems in seeking to implement an independent information technology ("IT") infrastructure and applications portfolio. As a result of these problems, the transitioning of Controlled's IT services and IT dependent services from Distributing is unlikely to be completed by Date 7.

With respect to the Distribution and related transactions, Distributing represents the following:

- (1) Distributing will charge Controlled market rates for all Transitional Services provided under the Transitional Services Agreement from Date 6.
- (2) To the extent not amended by this supplemental ruling request, all of the representations made by Distributing contained in ruling letter control number PLR-132455-00 and ruling letter control number PLR-156443-01, remain true as of the current date.

Based solely on the information submitted and the representations made, we have concluded that:

- (1) The proposed extension of the Transitional Services Agreement to Date 3, with a possible additional extension to Date 4, with respect to information technology and related services will not affect the application of ruling letter control number PLR-132455-00 and ruling letter control number PLR-156443-01 to the Distribution and related transactions.

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

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conditions existing at the time of, or effects resulting from, the proposed transaction that are not directly covered by the above rulings.

This ruling is directed only to the taxpayer who requested 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 returns of the taxpayers involved for the taxable year in which the transaction covered by this ruling letter is consummated.

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

Sincerely yours,

Alfred C. Bishop, Jr. _____

Alfred C. Bishop, Jr.
Branch Chief, Branch 6
Office of Associate Chief Counsel
(Corporate)