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Dear

This letter responds to your August 26, 2003 request for rulings on certain federal income tax consequences of a transaction. The information submitted in that letter and in subsequent correspondence is summarized below.

Parent is a State corporation and the common parent of an affiliated group of corporations filing a consolidated return. Parent owns all of the stock of Subsidiary. In addition to owning all of the stock of Subsidiary, Parent actively conducts Business 1. Subsidiary does not conduct an active trade or business within the meaning of section 355 of the Internal Revenue Code.

Parent has one class of voting common stock issued and outstanding. Shareholder A owns a shares. Shareholder B owns b shares. Shareholder C owns c shares. Shareholder D owns d shares.

For what has been represented to be valid business reasons Parent proposes the following transaction ("Proposed Transaction"):

- i) Shareholder A, Shareholder B, Shareholder C, and Shareholder D (together "the Shareholders") will form New Parent, a State corporation.
- ii) The Shareholders will each contribute all of their Parent stock to New Parent receiving in exchange one share of New Parent stock for each share of Parent stock contributed (the "Exchange").
- iii) Parent will then distribute all of the stock of Subsidiary to New Parent (the "Distribution").

The following representations have been made with respect to the Proposed Transaction:

- (a) Shareholder A, Shareholder B, Shareholder C, and Shareholder D are not acting as nominees of Parent.

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- (b) The shareholders of Parent before the Exchange will be identical to the shareholders of New Parent after the Exchange.
- (c) The ownership interest of the shareholders of Parent before the Exchange will be identical to their ownership interest in New Parent after the Exchange.
- (d) There is no plan or intention by New Parent to dispose of the property received in the Exchange or Distribution other than in the normal course of business operations.
- (e) The Distribution is not a transaction described in section 355.
- (f) Parent does not have an excess loss account in Subsidiary.

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

- (1) The Exchange will constitute a reverse acquisition within the meaning of section 1.1502-75(d)(3) of the Income Tax Regulations. As a result, the Parent group will remain in existence with New Parent becoming the common parent of such group. The consolidated return to be filed by New Parent will use as its taxable year the taxable year of Parent.
- (2) For purposes of sections 1.1502-31 and 1.1502-33, the Proposed Transaction will qualify as a “group structure change” (under section 1.1502-75(d)(3)). New Parent’s basis in Parent’s stock immediately after the group structure change will be Parent’s net asset basis as determined under section 1.1502-31(c), subject to the adjustments described in section 1.1502-31(d) (section 1.1502-31(b)(2)). The earnings and profits of New Parent will be adjusted immediately after New Parent becomes the new common parent to reflect the earnings and profits of Parent immediately before Parent ceases to be the common parent (section 1.1502-33(f)(1)).
- (3) The Distribution will constitute an intercompany transaction to which sections 301 and 311 apply, subject to the provisions of section 1.1502-13(f)(2).
- (4) The Distribution will not be included in the gross income of New Parent. However, New Parent is required to make a corresponding negative

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adjustment in the amount of the Distribution to its basis in Parent stock under section 1.1502-32 (section 1.1502-13(f)(2)(ii)).

- (5) Parent's gain or loss from the Distribution will not be currently taken into account and will not be currently included in gross income. Instead, such gain or loss will be taken into account under the matching rule of section 1.1502-13(c) if such property is subsequently sold to a nonmember (section 1.1502-13(f)(2)(iii) and Example (1) of section 1.1502-13(f)(7)).
- (6) New Parent's basis in its Subsidiary stock will be the fair market value of such stock (section 301(d) and Example (1) of section 1.1502-13(f)(7)).
- (7) The holding period of the Subsidiary stock in the hands of New Parent will include the holding period of Parent in such stock (section 1.1502-13(c)(1)(ii)).

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.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter. In particular, no opinion is expressed as to whether section 351 of the Code applies to the Exchange.

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.

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

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

Sincerely,

Lewis K Brickates
Chief, Branch 4
Office of Associate Chief Counsel

(Corporate)