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Department of the Treasury

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PLR-119312-06

Date:

May 10, 2006

LEGEND:

Oldco =

A Shareholders =

Partnership 1 =

LLC 1 =

LLC 2 =

QSub 1 =

QSub 2 =

QSub 3 =

QSub 4 =

QSub 5 =

LLC 3 =

LLC 4 =

LLC 5 =

Business A =

Business B =

State A =

a =

b =

c =

\$g =

Date 1 =

Dear _____ :

This letter responds to your March 31, 2006 letter requesting rulings as to the federal income tax consequences of a proposed transaction. The information submitted in that request and subsequent correspondence is summarized below.

The rulings contained in this letter are based on the facts and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. This office has not verified any of the materials submitted in support of the request for rulings. Verification of the information, representations, and other data may required as part of the audit process.

Summary of Facts

Oldco, which was originally incorporated as a C corporation, made a subchapter S corporation election as of Date 1. All of the stock of Oldco is owned directly and indirectly by the A Shareholders.

Oldco is a holding company that owns all of LLC 1 and LLC 2 which are disregarded entities for federal income tax purposes. Oldco, indirectly through LLC 1 and LLC 2 owns QSub 1 which owns a% of QSub 2 and QSub 3. Oldco also owns QSub 4 which in turn owns b% of QSub 2 and QSub 3, and all of QSub 5. Additionally, QSub 4 owns LLC 3, LLC 4, and LLC 5, each of which is a disregarded entity for federal income tax purposes. Oldco also owns a limited partnership interest in Partnership 1.

QSub 2, QSub 3, LLC 3, and LLC 4 are engaged in Business A. Oldco, QSub 4, and QSub 5 own investments unrelated to Business A. Partnership 1 and LLC 5 own no significant assets.

The A Shareholders want to dispose of Business A by selling their stock in Oldco. However, potential buyers have raised concerns about certain contingent and remote liabilities of Oldco related to Business B which was formerly conducted by Oldco. Accordingly, Oldco has proposed to enter into a series of transactions in which the investments unrelated to Business A and the contingent and remote liabilities of Business B will be separated from Business A.

Proposed Transaction

To achieve this objective, Oldco has proposed and partially completed the following steps (the "Proposed Transaction"):

- (i) The A Shareholders will form Newco in State A.

(ii) Newco will form a new limited liability company (“NewLLC”) which will be disregarded for federal income tax purposes.

(iii) Oldco will merge with and into NewLLC (the “Merger”). In the Merger, each whole or fractional share of Oldco stock will be converted into one whole or fractional share of Newco stock, and immediately following the Merger, the A Shareholders will own Newco in the same proportions as they owned Oldco.

(iv) Under the laws of State A, NewLLC will succeed to all of the assets and liabilities of Oldco. Either prior to, or following the Merger, Oldco or Newco may dispose of certain investments unrelated to Business A. The fair market value of such investments currently represents less than c% of the total fair market value of Oldco’s assets.

(v) Following the Merger, NewLLC will transfer its interests in LLC 1 and LLC 2 to Newco. Additionally, QSub 4 will transfer its interests in QSub 2, QSub 3, LLC 3, and LLC 4 to NewLLC which will then transfer these interests to Newco (collectively the “Transfers”)

(vi) The A Shareholders have entered into a contract to sell the stock of Newco. After the Merger and before such sale is consummated, Newco will make a pro rata distribution of the assets of NewLLC to the A Shareholders (the “Distribution”). At the time of such Distribution, NewLLC will have \$g of assets and little or no actual liabilities.

Representations

Oldco makes the following representations with respect to the Proposed Transaction:

(a) The fair market value of the Newco stock received in the Merger by the A Shareholders will be approximately equal to the fair market value of the Oldco stock surrendered in the exchange.

(b) Immediately following the Merger, the A Shareholders will own all of the outstanding Newco stock, and, except for a nominal amount of stock, if any, issued to the A Shareholders on the formation of Newco, the A Shareholders will own such stock solely by reason of their ownership of Oldco stock immediately prior to the Merger.

(c) Immediately following the Merger, Newco will possess the same assets and liabilities as those possessed by Oldco immediately prior to the Merger, except for assets used to pay expenses incurred in connection with the Merger. Assets of Oldco used to pay expenses will constitute less than one percent of the net assets of Oldco. None of the A Shareholders is expected to dissent to the Merger.

(d) Newco has no plan or intention to issue additional shares of Newco stock following the Merger.

(e) At the time of the Merger, Oldco will not have outstanding any warrants, options, convertible securities, or any other type of right pursuant to which any person could acquire stock in Oldco.

(f) Newco has no plan or intention to reacquire any of its stock issued in the Merger.

(g) The liabilities of Oldco that will be transferred to Newco were incurred in the ordinary course of business and will be associated with the assets transferred.

(h) The A Shareholders will pay their respective expenses, if any, incurred in connection with the Merger.

(i) Oldco is not under the jurisdiction of a court in a Title 11 or similar case within the meaning of Section 368(a)(3)(A).

Rulings

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

(1) Steps (iii), (iv), and (v) of the Proposed Transaction will be treated for federal income tax purposes as a transfer of the assets and liabilities of Oldco to Newco, and therefore will qualify as a reorganization (collectively the "Reorganization") under § 368(a)(1)(F) of the Internal Revenue Code (the "Code"). Oldco and Newco will each be "a party to the Reorganization" under §368(b). The Distribution described in step (vi) will not prevent the Reorganization from qualifying as a reorganization under § 368(a)(1)(F).

(2) No gain or loss will be recognized by Oldco upon the transfer of its assets to Newco in the Reorganization in exchange for the Newco stock and Newco's assumption of Oldco's liabilities in the Reorganization (§ 361(a) and §357(a)).

(3) No gain or loss will be recognized by Newco upon the receipt of Oldco's assets in exchange for Newco stock as described above (§ 1032(a)).

(4) The basis of the Oldco assets held by Newco will be the same as Oldco's basis in such assets immediately prior to the Reorganization (§ 362(b))

(5) The holding period of the Oldco assets held by Newco will include the periods during which assets were held by Oldco (§ 1223(2)).

(6) No gain or loss will be recognized by the A Shareholders upon their exchange of the shares of Oldco stock for shares of Newco stock as described above (§354(a)).

(7) The basis of Newco stock received by the A Shareholders will be the same as the basis of the share or shares of the Oldco stock exchanged therefore, allocated in the manner described in §1.358-2.

(8) The holding period of the Newco stock received by the A Shareholders will include the holding period of Oldco stock exchanged therefor, provided the Oldco stock is held as a capital asset on the date of the Reorganization.

(9) The tax year of Oldco will not close as of the date of the Reorganization and Newco will be treated just as Oldco would have been treated if there had been no Reorganization (§1.381(b)-1) and Rev. Rul. 57-276). Newco will succeed to and take into account the tax attributes of Oldco described in § 381(c) (§ 381(a) and § 1.381(a)1).

(10) Newco will succeed to Oldco's accumulated adjustments account at the close of the date of the Reorganization.

(11) Oldco's S election will not terminate as a result of the reorganization and will continue for Newco provided that Newco meets the requirements of a small business corporation under § 1361 of the Code (Rev. Rul. 64-250).

(12) The QSub elections for QSub 1, QSub 2, QSub 3, QSub 4, or QSub 5 will not terminate as a result of the Reorganization and will remain in effect for Newco. However, the Distribution will terminate the QSub elections of QSub 4 and QSub 5 (Rev. Rul. 2004-85).

(13) Newco will not recognize any built-in gain under § 1374 as a result of the sale of the Newco stock by the A Shareholders.

(14) The Distribution will be treated as a distribution of property from Newco to the A Shareholders separate from the Reorganization (Rev. Rul. 96-29 and § 1.301-1(l)).

Caveats

Except as specifically set forth above, we express no opinion concerning the tax consequences of the Proposed Transaction under any other provision of the Code or regulations or the tax treatment of any conditions existing at the time of, or effects

resulting from, the Proposed Transaction that are not specifically covered by the above rulings.

Procedural Statements

This letter ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) provides that it may not be used or cited as precedent. A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling. Pursuant to a power of attorney on file in this office, a copy of this letter ruling will be sent to your authorized representative.

Sincerely,

Lewis K. Brickates
Branch Chief, Branch 4
Office of the Associate Chief Counsel (Corporate)