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PLR-135813-06

Date:

November 21, 2006

LEGEND:

Distributing =

Controlled =

Services Sub =

Business A =

Business B =

Business C =

LLC1 =

Holding Sub 1 =

PLR-135813-06

2

Holding Sub 2 =

Holding Sub 3 =

Business B Sub =

Business B Foreign Sub 1 =

Business B Foreign Sub 2 =

Business B Foreign Sub 3 =

Business C LLC =

Business C Sub =

State X =

Country Y =

Country Z =

Property A =

Property B =

Date 1 =

Year 1 =

m =

n =

Dear :

This letter responds to your July 26, 2006, letter requesting rulings on certain federal income tax consequences of a proposed transaction. The information provided in that letter and in later correspondence is summarized below.

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 particular, this office has not reviewed any information pertaining to, and has made no determination regarding, whether each of the Internal Distributions and the Public Distribution (each described below): (i) satisfies the business purpose requirement of § 1.355-2(b) of the Income Tax Regulations; (ii) is used principally as a device for the distribution of the earnings and profits of the distributing corporation or the controlled corporation or both (see § 355(a)(1)(B) of the Internal Revenue Code and § 1.355-2(d)); and (iii) is part of a plan (or series of related transactions) pursuant to which one or more persons will acquire directly or indirectly stock representing a 50- percent or greater interest in the distributing corporation or the controlled corporation (see § 355(e) and § 1.355-7).

Summary of Facts

Distributing is the common parent of an affiliated group of corporations (within the meaning of § 1504) that files a consolidated federal income tax return. Distributing has outstanding only one class of stock, which is widely held and publicly traded. Distributing is currently directly engaged in Business A, and engages in Business B and Business C indirectly via subsidiaries.

Distributing directly owns all the membership interests in LLC1. LLC1 is a disregarded entity for federal income tax purposes. LLC1 owns all of the stock of Services Sub, Holding Sub 1, and Business C Sub, each of which are treated as corporations for federal income tax purposes. LLC1 also owns all the stock of Business B Foreign Sub 1, which is organized under the laws of Country Y. Business B Foreign Sub 1 owns a fifty-percent interest in Business B Foreign Sub 2, which is organized under the laws of Country Z.

Distributing indirectly owns Business B Foreign Sub 3, which is organized under the laws of Country Y.

Holding Sub 1 currently owns all the outstanding stock of Holding Sub 2. Holding Sub 2 currently owns all the outstanding stock of Holding Sub 3. Holding Sub 3 currently owns all the outstanding stock of Business B Sub. Holding Sub 2, Holding Sub 3, and Business B Sub are each treated as corporations for federal income tax purposes.

Business C Sub currently owns all the membership interests in Business C LLC. Business C LLC represents approximately m% of the value of the assets of Business C Sub. Business C LLC is currently directly engaged in Business C.

Controlled was incorporated on Date 1 under the laws of State X. Controlled has outstanding only one class of stock.

The information provided indicates that Business A (as conducted by Distributing), Business B (as conducted by Business B Sub) and Business C (as conducted by Business C Sub) each has had gross receipts and operating expenses representing the active conduct of a trade or business for each of the five years preceding the Proposed Transactions. Approximately n% of the value of the assets owned by Services Sub is related to Business B (the remainder is related to Business C).

Distributing's management has determined that the separation of Business A from Business B will serve a number of corporate business purposes.

Proposed Transactions

You have proposed the following integrated transaction (the "Proposed Transaction") intended to effect the spin-off of Business B to the public shareholders of Distributing:

- (1) Distributing formed Controlled on Date 1.
- (2) Business C Sub will elect to be classified as a disregarded entity for federal income tax purposes (the "Conversion").
- (3) Holding Sub 3 will be merged with and into Holding Sub 2.
- (4) Business C Sub will distribute all of its membership interests in Business C LLC to LLC1.

- (5) LLC1 will contribute all of its membership interests in Business C LLC to Holding Sub 1 ("Drop Down 1").
- (6) Holding Sub 1 will contribute all of its membership interests in Business C LLC to Holding Sub 2 ("Drop Down 2").
- (7) Business C LLC will elect to be classified as an association taxed as a corporation for federal tax purposes ("Drop Down 3").
- (8) LLC1 will contribute the stock of Holding Sub 1 to Services Sub ("Drop Down 4", and together with Drop Down 1, Drop Down 2, and Drop Down 3, the "Drop Downs").
- (9) Holding Sub 2 will transfer all of its property that relates to Business B to Business B Sub ("Contribution 1").
- (10) Holding Sub 2 will distribute all the stock of Business B Sub to Holding Sub 1 ("Internal Distribution 1").
- (11) Holding Sub 1 will transfer all of its property that relates to Business B to Business B Sub ("Contribution 2").
- (12) Holding Sub 1 will distribute all the stock of Business B Sub to Services Sub ("Internal Distribution 2").
- (13) Services Sub will transfer all of its property that relates to Business B to Business B Sub ("Contribution 3").
- (14) Services Sub will distribute all the stock of Business B Sub to LLC1 ("Internal Distribution 3", and together with Internal Distribution 1 and Internal Distribution 2, the "Internal Distributions").
- (15) LLC1 will distribute entities not associated with Business B to Distributing.
- (16) Distributing will contribute all of its property that relates to Business B, including all of the membership interests of LLC1, to Controlled ("Contribution 4").
- (17) Business B Foreign Sub 1 will sell its interest in Business B Foreign Sub 2 to Distributing. (It is expected that Distributing will dispose of its interest in Business B Foreign Sub 2 in Year 1.)
- (18) Property A of Business B Foreign Sub 3 will be exchanged for Property B of Business B Foreign Sub 3.

- (19) Distributing will distribute the stock of Controlled pro rata to the public shareholders of Distributing (the "Public Distribution"). To avoid administrative difficulties associated with issuing fractional shares of Controlled, Distributing may instead issue any fractional shares to a distribution agent. The distribution agent will bundle the fractional shares, sell whole shares in the open market, and remit the proceeds to the public shareholders, net of transaction costs, in proportion to their ownership of fractional shares.

It is not anticipated that any assets related to Business B will be retained by Distributing or its affiliates after the Public Distribution, or that any assets related to Business A will be retained by Controlled or its affiliates after the Public Distribution.

You have provided us with information regarding certain agreements between Distributing and Controlled regarding the separation of Business A and Business B, including a Tax Matters Agreement, a Separation and Distribution Agreement, the Contractual Guarantees, the Separation Indemnity Arrangements, a Transition Services Agreement, and an Employee Matters Agreement.

Representations

The following representations have been made with respect to the Conversion:

1. Distributing, on the effective date of the Conversion will be the owner of at least 80 percent of the single outstanding class of membership interests of Business C Sub.
2. No membership interests of Business C Sub will have been redeemed during the 3 years preceding the Conversion of Business C Sub.
3. The Conversion will be completed within a single taxable year of Business C Sub.
4. When the Conversion occurs, Business C Sub will cease to exist for federal income tax purposes.
5. Business C Sub will not have acquired assets in any nontaxable transaction at any time, except for (i) acquisitions occurring more than 3 years prior to the date of the Conversion, (ii) transactions in connection with the Proposed Transaction, or (iii) transactions in the ordinary course of business.

6. There is no plan to dispose of any assets of Business C Sub by either Business C Sub or Distributing except for dispositions in the ordinary course of business and dispositions in connection with the transactions described in the ruling request.
7. Except as described in the proposed steps, the liquidation of Business C Sub 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 Business C Sub, if persons holding, directly or indirectly, more than 20 percent in value of the Business C Sub membership interests also hold, directly or indirectly, more than 20 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).
8. Prior to the Conversion, no assets of Business C Sub will have been distributed in kind, transferred, or sold to Distributing, except for (i) transactions occurring in the ordinary course of business, (ii) transactions occurring more than 3 years prior to adoption of the plan of Conversion, and (iii) transactions in connection with the Proposed Transaction.
9. Business C Sub 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.
10. The fair market value of the assets of the Business C Sub will exceed its liabilities both at the date of the adoption of the plan of Conversion and immediately before the Conversion.
11. Except for intercorporate debt that will be extinguished in the Conversion and transactions described in the ruling request, no intercorporate debt between the Distributing and Business C Sub has been canceled, forgiven or discounted, except for transactions that occurred more than three years before the date of adoption of the plan of Conversion.
12. Distributing is not an organization that is exempt from federal income tax under Section 501 or any other provision of the Code.
13. All other transactions undertaken contemporaneously with, in anticipation of, in conjunction with, or in any way related to, the proposed Conversion have been fully disclosed.

The following representations have been made with respect to Drop Down 1:

1. (i) No stock or securities of Holding Sub 1 will be issued for services rendered to or for the benefit of Holding Sub 1 in connection with Drop Down 1; and (ii) no stock or securities will be issued for any indebtedness of Holding Sub 1 in connection with Drop Down 1.
2. Drop Down 1 is not the result of the solicitation by a promoter, broker or investment house.
3. Distributing will not retain any rights in the property transferred to Holding Sub 1.
4. The value of the stock received in exchange for accounts receivable will be equal to the net value of the accounts transferred.
5. Any debt relating to the stock being transferred that is being assumed (or to which such stock is subject) was incurred to acquire such stock and was incurred when such stock was acquired, and Distributing is transferring all of the stock for which the acquisition indebtedness being assumed (or to which such stock is subject) was incurred.
6. The adjusted basis and the fair market value of the assets to be transferred by Distributing to Holding Sub 1 will be equal to or exceed the sum of the liabilities to be assumed by Holding Sub 1 (within the meaning of Section 357(d)).
7. The liabilities to be assumed by Holding Sub 1 (within the meaning of Section 357(d)) were incurred in the ordinary course of business and are associated with the assets to be transferred.
8. At the time of Drop Down 1, there will be no intercorporate debt existing between Distributing and Holding Sub 1, and no indebtedness will be created in favor of Distributing as a result of the transaction.
9. Drop Down 1 will occur pursuant to a plan agreed upon before the transaction in which the rights of the parties are defined.
10. All exchanges in connection with Drop Down 1 will occur on approximately the same date.

11. There is no plan or intention on the part of Holding Sub 1 to redeem or otherwise reacquire any stock to be issued in Drop Down 1.
12. Taking into account any issuance of additional shares of Holding Sub 1's stock; any issuance of stock for services; the exercise of any Holding Sub 1 stock rights, warrants, or subscriptions; a public offering of Holding Sub 1's stock; and the sale, exchange, transfer by gift, or other disposition of any of Holding Sub 1's stock received by Distributing, Distributing will be in "control" of Holding Sub 1 within the meaning of Section 368(c).
13. Distributing will receive stock in Holding Sub 1 approximately equal to the fair market value of the property transferred to Holding Sub 1.
14. Holding Sub 1 will remain in existence. Holding Sub 1 will transfer (or cause to be transferred) the property it receives in Drop Down 1 in Drop Down 2 and Drop Down 3 wherein such property will be used in a trade or business.
15. Except for the transactions described in the ruling request, there is no plan or intention by Holding Sub 1 to dispose of the transferred property other than in the normal course of business operations.
16. Distributing and Controlled will each pay its own expenses in connection with the Proposed Transaction. Distributing does not intend to allocate its share of expenses in connection with the Proposed Transaction to entities that are members of the Distributing Group.
17. Holding Sub 1 will not be an investment company within the meaning of Section 351(e)(1) of the Code and Treas. Reg. § 1.351-1(c)(1)(ii).
18. Distributing is not under the jurisdiction of a court in a Title 11 or similar case (within the meaning of Section 368(a)(3)(A)) and the stock received in the exchange will not be used to satisfy the indebtedness of Distributing.
19. Holding Sub 1 will not be a "personal service corporation" within the meaning of Section 269A of the Code.

The following representations have been made with respect to Drop Down 2:

1. (i) No stock or securities of Holding Sub 2 will be issued for services rendered to or for the benefit of Holding Sub 2 in connection with Drop Down 2; and (ii) no stock or securities will be issued for any indebtedness of Holding Sub 2 in connection with Drop Down 2.
2. Drop Down 2 is not the result of the solicitation by a promoter, broker or investment house.
3. Holding Sub 1 will not retain any rights in the property transferred to Holding Sub 2.
4. The value of the stock received in exchange for accounts receivable will be equal to the net value of the accounts transferred.
5. Any debt relating to the stock being transferred that is being assumed (or to which such stock is subject) was incurred to acquire such stock and was incurred when such stock was acquired, and Holding Sub 1 is transferring all of the stock for which the acquisition indebtedness being assumed (or to which such stock is subject) was incurred.
6. The adjusted basis and the fair market value of the assets to be transferred by Holding Sub 1 to Holding Sub 2 will be equal to or exceed the sum of the liabilities to be assumed by Holding Sub 2 (within the meaning of Section 357(d)).
7. The liabilities to be assumed by Holding Sub 2 (within the meaning of Section 357(d)) were incurred in the ordinary course of business and are associated with the assets to be transferred.
8. At the time of Drop Down 2, there will be no intercorporate debt existing between Holding Sub 1 and Holding Sub 2, and no indebtedness will be created in favor of Holding Sub 1 as a result of the transaction.
9. Drop Down 2 will occur pursuant to a plan agreed upon before the transaction in which the rights of the parties are defined.
10. All exchanges in connection with Drop Down 2 will occur on approximately the same date.

11. There is no plan or intention on the part of Holding Sub 2 to redeem or otherwise reacquire any stock to be issued in Drop Down 2.
12. Taking into account any issuance of additional shares of Holding Sub 2's stock; any issuance of stock for services; the exercise of any Holding Sub 2 stock rights, warrants, or subscriptions; a public offering of Holding Sub 2's stock; and the sale, exchange, transfer by gift, or other disposition of any of Holding Sub 2's stock received by Holding Sub 1, Holding Sub 1 will be in "control" of Holding Sub 2 within the meaning of Section 368(c).
13. Holding Sub 1 will receive stock in Holding Sub 2 approximately equal to the fair market value of the property transferred to Holding Sub 2.
14. Holding Sub 2 will remain in existence. Holding Sub 2 will transfer the property it receives in Drop Down 2 in Drop Down 3 wherein such property will be used in a trade or business.
15. Except for the transactions described above, there is no plan or intention by Holding Sub 2 to dispose of the transferred property other than in the normal course of business operations.
16. Distributing and Controlled will each pay its own expenses in connection with the Proposed Transaction. Distributing does not intend to allocate its share of expenses in connection with the Proposed Transaction to entities that are members of the Distributing Group.
17. Holding Sub 2 will not be an investment company within the meaning of Section 351(e)(1) of the Code and Treas. Reg. § 1.351-1(c)(1)(ii).
18. Holding Sub 1 is not under the jurisdiction of a court in a Title 11 or similar case (within the meaning of Section 368(a)(3)(A)) and the stock received in the exchange will not be used to satisfy the indebtedness of Holding Sub 1.
19. Holding Sub 2 will not be a "personal service corporation" within the meaning of Section 269A of the Code.

The following representations have been made with respect to Drop Down 3:

1. (i) No stock or securities of Business C LLC will be issued for services rendered to or for the benefit of Business C LLC in connection with Drop Down 3; and (ii) no stock or securities will be issued for any indebtedness of Business C LLC in connection with Drop Down 3.
2. Drop Down 3 is not the result of the solicitation by a promoter, broker or investment house.
3. Holding Sub 2 will not retain any rights in the property transferred to Business C LLC.
4. The value of the stock received in exchange for accounts receivable will be equal to the net value of the accounts transferred.
5. Any debt relating to the stock being transferred that is being assumed (or to which such stock is subject) was incurred to acquire such stock and was incurred when such stock was acquired, and Business C LLC is transferring all of the stock for which the acquisition indebtedness being assumed (or to which such stock is subject) was incurred.
6. The adjusted basis and the fair market value of the assets to be transferred by Holding Sub 2 to Business C LLC will be equal to or exceed the sum of the liabilities to be assumed by Business C LLC (within the meaning of Section 357(d)).
7. The liabilities to be assumed by Business C LLC (within the meaning of Section 357(d)) were incurred in the ordinary course of business and are associated with the assets to be transferred.
8. At the time of Drop Down 3, there will be no intercorporate debt existing between Holding Sub 2 and Business C LLC, and no indebtedness will be created in favor of Holding Sub 2 as a result of the transaction.
9. Drop Down 3 will occur pursuant to a plan agreed upon before the transaction in which the rights of the parties are defined.
10. All exchanges in connection with Drop Down 3 will occur on approximately the same date.

11. There is no plan or intention on the part of Business C LLC to redeem or otherwise reacquire any stock to be issued in Drop Down 3.
12. Taking into account any issuance of additional shares of Business C LLC's stock; any issuance of stock for services; the exercise of any Business C LLC stock rights, warrants, or subscriptions; a public offering of Business C LLC's stock; and the sale, exchange, transfer by gift, or other disposition of any of Business C LLC's stock received by Holding Sub 2, Holding Sub 2 will be in "control" of Business C LLC within the meaning of Section 368(c).
13. Holding Sub 2 will receive stock in Business C LLC approximately equal to the fair market value of the property transferred to Business C LLC.
14. Business C LLC will remain in existence and retain and use the property transferred to it in a trade or business.
15. There is no plan or intention by Business C LLC to dispose of the transferred property other than in the normal course of business operations.
16. Distributing and Controlled will each pay its own expenses in connection with the Proposed Transaction. Distributing does not intend to allocate its share of expenses in connection with the Proposed Transaction to entities that are members of the Distributing Group.
17. Business C LLC will not be an investment company within the meaning of Section 351(e)(1) of the Code and Treas. Reg. § 1.351-1(c)(1)(ii).
18. Holding Sub 2 is not under the jurisdiction of a court in a Title 11 or similar case (within the meaning of Section 368(a)(3)(A)) and the stock received in the exchange will not be used to satisfy the indebtedness of Holding Sub 2.
19. Business C LLC will not be a "personal service corporation" within the meaning of Section 269A of the Code.

The following representations have been made with respect to Drop Down 4:

1. (i) No stock or securities of Services Sub will be issued for services rendered to or for the benefit of Services Sub in connection with Drop Down 4; and (ii) no stock or securities will be issued for any indebtedness of Services Sub in connection with Drop Down 4.
2. Drop Down 4 is not the result of the solicitation by a promoter, broker or investment house.
3. Distributing will not retain any rights in the property transferred to Services Sub.
4. The value of the stock received in exchange for accounts receivable will be equal to the net value of the accounts transferred.
5. Any debt relating to the stock being transferred that is being assumed (or to which such stock is subject) was incurred to acquire such stock and was incurred when such stock was acquired, and Distributing is transferring all of the stock for which the acquisition indebtedness being assumed (or to which such stock is subject) was incurred.
6. The adjusted basis and the fair market value of the assets to be transferred by Distributing to Services Sub will be equal to or exceed the sum of the liabilities to be assumed by Services Sub (within the meaning of Section 357(d)).
7. The liabilities to be assumed by Services Sub (within the meaning of Section 357(d)) were incurred in the ordinary course of business and are associated with the assets to be transferred.
8. At the time of Drop Down 4, there will be no intercorporate debt existing between Distributing and Services Sub, and no indebtedness will be created in favor of Distributing as a result of the transaction.
9. Drop Down 4 will occur pursuant to a plan agreed upon before the transaction in which the rights of the parties are defined.
10. All exchanges in connection with Drop Down 4 will occur on approximately the same date.

11. There is no plan or intention on the part of Services Sub to redeem or otherwise reacquire any stock to be issued in Drop Down 4.
12. Taking into account any issuance of additional shares of Services Sub's stock; any issuance of stock for services; the exercise of any Services Sub stock rights, warrants, or subscriptions; a public offering of Services Sub's stock; and the sale, exchange, transfer by gift, or other disposition of any of Services Sub's stock received by Distributing, Distributing will be in "control" of Services Sub within the meaning of Section 368(c).
13. Distributing will receive stock in Services Sub approximately equal to the fair market value of the property transferred to Services Sub.
14. Services Sub will remain in existence and retain and use the property transferred to it in a trade or business.
15. There is no plan or intention by Services Sub to dispose of the transferred property other than in the normal course of business operations.
16. Distributing and Controlled will each pay its own expenses in connection with the Proposed Transaction. Distributing does not intend to allocate its share of expenses in connection with the Proposed Transaction to entities that are members of the Distributing Group.
17. Services Sub will not be an investment company within the meaning of Section 351(e)(1) of the Code and Treas. Reg. § 1.351-1(c)(1)(ii).
18. Distributing is not under the jurisdiction of a court in a Title 11 or similar case (within the meaning of Section 368(a)(3)(A)) and the stock received in the exchange will not be used to satisfy the indebtedness of Distributing.
19. Services Sub will not be a "personal service corporation" within the meaning of Section 269A of the Code.

The following representations have been made with respect to Contribution 1 and Internal Distribution 1:

1. Any indebtedness owed by Business B Sub to Holding Sub 2 after Internal Distribution 1 will not constitute stock or securities.
2. No part of the consideration to be distributed by Holding Sub 2 will be received by Holding Sub 1 as a creditor, employee, or in any capacity other than that of a shareholder of Holding Sub 2.
3. The five years of financial information submitted on behalf of Business B is representative of its present operations, and with regard thereto, there have been no substantial operational changes since the date of the last financial statements submitted.
4. The five years of financial information submitted on behalf of Business C is representative of its present operations, and with regard thereto, there have been no substantial operational changes since the date of the last financial statements submitted.
5. Following the transaction, Holding Sub 2 (through Business C LLC) and Business B Sub will each continue the active conduct of its business, independently and with its separate employees or employees of its affiliates. (Rev. Rul. 79-394, 1979-2 C.B. 141)
6. Internal Distribution 1 is carried out for the purpose of making possible the Public Distribution, the corporate business purposes for which include alleviating certain fit and focus problems that currently obstruct the optimal development and operation of both Business A and Business B. Internal Distribution 1 is motivated, in whole or substantial part, by this corporate business purpose.
7. The transaction is not used principally as a device for the distribution of the earnings and profits of Holding Sub 2 or Business B Sub or both.
8. The total adjusted bases and the fair market value of the assets transferred to Business B Sub by Holding Sub 2 each equals or exceeds the sum of the liabilities assumed by Business B Sub plus any liabilities to which the transferred assets are subject.
9. The liabilities assumed in the transaction and the liabilities to which the transferred assets are subject, if any, were incurred in the ordinary course of business and are associated with the assets being transferred.

10. Holding Sub 2 neither accumulated its receivables nor made extraordinary payment of its payables in anticipation of the transaction.
11. No intercorporate debt will exist between Holding Sub 2 and Business B Sub at the time of, or subsequent to, Internal Distribution 1 of the stock of Business B Sub, except for any indebtedness incurred in the ordinary course or pursuant to the Separation Indemnification Arrangements or the Contractual Guarantees.
12. Immediately before Internal Distribution 1, items of income, gain, loss, deduction, and credit will be taken into account as required by the applicable intercompany transaction regulations (see Section 1.1502-13 and Section 1.1502-14 as in effect before the publication of T.D. 8597, 1995-32 I.R.B. 6, and as currently in effect; Section 1.1502-13 as published by T.D. 8597). Further, Holding Sub 2's excess loss account, if any, with respect to Business B Sub's stock will be included in income immediately before the distribution (see Section 1.1502-19).
13. Payments made in connection with all continuing transactions, if any, between Holding Sub 2 and Business B Sub (or controlled subsidiaries of each), will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.
14. No two parties to the transaction are investment companies as defined in Section 368(a)(2)(F)(iii) and (iv).
15. Internal Distribution 1 is not part of a plan or series of related transactions (within the meaning of Treas. Reg. § 1.355-7) pursuant to which one or more persons will acquire directly or indirectly stock representing a 50-percent or greater interest (within the meaning of Section 355(d)(4)) in Holding Sub 2 or Business B Sub (including any predecessor or successor of any such corporation).
16. For purposes of Section 355(d), immediately after Internal Distribution 1, no person (determined after applying Section 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Holding Sub 2 stock entitled to vote or 50 percent or more of the total value of shares of all classes of Holding Sub 2 stock that was acquired by purchase (as defined in Section 355(d)(5) and (8)) during the five-

year period (determined after applying Section 355(d)(6)) ending on the date of Internal Distribution 1.

17. For purposes of Section 355(d), immediately after Internal Distribution 1, no person (determined after applying Section 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Business B Sub stock entitled to vote or 50 percent or more of the total value of shares of all classes of Business B Sub stock that was either (i) acquired by purchase (as defined in Section 355(d)(5) and (8)) during the five-year period (determined after applying Section 355(d)(6)) ending on the date of Internal Distribution 1, or (ii) attributable to distributions on Holding Sub 2 stock that was acquired by purchase (as defined in Section 355(d)(5) and (8)) during the five-year period (determined after applying Section 355(d)(6)) ending on the date of Internal Distribution 1.

The following representations have been made with respect to Contribution 2 and Internal Distribution 2:

1. Any indebtedness owed by Business B Sub to Holding Sub 1 after Internal Distribution 2 will not constitute stock or securities.
2. No part of the consideration to be distributed by Holding Sub 1 will be received by Services Sub as a creditor, employee, or in any capacity other than that of a shareholder of Holding Sub 1.
3. The five years of financial information submitted on behalf of Business B is representative of its present operations, and with regard thereto, there have been no substantial operational changes since the date of the last financial statements submitted.
4. The five years of financial information submitted on behalf of Business C is representative of its present operation, and with regard thereto, there have been no substantial operational changes since the date of the last financial statements submitted.
5. Following the transaction, Holding Sub 1 (through its subsidiaries) and Business B Sub will each continue the active conduct of its business, independently and with its separate employees or employees of its affiliates. (Rev. Rul. 79-394, 1979-2 C.B. 141)
6. Internal Distribution 2 is carried out for the purpose of making possible the Public Distribution, the corporate business purposes for which include alleviating certain fit and focus problems that

currently obstruct the optimal development and operation of both Business A and Business B. Internal Distribution 2 is motivated, in whole or substantial part, by this corporate business purpose.

7. The transaction is not used principally as a device for the distribution of the earnings and profits of Holding Sub 1 or Business B Sub or both.
8. The total adjusted bases and the fair market value of the assets transferred to Business B Sub by Holding Sub 1 each equals or exceeds the sum of the liabilities assumed by Business B Sub plus any liabilities to which the transferred assets are subject.
9. The liabilities assumed in the transaction and the liabilities to which the transferred assets are subject, if any, were incurred in the ordinary course of business and are associated with the assets being transferred.
10. Holding Sub 1 neither accumulated its receivables nor made extraordinary payment of its payables in anticipation of the transaction.
11. No intercorporate debt will exist between Holding Sub 1 and Business B Sub at the time of, or subsequent to, Internal Distribution 2 of the stock of Business B Sub, except for any indebtedness incurred in the ordinary course or pursuant to the Separation Indemnification Arrangements or the Contractual Guarantees.
12. Immediately before Internal Distribution 2, items of income, gain, loss, deduction, and credit will be taken into account as required by the applicable intercompany transaction regulations (see Section 1.1502-13 and Section 1.1502-14 as in effect before the publication of T.D. 8597, 1995-32 I.R.B. 6, and as currently in effect; Section 1.1502-13 as published by T.D. 8597). Further, Holding Sub 1's excess loss account, if any, with respect to Business B Sub's stock will be included in income immediately before the distribution (see Section 1.1502-19).
13. Payments made in connection with all continuing transactions, if any, between Holding Sub 1 and Business B Sub (or controlled subsidiaries of each), will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.

14. No two parties to the transaction are investment companies as defined in Section 368(a)(2)(F)(iii) and (iv).
15. Internal Distribution 2 is not part of a plan or series of related transactions (within the meaning of Treas. Reg. § 1.355-7) pursuant to which one or more persons will acquire directly or indirectly stock representing a 50-percent or greater interest (within the meaning of Section 355(d)(4)) in Holding Sub 1 or Business B Sub (including any predecessor or successor of any such corporation).
16. For purposes of Section 355(d), immediately after Internal Distribution 2, no person (determined after applying Section 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Holding Sub 1 stock entitled to vote or 50 percent or more of the total value of shares of all classes of Holding Sub 1 stock that was acquired by purchase (as defined in Section 355(d)(5) and (8)) during the five-year period (determined after applying Section 355(d)(6)) ending on the date of Internal Distribution 2.
17. For purposes of Section 355(d), immediately after Internal Distribution 2, no person (determined after applying Section 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Business B Sub stock entitled to vote or 50 percent or more of the total value of shares of all classes of Business B Sub stock that was either (i) acquired by purchase (as defined in Section 355(d)(5) and (8)) during the five-year period (determined after applying Section 355(d)(6)) ending on the date of Internal Distribution 2, or (ii) attributable to distributions on Holding Sub 1 stock that was acquired by purchase (as defined in Section 355(d)(5) and (8)) during the five-year period (determined after applying Section 355(d)(6)) ending on the date of Internal Distribution 2.

The following representations have been made with respect to Contribution 3 and Internal Distribution 3:

1. Any indebtedness owed by Business B Sub to Services Sub after Internal Distribution 3 will not constitute stock or securities.
2. No part of the consideration to be distributed by Services Sub will be received by Distributing as a creditor, employee, or in any capacity other than that of a shareholder of Services Sub.

3. The five years of financial information submitted on behalf of Business B is representative of its present operations, and with regard thereto, there have been no substantial operational changes since the date of the last financial statements submitted.
4. The five years of financial information submitted on behalf of Business C is representative of its present operation, and with regard thereto, there have been no substantial operational changes since the date of the last financial statements submitted.
5. Following the transaction, Services Sub (through its subsidiaries) and Business B Sub will each continue the active conduct of its business, independently and with its separate employees or employees of its affiliates. (Rev. Rul. 79-394, 1979-2 C.B. 141)
6. Internal Distribution 3 is carried out for the purpose of making possible the Public Distribution, the corporate business purposes for which include alleviating certain fit and focus problems that currently obstruct the optimal development and operation of both Business A and Business B. Internal Distribution 3 is motivated, in whole or substantial part, by this corporate business purpose.
7. The transaction is not used principally as a device for the distribution of the earnings and profits of Services Sub or Business B Sub or both.
8. The total adjusted bases and the fair market value of the assets transferred to Business B Sub by Services Sub each equals or exceeds the sum of the liabilities assumed by Business B Sub plus any liabilities to which the transferred assets are subject.
9. The liabilities assumed in the transaction and the liabilities to which the transferred assets are subject, if any, were incurred in the ordinary course of business and are associated with the assets being transferred.
10. Services Sub neither accumulated its receivables nor made extraordinary payment of its payables in anticipation of the transaction.
11. No intercorporate debt will exist between Services Sub and Business B Sub at the time of, or subsequent to, Internal Distribution 3 of the stock of Business B Sub, except for any indebtedness incurred in the ordinary course or pursuant to the

Separation Indemnification Arrangements or the Contractual Guarantees.

12. Immediately before Internal Distribution 3, items of income, gain, loss, deduction, and credit will be taken into account as required by the applicable intercompany transaction regulations (see Section 1.1502-13 and Section 1.1502-14 as in effect before the publication of T.D. 8597, 1995-32 I.R.B. 6, and as currently in effect; Section 1.1502-13 as published by T.D. 8597). Further, Services Sub's excess loss account, if any, with respect to Business B Sub's stock will be included in income immediately before the distribution (see Section 1.1502-19).
13. Payments made in connection with all continuing transactions, if any, between Services Sub and Business B Sub (or controlled subsidiaries of each), will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.
14. No two parties to the transaction are investment companies as defined in Section 368(a)(2)(F)(iii) and (iv).
15. Internal Distribution 3 is not part of a plan or series of related transactions (within the meaning of Treas. Reg. § 1.355-7) pursuant to which one or more persons will acquire directly or indirectly stock representing a 50-percent or greater interest (within the meaning of Section 355(d)(4)) in Services Sub or Business B Sub (including any predecessor or successor of any such corporation).
16. For purposes of Section 355(d), immediately after Internal Distribution 3, no person (determined after applying Section 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Services Sub stock entitled to vote or 50 percent or more of the total value of shares of all classes of Services Sub stock that was acquired by purchase (as defined in Section 355(d)(5) and (8)) during the five-year period (determined after applying Section 355(d)(6)) ending on the date of Internal Distribution 3.
17. For purposes of Section 355(d), immediately after Internal Distribution 3, no person (determined after applying Section 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Business B Sub stock entitled to vote or 50 percent or more of the total value of

shares of all classes of Business B Sub stock that was either (i) acquired by purchase (as defined in Section 355(d)(5) and (8)) during the five-year period (determined after applying Section 355(d)(6)) ending on the date of Internal Distribution 3, or (ii) attributable to distributions on Services Sub stock that was acquired by purchase (as defined in Section 355(d)(5) and (8)) during the five-year period (determined after applying Section 355(d)(6)) ending on the date of Internal Distribution 3.

The following representations have been made with respect to Contribution 4 and the Public Distribution:

1. Any indebtedness owed by Controlled to Distributing after the Public Distribution will not constitute stock or securities.
2. No part of the consideration to be distributed by Distributing will be received by a shareholder as a creditor, employee, or in any capacity other than that of a shareholder of Distributing.
3. The five years of financial information submitted on behalf of Business A is representative of its present operations, and with regard thereto, there have been no substantial operational changes since the date of the last financial statements submitted.
4. The five years of financial information submitted on behalf of Business B is representative of its present operations, and with regard thereto, there have been no substantial operational changes since the date of the last financial statements submitted.
5. Following the transaction, Distributing and Controlled (through its subsidiaries) will each continue the active conduct of its business, independently and with its separate employees or employees of its affiliates. (Rev. Rul. 79-394, 1979-2 C.B. 141).
6. The Public Distribution is carried out for the following corporate business purpose: alleviating certain fit and focus problems that currently obstruct the optimal development and operation of both Business A and Business B. The Public Distribution is motivated, in whole or substantial part, by this corporate business purpose.
7. The transaction is not used principally as a device for the distribution of the earnings and profits of Distributing or Controlled or both.

8. The total adjusted bases and the fair market value of the assets transferred to Controlled by Distributing each equals or exceeds the sum of the liabilities assumed by Controlled plus any liabilities to which the transferred assets are subject.
9. The liabilities assumed in the transaction and the liabilities to which the transferred assets are subject, if any, were incurred in the ordinary course of business and are associated with the assets being transferred.
10. Distributing neither accumulated its receivables nor made extraordinary payment of its payables in anticipation of the transaction.
11. No intercorporate debt will exist between Distributing and Controlled at the time of, or subsequent to, the Public Distribution of the stock of Controlled, except for any indebtedness incurred in the ordinary course or pursuant to the Separation Indemnification Arrangements or the Contractual Guarantees.
12. Immediately before the Public Distribution, items of income, gain, loss, deduction, and credit will be taken into account as required by the applicable intercompany transaction regulations (see Section 1.1502-13 and Section 1.1502-14 as in effect before the publication of T.D. 8597, 1995-32 I.R.B. 6, and as currently in effect; Section 1.1502-13 as published by T.D. 8597). Further, Distributing's excess loss account, if any, with respect to Controlled's stock will be included in income immediately before the distribution (see Section 1.1502-19).
13. Payments made in connection with all continuing transactions, if any, between Distributing and Controlled (or controlled subsidiaries of each), will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.
14. No two parties to the transaction are investment companies as defined in Section 368(a)(2)(F)(iii) and (iv).
15. The Public Distribution is not part of a plan or series of related transactions (within the meaning of Treas. Reg. § 1.355-7) pursuant to which one or more persons will acquire directly or indirectly stock representing a 50-percent or greater interest (within the meaning of Section 355(d)(4)) in Distributing or

Controlled (including any predecessor or successor of any such corporation).

16. For purposes of Section 355(d), immediately after the Public Distribution, no person (determined after applying Section 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Distributing stock entitled to vote or 50 percent or more of the total value of shares of all classes of Distributing stock that was acquired by purchase (as defined in Section 355(d)(5) and (8)) during the five-year period (determined after applying Section 355(d)(6)) ending on the date of the Public Distribution.
17. For purposes of Section 355(d), immediately after the Public Distribution, no person (determined after applying Section 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Controlled stock entitled to vote or 50 percent or more of the total value of shares of all classes of Controlled stock that was either (i) acquired by purchase (as defined in Section 355(d)(5) and (8)) during the five-year period (determined after applying Section 355(d)(6)) ending on the date of the Public Distribution, or (ii) attributable to distributions on Distributing stock that was acquired by purchase (as defined in Section 355(d)(5) and (8)) during the five-year period (determined after applying Section 355(d)(6)) ending on the date of the Public Distribution.
18. The payment of cash in lieu of fractional shares of Controlled, if any, is solely for the purpose of avoiding the expense and inconvenience of issuing fractional shares and does not represent separately bargained for consideration. The method used for handling fractional shares is designed to limit the amount of cash received by any one shareholder to less than the value of one full share of Controlled. The total amount of cash paid in lieu of fractional shares will not exceed one percent of the fair market value of Controlled shares distributed to the shareholders in the Public Distribution.

Rulings

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

1. The Conversion will constitute a complete liquidation of Business C Sub under Section 332 and Treas. Reg. § 1.332-2(d).
2. No gain or loss will be recognized by Business C Sub or Distributing as a result of the Conversion. Sections 332(a), 336(d)(3), 337(a) and 337(b). No gain or loss will be recognized by Business C Sub with respect to any indebtedness owed to Distributing that is satisfied in the Conversion. Section 337(b)(1).
3. Distributing's basis in each asset received from Business C Sub in the Conversion will be the same as the basis of that asset in the hands of Business C Sub immediately before the Conversion. Section 334(b)(1).
4. Distributing's holding period in each asset received from Business C Sub in the Conversion will include the period during which that asset was held by Business C Sub. Section 1223(2).
5. Distributing will succeed to and take into account the items of Business C Sub described in Section 381(c), subject to the conditions and limitations specified in Sections 381, 382, 383, and 384 and the regulations thereunder. Section 381(a) and Treas. Reg. § 1.381(a)-1.
6. Except to the extent Business C Sub's earnings and profits are reflected in Distributing's earnings and profits, Distributing will succeed to and take into account the earnings and profits, or deficit in earnings and profits, of Business C Sub as of the date of the Conversion. Section 381(c)(2)(A) and Treas. Reg. §§1.381(c)(2)-1 and 1.1502-33(a)(2).
7. Any deficit in earnings and profits of Business C Sub will be used only to offset earnings and profits accumulated after the date of the Conversion. Section 381(c)(2)(B).

Based solely on the information submitted and the representations made, we rule as follows regarding Drop Down 1:

1. No gain or loss will be recognized by Distributing on the transfer of assets to Holding Sub 1 in constructive exchange for all of the common stock of Holding Sub 1 and the assumption of liabilities, as described above. Section 351(a) and 357(a).

2. The basis of the common stock in Holding Sub 1 to be constructively received by Distributing will be the same as the basis of the assets transferred by Distributing to Holding Sub 1, decreased by the sum of the liabilities assumed by Holding Sub 1. Sections 358(a)(1) and 358(d)(1).
3. The holding period of the stock to be constructively received by Distributing will include the holding period of the assets that were transferred to Holding Sub 1, provided that the assets were held as capital assets on the date of Drop Down 1. Section 1223(1).
4. No gain or loss will be recognized by Holding Sub 1 on the receipt of assets in constructive exchange for its common stock. Section 1032(a).
5. The basis of the assets received by Holding Sub 1 will be the same as the basis of the assets in the hands of Distributing immediately prior to Drop Down 1. Section 362(a).
6. The holding period of the assets transferred to Holding Sub 1 will include the holding period of such assets in the hands of Distributing. Section 1223(2).

Based solely on the information submitted and the representations made, we rule as follows regarding Drop Down 2:

1. No gain or loss will be recognized by Holding Sub 1 on the transfer of assets to Holding Sub 2 in constructive exchange for all of the common stock of Holding Sub 2 and the assumption of liabilities, as described above. Section 351(a) and 357(a).
2. The basis of the common stock in Holding Sub 2 to be constructively received by Holding Sub 1 will be the same as the basis of the assets transferred by Holding Sub 1 to Holding Sub 2, decreased by the sum of the liabilities assumed by Holding Sub 2. Sections 358(a)(1) and 358(d)(1).
3. The holding period of the stock to be constructively received by Holding Sub 1 will include the holding period of the assets that were transferred to Holding Sub 2, provided that the assets were held as capital assets on the date of Drop Down 2. Section 1223(1).
4. No gain or loss will be recognized by Holding Sub 2 on the receipt of assets in constructive exchange for its common stock. Section 1032(a).

5. The basis of the assets received by Holding Sub 2 will be the same as the basis of the assets in the hands of Holding Sub 1 immediately prior to Drop Down 2. Section 362(a).
6. The holding period of the assets transferred to Holding Sub 2 will include the holding period of such assets in the hands of Holding Sub 1. Section 1223(2).

Based solely on the information submitted and the representations made, we rule as follows regarding Drop Down 3:

1. No gain or loss will be recognized by Holding Sub 2 on the transfer of assets to Business C LLC in constructive exchange for all of the membership interests of Business C LLC and the assumption of liabilities, as described above. Section 351(a) and 357(a).
2. The basis of the membership interests in Business C LLC to be constructively received by Holding Sub 2 will be the same as the basis of the assets transferred by Holding Sub 2 to Business C LLC, decreased by the sum of the liabilities assumed by Business C LLC. Sections 358(a)(1) and 358(d)(1).
3. The holding period of the membership interests constructively received by Holding Sub 2 will include the holding period of the assets that were transferred to Business C LLC, provided that the assets were held as capital assets on the date of Drop Down 3. Section 1223(1).
4. No gain or loss will be recognized by Business C LLC on the receipt of assets in constructive exchange for its membership interests. Section 1032(a).
5. The basis of the assets received by Business C LLC will be the same as the basis of the assets in the hands of Holding Sub 2 immediately prior to Drop Down 3. Section 362(a).
6. The holding period of the assets transferred to Business C LLC will include the holding period of such assets in the hands of Holding Sub 2. Section 1223(2).

Based solely on the information submitted and the representations made, we rule as follows regarding Drop Down 4:

1. No gain or loss will be recognized by Distributing on the transfer of assets to Services Sub in constructive exchange for all of the

common stock of Services Sub and the assumption of liabilities, as described above. Section 351(a) and 357(a).

2. The basis of the common stock in Services Sub to be constructively received by Distributing will be the same as the basis of the assets transferred by Distributing to Services Sub, decreased by the sum of the liabilities assumed by Services Sub. Sections 358(a)(1) and 358(d)(1).
3. The holding period of the stock to be constructively received by Distributing will include the holding period of the assets that were transferred to Services Sub, provided that the assets were held as capital assets on the date of Drop Down 4. Section 1223(1).
4. No gain or loss will be recognized by Services Sub on the receipt of assets in constructive exchange for its common stock. Section 1032(a).
5. The basis of the assets received by Services Sub will be the same as the basis of the assets in the hands of Distributing immediately prior to Drop Down 4. Section 362(a).
6. The holding period of the assets transferred to Services Sub will include the holding period of such assets in the hands of Distributing. Section 1223(2).

Based solely on the information submitted and the representations made, we rule as follows regarding Contribution 1 and Internal Distribution 1:

1. The transfer by Holding Sub 2 to Business B Sub of its property, subject to liabilities, relating to Business B, in exchange for the deemed issuance to Holding Sub 2 of Business B Sub stock, followed by the distribution by Holding Sub 2 of all of its Business B Sub stock to Holding Sub 1, will qualify as a reorganization within the meaning of Section 368(a)(1)(D). Holding Sub 2 and Business B Sub will each be "a party to a reorganization" within the meaning of Section 368(b).
2. No income, gain or loss will be recognized by Holding Sub 2 on Contribution 1. Sections 361(a) and 357(a).
3. No income, gain or loss will be recognized by Business B Sub on Contribution 1. Section 1032(a).

4. The basis of the property received by Business B Sub will be the same as the basis of such property in the hands of Holding Sub 2 immediately prior to Internal Distribution 1. Section 362(b).
5. The holding period of the property received by Business B Sub will include the period during which such property was held by Holding Sub 2. Section 1223(2).
6. No gain or loss will be recognized by (and no amount will otherwise be included in the income of) Holding Sub 1 upon its receipt of Business B Sub stock pursuant to Internal Distribution 1. (Section 355(a)).
7. No income, gain or loss will be recognized by Holding Sub 2 upon the distribution to Holding Sub 1 of the Business B Sub stock pursuant to Internal Distribution 1. (Section 361(c)).
8. The aggregate basis of the Holding Sub 2 stock and the Business B Sub stock in the hands of Holding Sub 1 after Internal Distribution 1 will be the same as the basis of the Holding Sub 2 stock held by Holding Sub 1 immediately prior to Internal Distribution 1, allocated in proportion to the respective fair market values of the Holding Sub 2 stock and the Business B Sub stock in accordance with Treas. Reg. § 1.358-2(a)(2). (Sections 358(a)(1) and (b)).
9. The holding period of the Business B Sub stock received by Holding Sub 1 will include the holding period of the Holding Sub 2 stock with respect to which Internal Distribution 1 is made, provided that such Holding Sub 2 stock is held as a capital asset on the date of Internal Distribution 1. (Section 1223(1)).
10. As provided in Section 312(h), proper allocation of earnings and profits between Business B Sub and Holding Sub 2 will be made in accordance with Treas. Reg. § 1.312-10(a).

Based solely on the information submitted and the representations made, we rule as follows regarding Contribution 2 and Internal Distribution 2:

1. The transfer by Holding Sub 1 to Business B Sub of its property, subject to liabilities, relating to Business B, in exchange for the deemed issuance to Holding Sub 1 of Business B Sub stock, followed by the distribution by Holding Sub 1 of all of its Business B Sub stock to Services Sub, will qualify as a reorganization within the meaning of Section 368(a)(1)(D). Holding Sub 1 and Business

B Sub will each be "a party to a reorganization" within the meaning of Section 368(b).

2. No income, gain or loss will be recognized by Holding Sub 1 on Contribution 2. Sections 361(a) and 357(a).
3. No income, gain or loss will be recognized by Business B Sub on Contribution 2. Section 1032(a).
4. The basis of the property received by Business B Sub will be the same as the basis of such property in the hands of Holding Sub 1 immediately prior to Internal Distribution 2. Section 362(b).
5. The holding period of the property received by Business B Sub will include the period during which such property was held by Holding Sub 1. Section 1223(2).
6. No gain or loss will be recognized by (and no amount will otherwise be included in the income of) Services Sub upon its receipt of Business B Sub stock pursuant to Internal Distribution 2. (Section 355(a)).
7. No income, gain or loss will be recognized by Holding Sub 1 upon the distribution to Services Sub of the Business B Sub stock pursuant to Internal Distribution 2. (Section 361(c)).
8. The aggregate basis of the Holding Sub 1 stock and the Business B Sub stock in the hands of Services Sub after Internal Distribution 2 will be the same as the basis of the Holding Sub 1 stock held by Services Sub immediately prior to Internal Distribution 2, allocated in proportion to the respective fair market values of the Holding Sub 1 stock and the Business B Sub stock in accordance with Treas. Reg. § 1.358-2(a)(2). (Sections 358(a)(1) and (b)).
9. The holding period of the Business B Sub stock received by Services Sub will include the holding period of the Holding Sub 1 stock with respect to which Internal Distribution 2 is made, provided that such Holding Sub 1 stock is held as a capital asset on the date of Internal Distribution 2. (Section 1223(1)).
10. As provided in Section 312(h), proper allocation of earnings and profits between Business B Sub and Holding Sub 1 will be made in accordance with Treas. Reg. § 1.312-10(a).

Based solely on the information submitted and the representations made, we rule as follows regarding Contribution 3 and Internal Distribution 3:

1. The transfer by Services Sub to Business B Sub of its property, subject to liabilities, relating to the Business B, in exchange for the deemed issuance to Services Sub of Business B Sub stock, followed by the distribution by Services Sub of all of its Business B Sub stock to Distributing, will qualify as a reorganization within the meaning of Section 368(a)(1)(D). Services Sub and Business B Sub will each be "a party to a reorganization" within the meaning of Section 368(b).
2. No income, gain or loss will be recognized by Services Sub on Contribution 3. Sections 361(a) and 357(a).
3. No income, gain or loss will be recognized by Business B Sub on Contribution 3. Section 1032(a).
4. The basis of the property received by Business B Sub will be the same as the basis of such property in the hands of Services Sub immediately prior to Internal Distribution 3. Section 362(b).
5. The holding period of the property received by Business B Sub will include the period during which such property was held by Services Sub. Section 1223(2).
6. No gain or loss will be recognized by (and no amount will otherwise be included in the income of) Distributing upon its receipt of Business B Sub stock pursuant to Internal Distribution 3. (Section 355(a)).
7. No income, gain or loss will be recognized by Services Sub upon the distribution to Distributing of the Business B Sub stock pursuant to Internal Distribution 3. (Section 361(c)).
8. The aggregate basis of the Services Sub stock and the Business B Sub stock in the hands of Distributing after Internal Distribution 3 will be the same as the basis of the Services Sub stock held by Distributing immediately prior to Internal Distribution 3, allocated in proportion to the respective fair market values of the Services Sub stock and the Business B Sub stock in accordance with Treas. Reg. § 1.358-2(a)(2). (Sections 358(a)(1) and (b)).
9. The holding period of the Business B Sub stock received by Distributing will include the holding period of the Services Sub stock

with respect to which Internal Distribution 3 is made, provided that such Services Sub stock is held as a capital asset on the date of Internal Distribution 3. (Section 1223(1)).

10. As provided in Section 312(h), proper allocation of earnings and profits between Business B Sub and Services Sub will be made in accordance with Treas. Reg. § 1.312-10(a).

Based solely on the information submitted and the representations made, we rule as follows regarding Contribution 4 and the Public Distribution:

1. The transfer by Distributing to Controlled of the membership interests of LLC1 in exchange for the deemed issuance to Distributing of Controlled Common Stock, followed by the distribution by Distributing of all of its Controlled Common Stock to the public shareholders, will qualify as a reorganization within the meaning of Section 368(a)(1)(D). Distributing and Controlled will each be "a party to a reorganization" within the meaning of Section 368(b).
2. No income, gain or loss will be recognized by Distributing on its transfer of the membership interests of LLC1 to Controlled in exchange for Controlled Common Stock. Sections 361(a) and 357(a).
3. No income, gain or loss will be recognized by Controlled on Contribution 4. Section 1032(a).
4. The basis of the property received by Controlled will be the same as the basis of such property in the hands of Distributing immediately prior to the Public Distribution. Section 362(b).
5. The holding period of the property received by Controlled will include the period during which such property was held by Distributing. Section 1223(2).
6. No gain or loss will be recognized by (and no amount will otherwise be included in the income of) the public shareholders upon their receipt of Controlled Common Stock pursuant to the Public Distribution. (Section 355(a)).
7. No income, gain or loss will be recognized by Distributing upon the distribution to the public shareholders of the Controlled Common Stock pursuant to the Public Distribution. (Section 361(c)).

8. The aggregate basis of the Distributing Common Stock and Controlled Common Stock in the hands of the public shareholders after the Public Distribution will be the same as the basis of the Distributing Common Stock held by the public shareholders immediately prior to the Public Distribution, allocated in proportion to the respective fair market values of the Distributing Common Stock and Controlled Common Stock in accordance with Treas. Reg. § 1.358-2(a)(2). (Sections 358(a)(1) and (b)).
9. The holding period of the Controlled Common Stock received by the public shareholders will include the holding period of the Distributing Common Stock with respect to which the Public Distribution is made, provided that such Distributing Common Stock is held as a capital asset on the date of the Public Distribution. (Section 1223(1)).
10. As provided in Section 312(h), proper allocation of earnings and profits between Controlled and Distributing will be made in accordance with Treas. Reg. § 1.312-10(a).
11. If cash in lieu of a fractional share of Controlled Common Stock is received by a public shareholder, the public shareholder will have gain or loss measured by the difference between the basis of the fractional share, as allocated thereto as determined in ruling 8 above, and the amount of cash received. (Section 1001(a)). If the Controlled Common Stock is held by the public shareholder as a capital asset, the gain or loss will be capital gain or loss subject to the provisions and limitations of Subchapter P of Chapter 1. (Sections 1221 and 1222).
12. Payments made by Distributing to Controlled or by Controlled to Distributing under the Contractual Guarantees or the Separation Indemnification Arrangements entered into by and among Distributing and its affiliates and Controlled and its affiliates, will be treated as occurring immediately before the Distribution. See Arrowsmith v. Commissioner, 344 U.S. 6 (1952).

Caveats

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 regarding:

- (1) Whether each of the Internal Distributions and the Public Distribution satisfies the business purpose requirement of § 1.355-2(b);
- (2) Whether each of the Internal Distributions and the Public Distribution is used principally as a device for the distribution of the earnings and profits of the distributing corporation or the controlled corporation or both (see § 355(a)(1)(B) and § 1.355-2(d));
- (3) Whether each of the Internal Distributions and the Public Distribution, and an acquisition or acquisitions, are part of a plan (or series of related transactions) under § 355(e)(2)(A)(ii);
- (4) Whether section 304, section 1248, or Subpart F applies to the sale of Business B Foreign Sub 2;
- (5) Whether section 1248 applies to the transfer of any interest in any foreign entity held directly or indirectly by Distributing or Controlled;
- (6) The federal tax treatment of the exchange of Property A for Property B in step (18) of the Proposed Transactions;
- (7) Whether any entity described as a disregarded entity actually qualifies as a disregarded entity under § 301.7701-3; or
- (8) The federal tax treatment of steps (1) and (3) of the Proposed Transactions.

Procedural Matters

This ruling is directed only to the taxpayer 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 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.

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,

Virginia S. Voorhees

Virginia S. Voorhees
Senior Technical Reviewer, Branch 5
Office of Associate Chief Counsel (Corporate)