

Shareholder E =

Shareholder F =

Shareholder G =

Shareholder H =

aa =

bb =

cc =

dd =

ee =

ff =

gg =

hh =

aaa =

bbb =

ccc =

ddd =

eee =

fff =

ggg =

hhh =

Dear _____ :

This letter responds to your September, 22, 2006, request for rulings on certain federal income tax consequences of a proposed transaction. The relevant information provided in your request is summarized below.

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

In particular, this office has not reviewed any information pertaining to, and has made no determination regarding, whether the transaction described below satisfies the business purpose requirement of section 1.355-2(b) of the Income Tax Regulations, whether the distribution described below is used principally as a device for the distribution of earnings and profits of Distributing or Controlled or both (see section 355(a)(1)(B) of the Internal Revenue Code and section 1.355-2(d)), or whether any distribution described below 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 Distributing or Controlled (see section 355(e) and section 1.355-7).

Distributing is a State X, Subchapter S corporation that uses the accrual method of accounting and is engaged in Business A. Distributing has one class of stock outstanding, which is owned as follows: aa shares by Shareholder A, bb shares by Shareholder B, cc shares by Shareholder C, dd shares by Shareholder D and ee shares by Shareholder E.

Controlled is a State X corporation that uses the accrual method of accounting and is engaged in Business B. Controlled has one class of stock outstanding which is owned as follows: ff shares by Distributing (an amount constituting control within the meaning of section 368(c)), gg shares by Shareholder A, gg shares by Shareholder E, gg shares by Shareholder F, hh shares by Shareholder G, and gg shares by Shareholder H.

We have received financial information that Business A and Business B each have had gross receipts and operating expenses representing the active conduct of a trade or business for each of the past five years.

For what has been represented as a valid business purpose, the taxpayer has proposed the following transaction:

Distributing will distribute aaa shares of Controlled stock to Shareholder A in exchange for bbb shares of Shareholder A's Distributing stock; ccc shares of Controlled stock to Shareholder B in exchange for ddd shares of Shareholder B's Distributing stock; eee shares of Controlled stock to Shareholder D in exchange for fff shares of Shareholder D's Distributing stock and ggg shares of Controlled stock to Shareholder E in exchange for hhh shares of Shareholder E's Distributing stock (together the "Distribution").

The parties have made the following representations concerning the proposed transaction.

(a) The fair market value of Controlled stock and other consideration to be received by each shareholder of Distributing will be approximately equal to the fair market value of Distributing stock surrendered by the shareholder in the exchange.

(b) 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.

(c) The 5 years of financial information submitted on behalf of Distributing is representative of the corporation's present operation, and with regard to such corporation, there have been no substantial operation changes since the date of the last financial statements submitted.

(d) The 5 years of financial information submitted on behalf of Controlled is representative of the corporation's present operation, and with regard to such corporation, there have been no substantial operational changes since the date of the last financial statements submitted.

(e) Following the transaction, Distributing and Controlled will each continue the active conduct of its business, independently and with its separate employees, except for four shared employees.

(f) The Distribution is carried out for the following corporate business purposes: risk reduction relating to the separation of risks associated with Business A conducted by Distributing from Business B conducted by Controlled, to achieve substantial cost savings for Distributing, and to assist in the retention of a key employee in Business A. The Distribution is motivated, in whole or substantial part, by one or more of these corporate business purposes.

(g) The transaction is not used principally as a device for the distribution of the earnings and profits of Distributing or Controlled or both.

(h) Distributing neither accumulated its receivables nor made extraordinary payment of its payables in anticipation of the transaction.

(i) No intercorporate debt will exist between Distributing and Controlled at the time of, or subsequent, to the distribution of Controlled stock.

(j) Payments made in connection with all continuing transactions, if any, between Distributing and Controlled, will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.

(k) The Distribution is not a part of a plan or series of related transaction (within the meaning of section 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).

Based solely on the information and representations set forth herein, we rule as follows:

(1) Distributing will recognize no gain or loss on the Distribution (section 355(c)).

(2) Shareholder A, Shareholder B, Shareholder D, and Shareholder E will recognize no gain or loss and no amount will be included in their income upon the receipt of the Controlled stock in the Distribution (section 355(a)(1)).

(3) The aggregate basis of the Distributing and Controlled stock held by Shareholder A, Shareholder B, Shareholder D and Shareholder E immediately after the Distribution will equal the basis of the Distributing stock held by Shareholder A, Shareholder B, Shareholder D and Shareholder E, respectively, immediately before the Distribution, allocated in proportion to the fair market value of the Distributing and Controlled stock in accordance with § 1.358-2(a)(2) (§ 358(a), (b) and (c)).

(4) The holding period of Controlled stock (including fractional interests) to be received by Shareholder A, Shareholder B, Shareholder D, and Shareholder E will include the holding period of the Distributing stock surrendered in the exchange, provided the Distributing stock is held as a capital asset on the date of the Distribution (section 1223(1)).

(5) Earnings and profits will be allocated between Distributing and Controlled in accordance with section 312(h) and section 1.312-10(b).

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. This office has not verified any of these

materials submitted in support of this request for rulings. Verification of this information may be required as part of the audit process.

This ruling is directed on 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.

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,

Mark J. Weiss
Assistant to the Chief, Branch 1
Office of Associate Chief Counsel
(Corporate)