

Internal Revenue Service

Number: **201603005**
Release Date: 1/15/2016

Index Number: 355.00-00, 355.01-00,
355.10-00

Department of the Treasury
Washington, DC 20224

Third Party Communication: None
Date of Communication: Not Applicable

Person To Contact:

ID No.

Telephone Number:

Refer Reply To:
CC:CORP:B04
PLR-110778-15

Date:
September 22, 2015

Legend:

Distributing 1 =

Distributing 2 =

Controlled 1 =

Controlled 2 =

LP 1 =

LP 2 =

LP 3 =

LP 4 =

LP 5 =

LLP 1 =

LLC 1 =

LLC 2 =

LLC 3 =

LLC 4 =

LLC 5 =

LLC 6 =

LLC 7 =

LLC 8 =

LLC 9 =

LLC 10 =

LLC 11 =

LLC 12 =

Holdings 1 =

Holdings 2 =

Holdings 3 =

Holdings 4 =

Sub =

Business A =

Business B =

Business B1 =

Business B2 =

Business B3 =

Business B4 =

State A =

Country A =

Country B =

Country C =

Country D =

Country E =

Entity =

Managers =

Founder =

Holdings LP
Unit Holders =

Individual =

X =

Y =

Z =

a =

b =

c =

d =

e =

f =

g =

h =

i =

j =

k =

l =

m =

n =

Dear :

This letter responds to your representative's March 24, 2015 letter requesting rulings on certain federal income tax consequences of the proposed transaction. The material information submitted in that letter and in subsequent correspondence is summarized below.

The rulings contained in this letter are based on facts and representations submitted by the taxpayer and accompanied by a penalties 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 facts, representations, and other information may be required as part of the audit process.

This letter is issued pursuant to § 6.03 of Rev. Proc. 2015-1, 2015-1 I.R.B. 1, regarding one or more significant issues under § 355 of the Internal Revenue Code (the "Code"). The rulings contained in this letter only address one or more discrete legal issues involved in the transactions described herein. This Office expresses no opinion as to the overall tax consequences of these transactions or as to any issue not specifically addressed by the rulings below.

Facts

LP 1, a Delaware limited partnership, is a publicly traded partnership treated as a partnership for U.S. federal income tax purposes. LP 1 operates in several business segments including Business A and Business B. Business B is comprised of several business lines including Business B1, Business B2, and Business B3 (collectively, the "Separated Businesses").

LP 1 is managed and operated by its general partner, LLC 1, a State A limited liability company ("LLC") that is wholly owned by LP 1's Managers and controlled by its Founder. LP 1's Managers and Founder also own LLC 2, a State A LLC that is a limited partner of LP 1 with limited voting rights.

LP 1 wholly owns Distributing 2, a State A corporation. Distributing 2 owns a a-percent interest in Holdings 1, a State A limited partnership treated as a partnership for U.S. federal income tax purposes, directly and indirectly through LLC 3, a State A limited liability company that is disregarded as an entity separate from its owner for U.S.

federal income tax purposes (a “DRE”). The remaining b percent of interests in Holdings 1 are owned by the Holdings LP Unit Holders (each individually, a “Holdings LP Unit Holder”). The Holdings 1 interests held by the Holdings LP Unit Holders provide each LP Unit Holder with a right exercisable against Holdings 1 to exchange its interest in Holdings 1 for an interest in LP 1 (the “LP 1 Exchange Rights”). As a result of the LP 1 Exchange Rights, one or more of the Holdings LP Unit Holders may acquire over c percent of LP 1.

Holdings 1 owns through various intermediate DREs (collectively, the “Group 1 Intermediate Entities”) all the interests in LP 2, a State A limited partnership classified as a DRE.

Distributing 2 also owns a a-percent interest in Holdings 2, a State A limited partnership treated as a partnership for U.S. federal income tax purposes. Distributing 2 owns its a-percent partnership interest in Holdings 2, directly and indirectly through LLC 4, a State A LLC treated as a DRE. The same Holdings LP Unit Holders that own b percent of Holdings 1 own the remaining b percent of Holdings 2.

LP 1 owns through various intermediate entities treated as DREs (the “Group 2 Intermediate Entities”) a d-percent membership interest in LLC 5, a State A LLC treated as a partnership for U.S. federal income tax purposes. The ownership of the Group 2 Intermediate Entities is as follows: LP 1 wholly owns LLC 6, a State A LLC treated as a DRE. LLC 6 wholly owns LLC 7, a State A LLC treated as a DRE. LLC 6 and LLC 7 own all of the partnership interests in LLC 8, a State A limited partnership treated as a DRE. Distributing 2 owns the remaining e-percent membership interest in LLC 5. LLC 5 owns a f-percent partnership interest in Holdings 3, a Country A Entity treated as a partnership for U.S. federal income tax purposes. LP 1 owns through the Group 2 Intermediate Entities a g-percent partnership interest in Holdings 3. With minor exceptions, the same Holdings LP Unit Holders that own b percent of each of Holdings 1 and Holdings 2 own the remaining b percent of Holdings 3. Holdings 3 owns a h-percent interest in Distributing 1, a State A corporation.

LP 1 also wholly owns through various intermediate entities treated as DREs all of the interests in LP 4, a Country A Entity treated as a corporation for U.S. federal income tax purposes. LP 4 owns a a-percent interest in Holdings 4 (together with Holdings 1, Holdings 2, and Holdings 3, the “Holdings Partnerships”), a Country A Entity treated as a partnership for U.S. federal income tax purposes. With minor exceptions, the same Holdings LP Unit Holders that own b percent of each of Holdings 1, Holdings 2, and Holdings 3 own the remaining b percent of Holdings 4. Holdings 4 owns the remaining i-percent interest in Distributing 1.

Holdings 4 owns through various intermediate entities treated as DREs membership interests in LLP 1, a Country B partnership treated as a partnership for U.S. federal income tax purposes. Certain senior Country B-based professionals of LLP

1 own the remaining partnership interests in LLP 1. Holdings 4 also owns interests in various entities engaged in foreign business operations of the Separated Businesses.

Holdings 1, Holdings 2, and Distributing 1 collectively own all the membership interests in LLC 8, a State A LLC treated as a partnership for U.S. federal income tax purposes. LLC 8 owns LLC 9, a State A LLC treated as a DRE.

Under an exchange agreement that LP 1 entered into with the Holdings LP Unit Holders (the "Exchange Agreement"), subject to the vesting and minimum retained ownership requirements and transfer restrictions in the partnership agreements of the Holdings Partnerships, each Holdings LP Unit Holder (and certain transferees of units) may up to n times each year (subject to the terms of the Exchange Agreement) exchange these units for LP 1 common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions, and reclassifications. To exchange for a LP 1 common unit, a Holdings LP Unit Holder must simultaneously exchange one partnership unit in each Holdings Partnership.

Proposed Transaction

Distributing 1 and Distributing 2 are entering into the following transactions (the "Proposed Transaction") in order to (i) facilitate the separation of Business B from their other businesses and (ii) combine the Separated Businesses with X to form an independent, publicly traded company, Controlled 2, that will hold the Separated Businesses and the business conducted by X. For what are represented as valid business reasons, the taxpayer proposes the following transactions:

- (i) LLP 1 will transfer certain assets related to the Country B Business B to a newly formed Country B entity and wholly owned subsidiary of Holdings 4 ("Country B Newco") treated as a DRE. LLP 1 will transfer its interests in Country B Newco to a newly formed Country C entity owned in part by Holdings 4 ("Country C Newco") and treated as a partnership for U.S. federal income tax purposes. Equity of Country C Newco will be issued to personnel of the Country B Business B as compensation.
- (ii) Holdings 4 (directly or indirectly through its DREs) will contribute its interests in (a) Country C Newco, (b) LLC 10, a State A limited liability company and DRE, (c) the Country D Business B4, and (d) the Country E Business B1 to Distributing 1 in exchange for additional shares of Distributing 1 high-vote common stock. Prior to this step, Distributing 1 will undergo a recapitalization of its common stock into two classes of common stock. One class of common stock will be entitled to a j-percent vote ("low-vote stock") and the other class will be entitled to an k-percent vote ("high-vote stock"). Holdings 3 will be issued the low-vote common stock and Holdings 4 will be issued the high-vote common stock.

- (iii) Distributing 1 will contribute its interests in (a) LLC 8, (b) Country C Newco, (c) the Country D Business B4, and (d) the Country E Business B1 to Controlled 1, a newly formed State A corporation, in exchange for all the stock of Controlled 1.
- (iv) Distributing 1 will distribute all of its shares of Controlled 1 common stock to Holdings 3 in partial redemption of Holdings 3's interest in Distributing 1 (the "Controlled 1 Distribution").
- (v) LP 2 will contribute its interests in the domestic Business B2 and Business B3 to LLC 11, a newly formed State A LLC that will be treated as a DRE, and will distribute all the interests in LLC 11 pro rata through the Group 1 Intermediate Entities to Holdings 1.
- (vi) Holdings 1 will contribute its interests in LLC 11 and LLC 8 to newly formed LP 5 in exchange for interests in LP 5. Holdings 1 will form a limited liability company ("LLC 13") to hold the general partnership interest in LP 5 initially. Holdings 1 also formed a limited liability company, LLC 12, to hold the general partnership interest in LP 5.
- (vii) Holdings 2 will contribute its interests in LLC 8 to LP 5 in exchange for interests in LP 5
- (viii) LLC 13 will distribute its general partnership interest in LP 5 to Holdings 1.
- (ix) Holdings 1 will distribute its general partnership interest in LP 5 to Distributing 2 and all its remaining interests in LP 5 pro rata to its owners, LLC 3, Distributing 2, and the Holdings LP Unit Holders.
- (x) Holdings 2 will distribute all its interests in LP 5 pro rata to LLC 4, Distributing 2, and the Holdings LP Unit Holders.
- (xi) LLC 3 will distribute the interests in LP 5 received in Step (ix) to its sole owner, Distributing 2.
- (xii) LLC 4 will distribute the interest in LP 5 received in Step (x) to its sole owner, Distributing 2.
- (xiii) Holdings 3 will distribute all the stock of Controlled 1 pro rata to its partners, LLC 5, LLC 8 and the Holdings LP Unit Holders.
- (xiv) LLC 5 will distribute all its stock of Controlled 1 pro rata to its partners, LLC 8 and Distributing 2.
- (xv) LLC 8 will distribute all its stock of Controlled 1 pro rata to its partners, LLC 6 and LLC 7.

- (xvi) LLC 7 will distribute all its stock of Controlled 1 to its sole owner, LLC 6.
- (xvii) LLC 6 will distribute all its stock of Controlled 1 to its sole owner, LP 1.
- (xviii) Distributing 2 will contribute the interests in LP 5 received in Steps (ix)-(xii) and the stock in Controlled 1 received in Step (xiv) to Controlled 2, a newly formed State A corporation, in exchange for all the shares of Controlled 2 Class A common stock. From its formation, through its distribution in Step 19, Class A common stock will comprise the only class of Controlled 2 stock issued and outstanding.

In connection with the distribution of LP 5 interests to the Holdings LP Unit Holders in Steps (ix) and (x), as described in more detail below, the Holdings LP Unit Holders, among others, will enter into an exchange agreement with Controlled 2 and LP 5 (the "Controlled 2 Exchange Agreement") providing them with the right, exercisable against LP 5, to exchange each LP 5 unit for an amount of cash equal to the fair market value of one share of Controlled 2 common stock (based on its trading price). As an alternative to cash settlement, Controlled 2 will have the option of satisfying the obligation of LP 5 by issuing one share of its common stock in exchange for one LP 5 unit. Collectively, the rights of the Holdings LP Unit Holders to exchange their LP 5 interests for cash, and the right of Controlled 2 to satisfy the obligation of LP 5 with its common stock, are referred to as the "Holdings LP Unit Holder Controlled 2 Exchange Rights." The Holdings LP Unit Holders Controlled 2 Exchange Rights will be exercisable after the distribution of Controlled 2 stock by LP 1 in Step (xxx).

- (xix) Distributing 2 will distribute all of its shares of Controlled 2 common stock to LP 1 (the "Controlled 2 Distribution" and together with the Controlled 1 Distribution, the "Distributions").
- (xx) Controlled 1 will merge with and into Controlled 2 with Controlled 2 surviving (the "Merger"). The Merger is intended to qualify as a reorganization under § 368(a).
- (xxi) LP 5 will contribute a e-percent interest in LLC 8 to a newly formed State A corporation ("Sub") in exchange for stock in Sub.
- (xxii) Controlled 2 will contribute its interests in (a) LLC 8, (b) Country C Newco, (c) the Country D Business B4, and (d) the Country E Business B1 to LP 5 in exchange for additional LP 5 interests.

Following this contribution, Controlled 2 will be a holding company, and its sole asset will be its controlling equity interest in LP 5. As the sole general partner of LP 5, Controlled 2 will operate and control all of the business and affairs of LP 5.

- (xxiii) Limited partners of X (collectively, the “X Partners”) will contribute their limited partnership interests in X to LP 5 in exchange for unvested interests in LP 5. The interests will vest over l years, subject to continued employment with LP 5 and certain other conditions.
- (xxiv) Individual will contribute his m-percent membership interest in Y to LP 5 in exchange for unvested interests in LP 5 (together with the X Partners, the “X Partners LP Unit Holders” and together with the Holdings LP Unit Holders, the “LP Unit Holders”). The interests will vest over l years, subject to continued employment with LP 5 and certain other conditions.

Under the Controlled 2 Exchange Agreement, the X LP Unit Holders will have the right, exercisable against LP 5, to exchange each vested LP 5 unit for an amount of cash equal to the fair market value of one share of Controlled 2 common stock (based on its trading price). As an alternative to cash settlement, Controlled 2 will have the option of satisfying the LP 5 obligation by issuing one share of its common stock in exchange for one LP 5 unit. Collectively, the rights of the X LP Unit Holders to exchange their LP 5 interests for cash, and the right of Controlled 2 to satisfy the obligation of LP 5 with its stock, are referred to as the “X Controlled 2 Exchange Rights.” The X Controlled 2 Exchange Rights will be exercisable after the distribution of Controlled 2 stock by LP 1 in Step (xxx). The X Controlled 2 Exchange Rights, together with the Holdings LP Unit Holder Controlled 2 Exchange Rights, are referred to as the “Controlled 2 Exchange Rights.”

- (xxv) LP 5 will contribute its m-percent membership interest in LLC 11 to X.
- (xxvi) LLC 11 will merge into Z with Z surviving. In the merger, X will receive limited partnership interests in Z.
- (xxvii) Certain existing LP 5 personnel (who will not include the X Partners) will receive equity incentives in Controlled 2 or LP 5 to replace existing unvested LP 1 incentive equity.
- (xxviii) Certain existing LP 5 personnel (who will not include the X Partners) will receive retention equity awards in Controlled 2 or LP 5 subject to vesting.
- (xxix) Certain X LP Unit Holders will receive equity awards in LP 5 subject to vesting.
- (xxx) LP 1 will distribute all of the Controlled 2 Class A common stock pro rata to its public unit holders.
- (xxxi) Controlled 2 will issue one share of its newly issued Class B common stock to each of the holders of LP 5 units. The Class B common stock will (i) have an economic right to a return of par value, (ii) will entitle the holder, without regard to

the number of shares of Class B common stock held to a number of votes on certain matters presented to stockholders (which matters will not include the election of members of Controlled 2's board of directors) of Controlled 2 that is equal to the aggregate number of partnership units of LP 5 held by such holder and (iii) entitle the holder to one vote per share in the election of members of Controlled 2's board of directors. This voting power afforded holders of LP 5 units by their Class B common stock is automatically and correspondingly reduced as they exchange partnership units for cash or for shares of Controlled 2 Class A common stock pursuant to the Controlled 2 Exchange Agreement. The Controlled 2 certificate of incorporation will permit, in certain circumstances, all or a portion of the voting power of any shares of Class B common stock with respect to the election of directors to be increased. The members of the management committee of LP 1 will provide an irrevocable proxy to Individual to vote their shares of Class B common stock for so long as Individual is CEO of Controlled 2.

- (xxxii) LP 5, Controlled 2, and the LP Unit Holders will enter into the Controlled 2 Exchange Agreement under which they (or certain permitted transferees) will have the right, subject to certain terms and conditions set forth in the LP 5 partnership agreement, on a quarterly basis, from and after the first anniversary of the date of the consummation of the Distributions (subject to the terms of the Controlled 2 Exchange Agreement), to exchange all or part of their LP 5 units for cash or, at Controlled 2's election, to exchange their partnership units for shares of Controlled 2 Class A common stock on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. The price per LP 5 unit to be received in a cash-settled exchange will be equal to the fair value of a share of Controlled 2 Class A common stock (determined in accordance with and subject to adjustment under the Controlled 2 Exchange Agreement).

Representations

The taxpayer has made the following representations in connection with the Proposed Transaction:

- (a) The Distributions will qualify under § 355(a).
- (b) Assuming that (i) if the Controlled 2 Exchange Rights are treated as options under Treas. Reg. §1.355-7(e)(3), the determination of whether such options are more likely than not ("MLTN") to be exercised under § 1.355-7(e)(1) at the time they are written will be made based upon the likelihood of Controlled 2 exercising its option to satisfy the LP 5 obligation with Controlled 2 common stock; (ii) the methodology of the example in the 1998 legislative history to § 355(e)(3)(A)(iv) is applicable to the Proposed Transaction for purposes of testing whether there has been an acquisition of a 50 percent or greater interest in Controlled 1 or

Controlled 2 under § 355(e); and (iii) for purposes of testing whether the Merger and any exercise of the Controlled 2 Exchange Rights that are settled in Controlled 2 common stock will result in a direct or indirect acquisition of Controlled 2 common stock with respect to the Controlled 1 Distribution, for purposes of § 355(e)(2)(A)(ii), any increase in the percentage, by vote or value, of Controlled 2 common stock owned by a shareholder as a result of the exercise of the Controlled 2 Exchange Rights will offset and reduce any decrease in that shareholder's percentage owned, by vote or value, of the Controlled 1 common stock as a result of the Merger (determined without regard to any other acquisition), the Distributions will not violate § 355(e).

- (c) Excluding any acquisitions of stock that result from or are deemed to result from the exercise of Controlled 2 Exchange Rights, neither of the Distributions is part of a plan or series of related transactions (within the meaning of § 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 § 355(d)(4)) in Distributing 1, Distributing 2, Controlled 1, or Controlled 2 (including any predecessor or successor of any such corporation).
- (d) To the extent the Controlled 2 Exchange Rights are settled in Controlled 2 common stock, the exercise of the Controlled 2 Exchange Rights will cause each Distribution to be treated as a distribution to which § 355(e) applies.
- (e) Equity in Controlled 2 or LP 5 also may be issued to (i) individuals joining the Business B around the time of the Proposed Transactions, and (ii) Business B personnel or LP 1 Group personnel who hold LP 1 incentive compensation to account for any dilution to their LP 1 incentive compensation on account of the Proposed Transactions. Certain directors of Controlled 2 may be issued restricted stock units in Controlled 2 (which are payable in either stock or cash).

Rulings

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

- (1) If the Controlled 2 Exchange Rights are treated as options under Treas. Reg. § 1.355-7(e)(3), the determination of whether such options are more likely than not ("MLTN") to be exercised under § 1.355-7(e)(1) at the time they are written will be made based upon the likelihood of Controlled 2 exercising its option to satisfy the LP 5 obligation with Controlled 2 common stock.
- (2) The methodology (a "net decrease" methodology or a "minimum ownership percentage" approach) of the example in the 1998 legislative history to § 355(e)(3)(A)(iv) is applicable to the Proposed Transaction for purposes of

testing whether there has been an acquisition of a 50 percent or greater interest in Controlled 1 or Controlled 2 under § 355(e).

- (3) For purposes of testing whether the Merger and any exercise of the Controlled 2 Exchange Rights that are settled in Controlled 2 common stock will result in a direct or indirect acquisition of Controlled 2 common stock with respect to the Controlled 1 Distribution, for purposes of § 355(e)(2)(A)(ii), any increase in the percentage, by vote or value, of Controlled 2 common stock owned by a shareholder as a result of the exercise of the Controlled 2 Exchange Rights will offset and reduce any decrease in that shareholder's percentage owned, by vote or value, of the Controlled 1 common stock as a result of the Merger (determined without regard to any other acquisition).

Caveat

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any transaction or item discussed or referenced in this letter.

Procedural Statements

This ruling is directed only to the taxpayers who requested it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

A copy of this ruling letter must be attached to the Federal 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 the power of attorney on file in this matter, a copy of this letter is being sent to your authorized representatives.

Sincerely,

Gerald B. Fleming
Senior Technician Reviewer, Branch 2
Office of Associate Chief Counsel (Corporate)