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Third Party Communication: None

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PLR-108254-25

Date:

September 26, 2025

Legend

Distributing 1 =

Distributing 2 =

Distributing 3 =

Controlled 1 =

Controlled 2 =

Controlled 3 =

FSub 1 =

FSub 2 =

FSub 3 =

FSub 4 =

FSub 5 =

DRE 1 =

DRE 2 =

DRE 3 =

Sub 1 =

Sub 2 =

Sub 3 =

LLC 1 =

LLC 2 =

LLC 3 =

LLC 4 =

Country A =

Country B =

Country C =

State A =

State B =

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Business A =

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Dear :

This letter is in response to your letter dated March 31, 2025, as supplemented by subsequent information and documentation, submitted on behalf of Distributing 3 and its subsidiaries, requesting rulings under sections 355 and 368(a)(1)(D) and related provisions of the Internal Revenue Code of 1986, as amended (the “Code”), and related regulations with respect to a series of proposed transactions (the “Separation,” as described below). The material information submitted in that request and subsequent correspondence is summarized below.

This letter is issued pursuant to Rev. Proc. 2025-1, 2025-1 I.R.B. 1, Rev. Proc. 2023-26, 2023-33 I.R.B. 486, Rev. Proc. 2017-52, 2017-41 I.R.B. 283, as amplified and modified by Rev. Proc. 2024-24, 2024-21 I.R.B. 1214, and Guidance Regarding Certain Matters Relating to Nonrecognition of Gain or Loss in Corporate Separations, Incorporations, and Reorganizations, 90 Fed. Reg. 5220 (proposed Jan. 16, 2025) (to be codified at 26 C.F.R. pt. 1), regarding one or more “Covered Transactions” under section 355 and/or section 368. 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.

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.

This office has made no determination regarding whether each of the First U.S. Spin-Off, the Second U.S. Spin-Off, and the External Spin-Off (all defined below) satisfies the business purpose requirement of Treas. Reg. § 1.355-2(b).

Summary of Facts

Distributing 3, a Country A entity, is the parent of a worldwide group of entities (the “Distributing 3 Group”) that is engaged in a number of businesses in the United States and internationally, including Business A and Business B. The ordinary shares of Distributing 3 are publicly traded and widely held.

Distributing 3 directly owns all the equity interests in DRE 1, a Country B entity, DRE 2, a Country B entity, and FSub 1, a Country A entity.

Distributing 3 also indirectly owns all the equity interests in FSub 2, a Country C entity.

FSub 1 and DRE 1 directly own a percent and b percent, respectively, of all the equity interests in FSub 3, a Country B entity.

FSub 3 owns all of the stock of Distributing 2, a State A corporation. Distributing 2 is the common parent of an affiliated group of corporations that join in filing a U.S. consolidated federal income tax return.

Distributing 2 owns all of the stock of Distributing 1, a State B corporation. Distributing 1, directly and through its wholly owned subsidiaries, is engaged in a number of businesses in the United States, including Business A and Business B.

Distributing 1 owns all the stock of Sub 1, a State C corporation, Sub 2, a State A corporation, and Sub 3, a State A corporation. Sub 1 and Sub 2 (and their respective subsidiaries) are engaged in Business B in the United States.

Sub 3 owns all of the equity interests in LLC 1, a State A limited liability company that is a disregarded entity for U.S. federal income tax purposes. Sub 3 and LLC 1 are engaged in a number of businesses in the United States, including Business A and Business B.

Distributing 3 has submitted financial information that indicates that each of Business A, conducted in the United States and globally, and Business B conducted in the United States, had gross receipts and operating expenses representative of the active conduct of a trade or business for each of the past five years.

The Separation

For what are represented to be valid business reasons, Distributing 3 proposes to separate Business A and Business B. The relevant steps of the Separation are set forth below.

Establishment of the Controlled 3 Group (defined below)

- | | |
|--------|--|
| Step 1 | On Date 1, Distributing 3 formed DRE 3, a Country B holding company that has elected pursuant to Treas. Reg. § 301.7701-3(c) to be classified as a disregarded entity for U.S. federal income tax purposes, effective as of the date of its formation. |
| Step 2 | On Date 2, DRE 3 formed FSub 4, a Country B entity that is classified as a corporation for U.S. federal income tax purposes. |
| Step 3 | On Date 3, DRE 2 formed Controlled 3, a Country B entity that will be classified as a corporation for U.S. federal income tax purposes. Controlled 3 is expected to convert to a Country B public company prior to Step 25. |
| Step 4 | DRE 2 has formed various Country B holding companies that are each classified as a corporation for U.S. federal income tax purposes. On Date 4, one of the Country B holding companies incorporated FSub 5, a Country B entity that is classified as a corporation for U.S. federal income tax purposes. |
| Step 5 | On Date 10, DRE 2 transferred its equity interests in the Country B holding companies to FSub 4 in exchange for <u>c</u> . |
| Step 6 | On Date 5, DRE 3 transferred a <u>d</u> percent interest in FSub 4 to DRE 2 in exchange for <u>e</u> . |

- Step 7 On Date 10, Distributing 3 and its non-U.S. subsidiaries transferred their interests in non-U.S. Business B assets and subsidiaries to the Country B holding companies. Some of these transfers were undertaken in exchange for cash borrowed from FSub 5, which FSub 5 borrowed from FSub 2 (the “FSub 5 Loan”).

Reorganization of Business B in the United States

- Step 8 On Date 6, Distributing 1 formed LLC 2, a State A limited liability company that is a disregarded entity for U.S. federal income tax purposes. On Date 7, Distributing 1 contributed its shares in Sub 1 to LLC 2, and LLC 2 assumed Distributing 1’s obligations under certain agreements with Sub 1.
- Step 9 On Date 8, Sub 3 converted to a limited liability company under applicable State A conversion statutes (hereafter, “LLC 3”). Following the conversion, LLC 3 became a disregarded entity of Distributing 1 for U.S. federal income tax purposes.
- Step 10 On Date 9, Distributing 1 formed LLC 4, a State A limited liability company that is a disregarded entity of Distributing 1 for U.S. federal income tax purposes.
- Step 11 On Date 10, LLC 3 transferred its Business B assets to LLC 4 in exchange for a note (the “LLC 4 Note 1”) and the assumption of associated liabilities.
- Step 12 On Date 10, LLC 1 transferred its Business B assets to LLC 4 in exchange for a note (the “LLC 4 Note 2,” and together with LLC 4 Note 1, the “LLC 4 Notes”) and the assumption of associated liabilities.
- Step 13 On Date 10, LLC 1 distributed the LLC 4 Note 2 to LLC 3, after which LLC 3 distributed the LLC 4 Notes to Distributing 1.
- Step 14 On Date 10, Distributing 1 contributed the LLC 4 Notes to LLC 4. Pursuant to this step, the LLC 4 Notes were cancelled.
- Step 15 On Date 10, Distributing 1 contributed its Business B assets to LLC 4, and LLC 4 assumed the liabilities associated with such assets (such liabilities, together with the liabilities assumed by LLC 4 in Steps 11 and 12, the “Business B Liabilities”).

- Step 16 On Date 9, Distributing 1 formed Controlled 1, a State A limited liability company that is a disregarded entity of Distributing 1 for U.S. federal income tax purposes. On Date 10, Distributing 1 contributed its equity interests in Sub 2, LLC 2, and LLC 4 (collectively, the “U.S. Business B Subsidiaries”) to Controlled 1, and Controlled 1 assumed an intercompany liability in the amount of f owing from Distributing 1 to Sub 1 (the “Sub 1 Payable”).

The U.S. Spin-Offs

- Step 17 Controlled 1 will elect pursuant to Treas. Reg. § 301.7701-3(c) to be classified as a corporation for U.S. federal income tax purposes, with an effective date that is at least one day after Step 16 (the “Controlled 1 CTB Election,” and the deemed contribution of assets by Distributing 1 to Controlled 1 in exchange for Controlled 1 stock and the assumption by Controlled 1 of the Business B Liabilities and the Sub 1 Payable resulting from the Controlled 1 CTB Election, the “Controlled 1 Contribution”).
- Step 18 Distributing 1 will distribute the shares of Controlled 1 to Distributing 2 (the “First U.S. Distribution,” and together with the Controlled 1 Contribution, the “First U.S. Spin-Off”).
- Step 19 On Date 9, Distributing 2 formed Controlled 2, a State A limited liability company that has elected pursuant to Treas. Reg. § 301.7701-3(c) to be classified as a corporation for U.S. federal income tax purposes. Distributing 2 will contribute the shares of Controlled 1 to Controlled 2 in exchange for Controlled 2 stock (the “Controlled 2 Contribution”).
- Step 20 Distributing 2 will distribute the shares of Controlled 2 to FSub 3 (the “Second U.S. Distribution,” and together with the Controlled 2 Contribution, the “Second U.S. Spin-Off”).
- Step 21 FSub 3 will distribute the shares of Controlled 2 pro rata to FSub 1 and DRE 1, and FSub 1 and DRE 1 will distribute their respective shares of Controlled 2 to Distributing 3.
- Step 22 Distributing 3 will contribute (i) d percent of the shares of Controlled 2 to DRE 2 in exchange for equity in DRE 2, and (ii) g percent of the shares of Controlled 2 to DRE 3 in exchange for equity in DRE 3.
- Step 23 DRE 2 and DRE 3 will contribute their respective shares in Controlled 2 to FSub 4 in exchange for equity in FSub 4.

- Step 24 FSub 5 will raise external financing comprising a revolving credit facility and either a bond financing or a bridge loan facility. The loan proceeds from this financing will be used to settle a portion of the FSub 5 Loan. Any amount of the FSub 5 Loan that is not repaid will be assigned to Distributing 3 and then capitalized into the Controlled 3 Group.

The Demerger and Flip-Up

- Step 25 Pursuant to, and subject to the terms of, a demerger agreement to be entered into between Distributing 3, Controlled 3, and DRE 3, Distributing 3 will transfer all of its interests in DRE 3 to Controlled 3 in a three-cornered dividend demerger under Country A law (the “Demerger”). Under the terms of the demerger agreement, Distributing 3 will declare an interim dividend (using reserves at least equivalent to the book value of DRE 3) that will be satisfied by the issuance of shares by Controlled 3 to Distributing 3’s shareholders in the same proportion as they hold shares in Distributing 3, with such share issuance acting as consideration for the transfer of DRE 3 by Distributing 3 to Controlled 3.

- Step 26 In connection with the Demerger, DRE 2 will be granted a put option providing DRE 2 with the right to transfer its FSub 4 shares to Controlled 3 in return for shares constituting a proportionate interest in Controlled 3, and Controlled 3 will be granted a call option (exercisable after the put option lapses) providing Controlled 3 with the right to acquire DRE 2’s shares in FSub 4 in return for shares constituting a proportionate interest in Controlled 3. The put option will become exercisable at least one day after the Controlled 3 shares are issued to Distributing 3’s shareholders pursuant to the Demerger. DRE 2 is expected to exercise the put option after the put option becomes exercisable, pursuant to which DRE 2 will transfer its shares in FSub 4 to Controlled 3 in return for shares constituting a d percent interest in Controlled 3 issued by Controlled 3 (the “Flip-Up,” and together with the Demerger, the “External Spin-Off”).

Following the Separation, Distributing 3 intends to dispose of its h percent interest in Controlled 3 (the “Retained Shares”) by not later than the end of the five-year period beginning on the date of the Demerger. Distributing 3 intends to dispose of the Retained Shares to cover the costs of the Separation that are expected to come due following the Separation, and to the extent the Retained Shares are not disposed of to cover transaction costs attributable to the

Separation, Distributing 3 intends to sell the Retained Shares to repay external debt of the Distributing 3 Group that matures after the Separation (the “Retention Business Purpose”).

Distributing 3 Share Consolidation

- Step 27 Shortly following the Demerger, and subject to obtaining approval from Distributing 3’s shareholders, it is expected that Distributing 3 will consolidate its ordinary share capital (the “Share Consolidation”). The Share Consolidation will reduce the total number of Distributing 3 shares in issue. Fractional entitlements to new Distributing 3 shares may arise as a result of the Share Consolidation. Individual fractional entitlements to new Distributing 3 shares will not be allocated to Distributing 3 shareholders but will instead be aggregated and sold in the market.

The Distributing 3 Group has entered into certain arrangements to continue providing services and support to Controlled 3 and its subsidiaries (the “Controlled 3 Group”) beginning on Date 10 and for a period following the Separation (the “Post-Separation Continuing Arrangements”). The Post-Separation Continuing Arrangements are expected to continue until the Controlled 3 Group has established its own service capabilities to operate on a fully independent basis. The Post-Separation Continuing Arrangements are not expected to extend past a period of i months beginning on Date 10 and in no event will extend past a period of j months beginning on Date 10. The Post-Separation Continuing Arrangements were negotiated based on, and reflect, arm’s-length terms.

Representations

The following representations have been made with respect to the Separation.

The First U.S. Spin-Off

Except as set forth below, Distributing 1 has made all of the representations in section 3 of the Appendix to Rev. Proc. 2017-52 with respect to the First U.S. Spin-Off.

- 1(a) Distributing 1 has made the following alternative representations: 3(a), 8(b), 11(a), 22(a), 31(a), and 41(a).
- 1(b) Distributing 1 has not made the following representations, which do not apply to the First U.S. Spin-Off: 7, 24, 25, 35, and 39.

1(c) Distributing 1 has made the following modified representation:

Representation 32: No intercorporate debt will exist between Distributing 1 and Controlled 1 at the time of, or subsequent to, the First U.S. Distribution, other than payables that may arise under the Post-Separation Continuing Arrangements.

1(d) Distributing 1 has made the following representations in lieu of representations 14, 15, and 29:

- i. Other than pursuant to the Second U.S. Spin-Off, there is no plan or intention by the shareholders or securityholders of Distributing 1 to sell, exchange, transfer by gift, or otherwise dispose of any of their stock in, or securities of, either Distributing 1 or Controlled 1 after the transaction.
- ii. There is no plan or intention by Distributing 1 or Controlled 1, directly or through any related person (within the meaning of section 267(b) or section 707(b)(1)), to purchase any of its outstanding stock after the transaction.
- iii. There is no plan or intention to liquidate either Distributing 1 or Controlled 1, to merge either corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation after the transaction, except in the ordinary course of business.
- iv. Immediately after the First U.S. Distribution, the fair market value of the business assets of each of Distributing 1 and Controlled 1 will be greater than 80 percent of the fair market value of its total assets.
- v. There was no agreement, understanding, arrangement or substantial negotiations at any point during the two-year period ending on the date of the First U.S. Distribution regarding an acquisition of either Distributing 1 or Controlled 1 (including a predecessor or successor determined within the meaning of Treas. Reg. § 1.355-8) or a similar acquisition.

In addition, except as set forth below, Distributing 1 has made all of the representations in section 3 of Rev. Proc. 2024-24 with respect to the First U.S. Spin-Off.

1(e) Distributing 1 has made the following alternative representation: 1A.

1(f) Distributing 1 has not made the following representations, which do not apply to the First U.S. Spin-Off: 2, 3, 4, 5, 6, 16, 17, 18, 19, 20, 26, 27, 28, 29, and 30.

1(g) Distributing 1 has made the following modified representations:

Representation 15A: No holder of a Distributing 1 Liability (other than the Sub 1 Payable) that will be Assumed by Controlled 1 (including a Distributing 1 Contingent Liability) is a Distributing 1 Related Person or a Controlled 1 Related Person.

Representation 21: Distributing 1 incurred each Distributing 1 Liability that will be Assumed by Controlled 1 (except with regard to any Distributing 1 Contingent Liability and trade payables that meet the requirements set forth in Prop. Treas. Reg. § 1.357-3(d)(3)) before the Earliest Applicable Date.

The Second U.S. Spin-Off

Except as set forth below, Distributing 2 has made all of the representations in section 3 of the Appendix to Rev. Proc. 2017-52 with respect to the Second U.S. Spin-Off.

2(a) Distributing 2 has made the following alternative representations: 3(a), 8(a), 11(a), 22(a), 31(a), and 41(a).

2(b) Distributing 2 has not made the following representations, which do not apply to the Second U.S. Spin-Off: 7, 24, 25, 35, and 39.

2(c) Distributing 2 has made the following representations in lieu of representations 14, 15, and 29:

- i. Other than pursuant to the Separation, there is no plan or intention by the shareholders or securityholders of Distributing 2 to sell, exchange, transfer by gift, or otherwise dispose of any of their stock in, or securities of, either Distributing 2 or Controlled 2 after the transaction.
- ii. There is no plan or intention by Distributing 2 or Controlled 2, directly or through any related person (within the meaning of section 267(b) or section 707(b)(1)), to purchase any of its outstanding stock after the transaction.
- iii. There is no plan or intention to liquidate either Distributing 2 or Controlled 2, to merge either corporation with any other

corporation, or to sell or otherwise dispose of the assets of either corporation after the transaction, except in the ordinary course of business.

- iv. Immediately after the Second U.S. Distribution, the fair market value of the business assets of each of Distributing 2 and Controlled 2 will be greater than 80 percent of the fair market value of its total assets.
- v. There was no agreement, understanding, arrangement or substantial negotiations at any point during the two-year period ending on the date of the Second U.S. Distribution regarding an acquisition of either Distributing 2 or Controlled 2 (including a predecessor or successor determined within the meaning of Treas. Reg. § 1.355-8) or a similar acquisition.

In addition, except as set forth below, Distributing 2 has made all of the representations in section 3 of Rev. Proc. 2024-24 with respect to the Second U.S. Spin-Off.

- 2(d) Distributing 2 has made the following alternative representation: 1A.
- 2(e) Distributing 2 has not made the following representations, which do not apply to the Second U.S. Spin-Off: 2, 3, 4, 5, 6, 7, 13, 15, 16, 17, 18, 19, 20, 21, 22, 23, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, and 36.
- 2(f) Distributing 2 has made the following additional representation:

Dividends (within the meaning of section 301(c)(1)) paid by Distributing 2 to its shareholder, FSub 3, are subject to a k percent rate of U.S. withholding tax under the Treaty.

The External Spin-Off

Except as set forth below, Distributing 3 has made all of the representations in section 3 of the Appendix to Rev. Proc. 2017-52 with respect to the External Spin-Off.

- 3(a) Distributing 3 has made the following alternative representations: 3(a), 8(a), 11(a), 22(a), 31(a), and 41(a).
- 3(b) Distributing 3 has not made the following representations, which do not apply to the External Spin-Off: 7, 24, 25, 36, 37, 38, and 39.

- 3(c) Distributing 3 has made the following representations in lieu of representations 14, 15, and 29:
- i. To the best knowledge of the management of Distributing 3, there is no plan or intention by the shareholders or securityholders of Distributing 3 to sell, exchange, transfer by gift, or otherwise dispose of any of their stock in, or securities of, either Distributing 3 or Controlled 3 after the External Spin-Off, other than (i) pursuant to the Share Consolidation and (ii) sales of fractional Controlled 3 shares that Distributing 3's shareholders would otherwise be entitled to receive pursuant to the Demerger.
 - ii. Other than Distributing 3 share buybacks to be undertaken in the ordinary course of business by Distributing 3, there is no plan or intention by Distributing 3 or Controlled 3, directly or through any related person (within the meaning of section 267(b) or section 707(b)(1)), to purchase any of its outstanding stock after the transaction.
 - iii. There is no plan or intention to liquidate either Distributing 3 or Controlled 3, to merge either corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation after the transaction, except in the ordinary course of business.
 - iv. Immediately after the External Spin-Off, the fair market value of the business assets of each of Distributing 3 and Controlled 3 will be greater than 80 percent of the fair market value of its total assets.
 - v. There was no agreement, understanding, arrangement or substantial negotiations at any point during the two-year period ending on the date of the External Spin-Off regarding an acquisition of either Distributing 3 or Controlled 3 (including a predecessor or successor determined within the meaning of Treas. Reg. § 1.355-8) or a similar acquisition.
 - vi. The payment of cash in lieu of fractional shares of Distributing 3 pursuant to the Share Consolidation is solely for the purpose of avoiding the expense and inconvenience of issuing fractional shares and does not represent separately bargained-for consideration. The fractional share interests of each Distributing 3 shareholder will be aggregated and no Distributing 3

shareholder of record will receive cash in an amount equal to or greater than value of one full share of Distributing 3.

In addition, except as set forth below, Distributing 3 has made all of the representations in section 3 of Rev. Proc. 2024-24 with respect to the External Spin-Off.

Distributing 3 has not made the following representations, which do not apply to the External Spin-Off: 1, 4, 7, 13, 15, 16, 17, 18, 19, 20, 21, 22, 23, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, and 36.

With respect to the Retained Shares, Distributing 3 has made the following additional representation:

- (i) Distributing 3 will keep the Retained Shares to facilitate the Retention Business Purpose.

Rulings

Based solely on the information submitted and the representations made, we rule as follows with respect to the Separation:

The First U.S. Spin-Off

- (1) For U.S. federal income tax purposes, the First U.S. Spin-Off will be treated as if (i) Distributing 1 contributed all the equity interests in its U.S. Business B Subsidiaries and its Business B assets to Controlled 1 in exchange for all of the stock of Controlled 1 and the assumption by Controlled 1 of the Business B Liabilities and the Sub 1 Payable, and then immediately thereafter (ii) Distributing 1 distributed all of the stock of Controlled 1 to Distributing 2.
- (2) The First U.S. Spin-Off will qualify as a reorganization within the meaning of section 368(a)(1)(D) and section 355. Distributing 1 and Controlled 1 will each be a party to a reorganization within the meaning of section 368(b).
- (3) No gain or loss will be recognized by Distributing 1 on the Controlled 1 Contribution. Section 361(a); section 357(a).
- (4) No gain or loss will be recognized by Controlled 1 on the Controlled 1 Contribution. Section 1032(a).
- (5) Controlled 1's basis in each asset received from Distributing 1 in the Controlled 1 Contribution will equal the basis of that asset in the hands of Distributing 1 immediately before the Controlled 1 Contribution. Section 362(b).

- (6) Controlled 1's holding period in each asset received from Distributing 1 in the Controlled 1 Contribution will include the period during which that asset was held by Distributing 1. Section 1223(2).
- (7) No gain or loss will be recognized by Distributing 1 upon the distribution of Controlled 1 stock in the First U.S. Distribution. Section 361(c).
- (8) No gain or loss will be recognized by (and no amount will be included in the income of) Distributing 2 upon its receipt of the Controlled 1 stock in the First U.S. Distribution. Section 355(a)(1).
- (9) The aggregate basis of the Distributing 1 stock and the Controlled 1 stock in the hands of Distributing 2 immediately after the First U.S. Distribution will equal Distributing 2's aggregate basis in the Distributing 1 stock held immediately before the First U.S. Distribution, allocated in the manner described in Treas. Reg. § 1.358-2(a)(2). Section 358(a)(1) and (b); Treas. Reg. § 1.358-2(a).
- (10) Distributing 2's holding period in the Controlled 1 stock received in the First U.S. Distribution will include the holding period of the Distributing 1 stock with respect to which the distribution of the Controlled 1 stock is made, provided that the Distributing 1 stock is held as a capital asset on the date of the First U.S. Distribution. Section 1223(1).
- (11) The earnings and profits of Distributing 1, if any, will be allocated between Distributing 1 and Controlled 1 in accordance with section 312(h) and Treas. Reg. §§ 1.312-10(a) and 1.1502-33(e)(3).

The Second U.S. Spin-Off

- (12) The Second U.S. Spin-Off will qualify as a reorganization within the meaning of section 368(a)(1)(D) and section 355. Distributing 2 and Controlled 2 will each be a party to a reorganization within the meaning of section 368(b).
- (13) No gain or loss will be recognized by Distributing 2 on the Controlled 2 Contribution. Section 361(a).
- (14) No gain or loss will be recognized by Controlled 2 on the Controlled 2 Contribution. Section 1032(a).
- (15) Controlled 2's basis in the Controlled 1 stock received from Distributing 2 in the Controlled 2 Contribution will equal the basis of that stock in the hands of Distributing 2 immediately before the Controlled 2 Contribution. Section 362(b).
- (16) Controlled 2's holding period in the Controlled 1 stock received from Distributing 2 in the Controlled 2 Contribution will include the period during which that asset was held by Distributing 2. Section 1223(2).

- (17) No gain or loss will be recognized by Distributing 2 upon the distribution of Controlled 2 stock in the Second U.S. Distribution. Section 361(c).
- (18) No gain or loss will be recognized by (and no amount will be included in the income of) FSub 3 upon its receipt of the Controlled 2 stock in the Second U.S. Distribution. Section 355(a)(1).
- (19) The aggregate basis of the Distributing 2 stock and the Controlled 2 stock in the hands of FSub 3 immediately after the Second U.S. Distribution will equal FSub 3's aggregate basis in the Distributing 2 stock held immediately before the Second U.S. Distribution, allocated in the manner described in Treas. Reg. § 1.358-2(a)(2). Section 358(a)(1) and (b); Treas. Reg. § 1.358-2(a).
- (20) FSub 3's holding period in the Controlled 2 stock received in the Second U.S. Distribution will include the holding period of the Distributing 2 stock with respect to which the distribution of the Controlled 2 stock is made, provided that the Distributing 2 stock is held as a capital asset on the date of the Second U.S. Distribution. Section 1223(1).
- (21) The earnings and profits of Distributing 2, if any, will be allocated between Distributing 2 and Controlled 2 in accordance with section 312(h) and Treas. Reg. §§ 1.312-10(a) and 1.1502-33(e)(3).

The External Spin-Off

- (22) For U.S. federal income tax purposes, the External Spin-Off will be treated as if (i) Distributing 3 contributed its shares in FSub 4 to Controlled 3 in exchange for Controlled 3 shares (the "Controlled 3 Contribution"), and then immediately thereafter (ii) Distributing 3 distributed g percent of the stock of Controlled 3 to its shareholders (the "External Distribution"). Cf. Rev. Rul. 77-191, 1977-1 C.B. 94.
- (23) The External Spin-Off will qualify as a reorganization within the meaning of section 368(a)(1)(D) and section 355. Distributing 3 and Controlled 3 will each be a party to a reorganization within the meaning of section 368(b).
- (24) No gain or loss will be recognized by Distributing 3 on the Controlled 3 Contribution. Section 361(a).
- (25) No gain or loss will be recognized by Controlled 3 on the Controlled 3 Contribution. Section 1032(a).
- (26) Controlled 3's basis in the FSub 4 stock received from Distributing 3 in the Controlled 3 Contribution will equal the basis of that stock in the hands of Distributing 3 immediately before the Controlled 3 Contribution. Section 362(b).

- (27) Controlled 3's holding period in the FSub 4 stock received from Distributing 3 in the Controlled 3 Contribution will include the period during which that asset was held by Distributing 3. Section 1223(2).
- (28) No gain or loss will be recognized by Distributing 3 upon the distribution of Controlled 3 stock in the External Distribution. Section 361(c).
- (29) Distributing 3's continued ownership of the Retained Shares until their disposition, in no event later than five years after the date of the Demerger, will not adversely affect the qualification of the External Spin-Off under sections 355 and 368(a)(1)(D) and will not be in pursuance of a plan having as one of its principal purposes the avoidance of U.S. federal income tax for purposes of section 355(a)(1)(D)(ii).
- (30) No gain or loss will be recognized by (and no amount will be included in the income of) the shareholders of Distributing 3 upon their receipt of the Controlled 3 stock in the External Distribution. Section 355(a)(1).
- (31) The aggregate basis of the Distributing 3 stock and the Controlled 3 stock in the hands of each Distributing 3 shareholder immediately after the External Distribution (including any fractional share interest in Controlled 3 stock to which the shareholder may be entitled) will equal such shareholder's aggregate basis in its Distributing 3 stock held immediately before the External Distribution, allocated in the manner described in Treas. Reg. § 1.358-2(a)(2). Section 358(a)(1) and (b); Treas. Reg. § 1.358-2(a).
- (32) The holding period in the Controlled 3 stock received by each Distributing 3 shareholder in the External Distribution (including any fractional share interest in Controlled 3 stock to which the shareholder may be entitled) will include the holding period of the Distributing 3 stock with respect to which the distribution of the Controlled 3 stock is made, provided that the Distributing 3 stock is held as a capital asset on the date of the External Distribution. Section 1223(1).
- (33) The earnings and profits of Distributing 3, if any, will be allocated between Distributing 3 and Controlled 3 in accordance with section 312(h) and Treas. Reg. § 1.312-10(a).
- (34) The receipt by Distributing 3's shareholders of cash in lieu of fractional shares, if any, of Controlled 3 stock will be treated for U.S. federal income tax purposes as if the fractional shares had been distributed to Distributing 3's shareholders as part of the External Distribution and then had been disposed of by such shareholders for the amount of such cash in a sale or exchange. The gain or loss (determined using the basis allocated to the fractional shares in Ruling 31) will be treated as capital gain or loss under section 1001, provided the stock was held as a capital asset by the selling shareholder. Such gain or loss will be short-term or long-term capital gain or loss determined using the holding period determined in Ruling 32.

- (35) Gain or loss will be recognized by Distributing 3 on the disposition of the Retained Shares pursuant to section 1001.

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 as to the U.S. federal income tax treatment of Steps 1 through 16 of the Separation, except as otherwise necessary to the rulings herein.

Procedural Statements

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

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

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

Sincerely,

Gregory J. Galvin
Branch Chief, Branch 1
Office of Associate Chief Counsel (Corporate)

cc: