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Person to Contact:

Telephone Number:

Refer Reply To:

CC:DOM:CORP:2-PLR-119628-98

Date:

Acquiring =

Target =

State X =

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Dear

This letter responds to your representative's October 13, 1998 request for rulings under § 368(a)(1)(C) of the Internal Revenue Code on behalf of the above-captioned taxpayers. Additional information with respect to the proposed transaction was submitted in letters dated December 7, 1998 and February 8, 1999. The information submitted for consideration is summarized below.

Acquiring is organized under the laws of State X and registered under the Investment Company Act of 1940 (the "1940 Act") as a diversified, open-end management investment company. Acquiring has elected to be taxed as a regulated investment company ("RIC") under §§ 851-855 of the Internal Revenue Code (the

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"Code"). Acquiring's investment objective is to provide shareholders with long-term capital appreciation through worldwide investment in equity securities of issuers that, in the opinion of the investment adviser, derive a substantial portion of their income from products and services in technology related industries. Acquiring pursues its investment objective by investing primarily in a global portfolio of securities that are, and are expected to remain, leaders in their product or service niches as measured by market share and superiority in technology.

Target is organized under the laws of State X and registered under the 1940 Act as a diversified, open-end management investment company. Target has elected to be taxed as a RIC under §§ 851-855 of the Code. Target's investment objective is to provide shareholders with long-term capital appreciation through worldwide investment in equity securities of issuers that, in the opinion of the investment adviser, derive a substantial portion of their income from products and services in technology. Target pursues its investment objective by investing in a global portfolio of securities of companies in various stages of development, with assets invested primarily in the United States, Japan and Western Europe.

Acquiring and Target each offer four classes of stock with identical rights and fees. Class A shares have a maximum initial sales charge of a% and are offered to a limited group of investors. Class B shares incur no initial sales charge when purchased, but are subject to ongoing account maintenance fees and Rule 12b-1 distribution fees between b% and c%, respectively, and a contingent deferred sales charge (CDSC) ranging between d% and e% if redeemed within four years from purchase. In general, Class B shares of stock will automatically convert into Class D shares of stock eight years from purchase. Class C incur no initial sales charge when purchased but are subject to account maintenance and Rule 12b-1 distribution fees of between b% and c%, respectively, and are subject to a CDSC of e% if redeemed within one year of purchase. Class D shares incur a maximum initial sales charge of a% and are subject to an ongoing maintenance fee of b%.

Acquiring and Target have entered into an agreement and plan of reorganization for what are represented to be valid business reasons. Pursuant to the agreement, the transaction consists of the following steps:

- (1) Target will transfer all of its assets and liabilities to Acquiring in exchange for an equal value of newly issued Acquired Class A, B, C, and D common voting stock.
- (2) Target will distribute to its shareholders all of the Acquiring stock it received in the transaction. Each target shareholder will receive shares of Acquiring on a pro rata basis, with the same class designation and the same account maintenance and distribution fees and sales charges (including CDSCs), if any, as the Target shares held by such shareholder immediately prior to the proposed transaction.

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- (3) Target will liquidate and dissolve in accordance with the laws of State X, and terminate its registration under the 1940 Act.

After the transaction, Acquiring may sell up to 66% of the assets received from Target to unrelated parties, and will reinvest the proceeds consistent with its investment objectives and policies.

The following representations have been made in connection with the proposed transaction:

- (a) The fair market value of the Acquiring stock received by each Target shareholder will be approximately equal to the fair market value of the Target stock surrendered in the exchange.
- (b) Acquiring will acquire at least 90 percent of the fair market value of the net assets and at least 70 percent of the fair market value of the gross assets held by Target immediately prior to the Reorganization. For purposes of this representation, amounts used by Target to pay its reorganization expenses, amounts paid by Target to shareholders who receive cash or other property, and all redemptions and distributions (except for redemptions in the ordinary course of Target's business as an open-end investment company as required by § 22(e) of the 1940 Act pursuant to a demand of a shareholder and regular, normal dividends) made by Target immediately preceding the transfer will be included as assets of Target held immediately prior to the transaction. There will be no payments to dissenters, as shareholders may redeem their shares at any time.
- (c) Acquiring has no plan or intention to sell or otherwise dispose of any of the assets of Target acquired in the transaction, except for dispositions made in the ordinary course of business.
- (d) Target will distribute to its shareholders the stock of Acquiring it receives pursuant to the plan of reorganization.
- (e) The liabilities of Target assumed by Acquiring and any liabilities to which the transferred assets of Target are subject were incurred by Target in the ordinary course of its business.
- (f) Following the transaction, Acquiring will continue the historic business of Target or use a significant portion of Technology's historic business assets in the continuing business.
- (g) Acquiring, Target and the shareholders of Target will pay their respective expenses, if any, incurred in connection with the reorganization.

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- (h) There is no intercorporate indebtedness existing between Target and Acquiring that was issued, acquired, or will be settled at a discount.
- (i) Acquiring and Target each meets the requirements of a regulated investment company as defined in § 368(a)(2)(F) of the Code.
- (j) The fair market value of the assets of Target transferred to Acquiring will equal or exceed the sum of the liabilities assumed by Acquiring, plus the amount of liabilities, if any to which the transferred assets are subject.
- (k) Acquiring does not own, directly or indirectly, nor has it owned during the past five years, directly or indirectly, any stock of Target.
- (l) Target is not under the jurisdiction of a court in a Title 11 or similar case within the meaning of § 368(a)(3)(A).
- (m) Acquiring and Target have elected to be taxed as RIC's under § 851 and, for all their taxable periods, (including the last short taxable period ending on the date of the transaction, for Target) have qualified for the special tax treatment afforded RIC's under the Code, and after the transaction, Acquiring intends to continue to so qualify.
- (n) There is no plan or intention by Acquiring or any person related (as defined in § 1.368-1(e)(3) of the Income Tax Regulations) to Acquiring to acquire or redeem any of the stock of Acquiring issued in the transaction either directly or through any transaction, agreement, or arrangement with any other person, other than redemptions in the ordinary course of Acquiring's business as an open-end investment company as required by § 22(e) of the 1940 Act.
- (o) During the five-year period ending on the date of the proposed transaction, neither Target nor any person related to Target (as defined in § 1.368-1(e)(3) of the Income Tax Regulations without regard to section 1.368-1(e)(3)(i)(A)) will have directly or through any transaction, agreement, or arrangement with any other person, (i) acquired stock of Target with consideration other than shares of Acquiring or Target, except for stock redeemed in the ordinary course of Target's business as an open-end investment company as required by § 22(e) of the 1940 Act or (ii) made distributions with respect to Target stock, except for (a) distributions described in §§ 852 and 4982 of the Code, and (b) additional distributions, to the extent such distributions do not exceed 50 percent of the value (without giving effect to such distributions) of the proprietary interest in Target on the effective date of the proposed transaction.
- (p) Prior to or in the transaction, neither Acquiring nor any person related to Acquiring (as defined in 1.368-1(e)(3)) will have acquired directly or through any

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transaction, agreement or arrangement with any other person, stock of Target with consideration other than shares of Acquiring.

Based solely upon the information and representations set forth above, we hold as follows:

- (1) The acquisition by Acquiring of substantially all of the assets of Target in exchange for voting shares of Acquiring stock and Acquiring's assumption of Target's liabilities, followed by the distribution by Target to its shareholders of Acquiring shares and any remaining assets, in complete liquidation, will qualify as a reorganization within the meaning of § 368(a)(1)(C) of the Code. Acquiring and Target will each be deemed a "party to a reorganization" within the meaning of § 368(b).
- (2) No gain or loss will be recognized by Target upon the transfer of substantially all of its assets to Acquiring solely in exchange for Acquiring voting common stock and Acquiring's assumption of Target's liabilities or upon the distribution of such Acquiring stock to Target shareholders (§§ 361(a) and (c), 357(a)).
- (3) Acquiring will not recognize any gain or loss on the receipt of the assets of Target in exchange for voting shares of Acquiring (§1032(a)).
- (4) The basis of Target's assets in the hands of Acquiring will be the same as the basis of those assets in the hands of Target immediately prior to the Reorganization (§362(b)).
- (5) Acquiring's holding period for the Target assets acquired will include the period during which such assets were held by Target (§ 1223(2)).
- (6) The shareholders of Target will not recognize any gain or loss on the receipt of voting shares of Acquiring (including fractional shares to which they may be entitled) solely in exchange for their shares in Target (§ 354(a)(1)).
- (7) The basis of the Acquiring shares received by Target shareholders (including fractional shares to which they may be entitled) will be the same, in the aggregate, as the basis of the Target shares surrendered in exchange (§ 358(a)(1)).
- (8) The holding period of the Acquiring shares received by Target shareholders in exchange for their Target shares (including fractional shares to which they may be entitled) will include the period during which the exchanged Target shares were held, provided that the Target shares are held as a capital asset in the hands of the Target shareholders on the date of the exchange (§1223(1)).

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- (9) Pursuant to § 381(a) of the Code and § 1.381(a)-1 of the Income Tax Regulations, the tax year of Target will end on the effective date of the reorganization and Acquiring will succeed to and take into account the items of Target described in § 381(c) of the Code, subject to the provisions and limitations specified in §§ 381, 382, 383 and 384 of the Code and the regulations thereunder.

No opinion is expressed about the federal income tax treatment of the proposed transaction under other provisions of the Code and regulations or about the tax treatment of any conditions existing at the time of, or effects resulting from, the proposed transaction that are not specifically covered by the above rulings. Specifically, no opinion was requested, and none is expressed, about whether Acquiring or Target qualifies as a RIC that is taxable under Subchapter M, Part I of the Code.

This ruling is directed only to the taxpayers requesting it. Section 6110(j)(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.

The rulings contained in this letter are based upon information and representations submitted by the taxpayers 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 accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

Assistant Chief Counsel (Corporate)

By: \_\_\_\_\_

Richard Osborne  
Senior Technician Reviewer  
Branch 2