Internal Revenue Service

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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:B03
PLR-132679-06
Date:
October 05, 2006

In Re:

Parent =

Sub 1 =

Sub 2 =

$m =

$n =

$o =

Date A =

Date B =

Date C =

State X =

Dear :

We respond to your letter dated June 21, 2006, submitted on behalf of Parent, requesting rulings concerning the Federal income taxation of two consummated transactions that are related. Additional information was submitted in letters dated August 14 and October 3, 2006. The information submitted is summarized below.

On Date A, Parent acquired all the outstanding common stock of Sub 1 (referred to below as old Sub 1) for cash and retired $m of Sub 2's debt in exchange for a note from Sub 2 in the same amount. Old Sub 1 had no other equity interests outstanding. At the time, the sole asset of old Sub 1 was all the outstanding common stock of Sub 2. Sub 2 had no other equity interests outstanding.

Immediately after Parent acquired all of old Sub 1's outstanding stock, Parent caused old Sub 1 to merge into Parent, with Parent surviving, in order to maximize operational efficiencies and to reduce state franchise tax exposure. In the merger, old Sub 1 transferred its sole asset, the Sub 2 stock, to Parent. Parent represents that, in effect, this merger transaction constituted a liquidation of old Sub 1.

Since Date A, and measured as of Date B, Parent has loaned almost $n to Sub 2, which money Sub 2 has used in the operation of its business.

Shortly after the merger transaction, Parent experienced unexpected and significant weakness in two of its core businesses. In an effort to offset the setbacks, Parent initiated a strategic review of all of its business operations and realized that it might have to dispose of one or more lines of business, including that of old Sub 1, to raise capital and concentrate efforts on identified core businesses. Parent also realized that its decision at the time of the merger transaction to liquidate old Sub 1 rather than preserve its adjusted tax basis of $o in its old Sub 1 stock had not been prudent.

Thus, on Date C, Parent formed new Sub 1 under the laws of State X (the same state in which old Sub 1 had been incorporated) and contributed all the outstanding stock of Sub 2 to the capital of new Sub 1 in exchange for all the common stock of new Sub 1. New Sub 1 represents that all assets and liabilities of old Sub 1 are the assets and liabilities of new Sub 1.

Parent represents that new Sub 1's articles of incorporation and bylaws are identical to those that old Sub 1 had in effect at the time of the merger transaction. New Sub 1 has no other equity interests outstanding. Parent also represents that, even had old Sub 1 not merged out of existence, Parent still would have both (a) paid off the $m of Sub 2 debt and received Sub 2's note in the same amount and (b) loaned Sub 2 the $n for operating expenses.

In addition, Parent makes the following representations:

(a) Other than Parent's receipt of Sub 2's note in the amount of $m and the $n loaned by Parent to Sub 2, which transactions have not been reversed, there were no actual or constructive transfers of money or property between any member of the affiliated group of which Parent is a member and Sub 2 between the time of (i) the merger of old Sub 1 into Parent and (ii) Parent's incorporation of new Sub 1 and contribution of the Sub 2 stock to the capital of new Sub 1.

(b) No material changes in the legal or financial arrangements between any member of the affiliated group of which Parent is a member and Sub 2 occurred between the time of (i) the merger of old Sub 1 into Parent and (ii) Parent's incorporation of new Sub 1 and contribution of the Sub 2 stock to the capital of new Sub 1.

(c) Upon the completion of Parent's incorporation of new Sub 1 and contribution of the Sub 2 stock to the capital of new Sub 1, the legal and financial arrangements among Parent, new Sub 1, and Sub 2 are identical in all material respects to the legal and financial arrangements among Parent, old Sub 1, and Sub 2 prior to the merger of old Sub 1 into Parent.

(d) The merger of old Sub 1 into Parent, Parent's incorporation of new Sub 1, and Parent's contribution of the Sub 2 stock to the capital of new Sub 1 all occurred within the same taxable year of Parent, old Sub 1, new Sub 1, and Sub 2. Parent, old Sub 1, new Sub 1, and Sub 2 are all on a June 30th year-end.

Based solely on the facts submitted, the representations made, and the parties' restoration, before the end of the taxable year, of the relative positions they would have occupied if the merger transaction had not occurred (Rev. Rul. 80-58, 1980-1 C.B. 181), we rule that, for Federal income tax purposes:

(1) Sub 1 will be treated as not having merged into Parent, and Sub 1 and Parent will be treated as two separate corporations at all times during the taxable year;

(2) Parent will be treated as having been the shareholder of Sub 1 at all times during the taxable year; and

(3) The merger of Sub 1 into Parent will not be treated as a liquidation of Sub 1 for purposes of determining the taxable income of Parent or Sub 1.

Except as specifically set forth above, we express no opinion concerning the tax consequences of these transactions under any other provision of the Code and

regulations, or about the tax treatment of any conditions existing at the time of, or effects resulting from, these transactions.

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.

This ruling is directed only to the taxpayer(s) requesting it. Section 6110(k)(3) of the Internal Revenue 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 returns 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,

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Filiz A. Serbes
Chief, Branch 3
Office of Associate Chief Counsel (Corporate)

cc: