Internal Revenue Service

Department of the Treasury

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Parent =

Corporation M =

Corporation N =

S1 =

S2 =

T1 =

New T1 =

T2 =

New T2 =

Zco 1 =

Zco 2 =

State X =

State Y =

State Z =

Date A =

Date B =

Date C =

Date D =

This letter responds to your January 28, 1999 request for rulings on certain federal income tax consequences of four proposed mergers. Additional information was submitted in letters dated April 16, 1999 and May 20, 1999. Related rulings concerning exempt organization issues appear in separate letters issued by the Internal Revenue Service on Date D.

Parent is a State X nonstock, nonprofit corporation and the parent of a corporate group that provides health care services to the general public. Parent is the sole shareholder of T1, a State Y for-profit stock corporation, and the managing member of both S1 and S2, both of which are State Y nonstock, nonprofit corporations. Parent's two members, Corporation M and Corporation N, are a State Y non-stock, nonprofit corporation and a State X non-stock, nonprofit corporation, respectively. Corporation M and Corporation N serve as the corporate member of S2 and S1,

respectively. T1 and S1 each hold 50 percent of the outstanding stock of T2, a State Y for-profit stock corporation. Corporation M, Corporation N, Parent, S1, and S2 are exempt from federal taxation under § 501(c)(3) of the Internal Revenue Code.

It is proposed that both T1 and T2 convert from taxable, stock corporations to nonstock, nonprofit, tax-exempt membership corporations. New T1 was incorporated on Date A as a membership corporation having Parent as its sole corporate member. New T2 was incorporated on Date B as a membership corporation having S1 and T1 as its corporate members. Moreover, Corporation M, Corporation N, Parent, T1 and New T1 have entered into a Conversion Agreement (the "T1 Conversion Agreement"), dated Date C (a date before the effective date of § 1.337(d)-4(a)(1) of the Income Tax Regulations), pursuant to which the parties are obligated to effect the T1 Conversion (described in steps (1) and (2), below), subject only to the receipt from the Internal Revenue Service of a determination letter for New T1 and this private letter ruling. Likewise, Corporation M, Corporation N, Parent, S1, T1, New T1, T2, and New T2 have entered into a Conversion Agreement (the "T2 Conversion Agreement"), dated Date C (a date before the effective date of § 1.337(d)-4(a)(1)), pursuant to which the parties are obligated to effect the T2 Conversion (described in steps (3) and (4), below), subject only to the receipt from the Internal Revenue Service of a determination letter for New T2 and this private letter ruling. Both New T1 and New T2 have received favorable determination letters regarding their tax-exempt status, dated Date D.

For what are represented to be good business purposes, Parent proposes the following transactions:

1. T1 will merge (the "First Merger") into a newly established State Z stock corporation wholly-owned by Parent ("Zco 1"), with Zco 1 as the surviving corporation. As a consequence of the First Merger, under State Y law, Zco 1 will acquire all the assets and assume all the liabilities of T1. Each outstanding share of T1 stock will be converted into an equal number of shares of Zco 1 stock. The shares of T1 stock held by Parent will be canceled.

2. Immediately following the First Merger, Zco 1 will merge (the "Second Merger") into New T1, in accordance with State Z and State Y law, with New T1 as the surviving corporation. The outstanding shares of Zco 1 stock held by Parent will be canceled, and effectively converted into a single voting membership interest in New T1, which membership interest will be held solely by Parent. This voting membership interest will entitle Parent to substantially the same rights as Parent had in the T1 stock. As a consequence of the Second Merger, New T1 will acquire all the assets and liabilities of Zco 1. (Steps (1) and (2) are hereinafter referred to as the "T1 Conversion.")

3. T2 will merge (the "Third Merger") into a newly established State Z stock corporation wholly-owned in equal parts by New T1 and S1 ("Zco 2"), with Zco 2 as the surviving corporation. As a consequence of the Third Merger, under State Y law, Zco 2 will acquire all the assets and assume all the liabilities of T2. Each outstanding share of T2 stock will be converted into an equal number of shares of Zco 2 stock. The shares of T2 stock held by New T1 and S1 will be canceled.

4. Immediately following the Third Merger, Zco 2 will merge (the "Fourth Merger") into New T2, in accordance with State Z and State Y law, with New T2 as the surviving corporation. The outstanding shares of Zco 2 stock held by New T1 and S1 will be canceled, and effectively converted into two equal voting membership interests in New T2, to be held by New T1 and S1. These voting membership interests will entitle each member to substantially the same rights as the member had in the T2 stock. As a consequence of the Fourth Merger, New T2 will acquire all the assets and liabilities of Zco 2. (Steps (3) and (4) are hereinafter referred to as the "T2 Conversion.")

Following the T1 Conversion, New T1 will continue the historic activities and operations of T1. New T1 will be a membership corporation, with the sole membership interest therein held by Parent. Following the T2 Conversion, New T2 will continue the historic activities and operations of T2. New T2 will be a membership corporation, with the membership interests therein held by New T1 and S1.

It has been represented that to the best of the taxpayers' representatives' knowledge and belief, each of the First Merger, the Second Merger, the Third Merger and the Fourth Merger will qualify as a reorganization under § 368(a)(1)(F), if the Service rules as proposed. Moreover, It has been represented that both the T1 Conversion Agreement and the T2 Conversion Agreement are binding under State Y law.

Based solely on the information submitted and the representations made, we rule as follows:

(1) The T1 Conversion and the T2 Conversion will not result in gain or loss under §§ 336 and 337, nor will there be recapture of depreciation under §§ 1245 or 1250.

(2) The continuity of interest requirement set forth in § 1.368-1(b) is satisfied in each of the First Merger, the Second Merger, the Third Merger and the Fourth Merger.

No opinion is expressed about the tax treatment of the transaction under other provisions of the Code and regulations or about the tax treatment of any conditions existing at the time or, or effects resulting from the transactions that are not specifically

covered by the above rulings. In particular, no opinion is expressed about the tax treatment of the First Merger, the Second Merger, the Third Merger and the Fourth Merger except to the extent indicated in ruling (2).

This ruling has no effect on any earlier documents and is directed only to the taxpayer who requested it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

Each taxpayer involved in the transaction must attach a copy of this ruling letter to the taxpayer's federal income tax return for the taxable year in which the transaction is completed.

In accordance with the power of attorney on file in this office, a copy of this letter is being sent to the taxpayer's representative.

Sincerely yours,

Assistant Chief Counsel (Corporate)

By: Ken Cohen

Ken Cohen
Senior Technician Reviewer, Branch 3