

Corporation 9 =

Corporation 10 =

Corporation 11 =

Corporation 12 =

Corporation 13 =

Corporation 14 =

Corporation 15 =

Shareholder 1 =

Shareholder 2 =

Shareholder 3 =

Shareholder 4 =

Shareholder 5 =

Shareholder 6 =

Shareholder 7 =

Shareholder 8 =

Shareholder 9 =

Shareholder 10 =

Shareholder 11 =

Shareholder 12 =

Shareholder 13 =

Shareholder 14 =

Shareholder 15 =

State X =

State Y =

Date 1 =

Date 2 =

Date 3 =

Dear :

This letter is in reply to your letter dated October 20, 2005, requesting expedited

rulings under Rev. Proc. 2005-68. Additional information was submitted in supplemental letters. The information submitted for consideration is summarized below.

Acquiring is a State X corporation that was incorporated on Date 1 and elected to be taxed as a subchapter S corporation for federal income tax purposes on Date 2. Acquiring is owned by individual shareholders and a trust, Shareholder 1 through Shareholder 15, respectively (collectively, the "Shareholders").

Corporation 1, Corporation 2, Corporation 4, Corporation 5, Corporation 6, Corporation 7, Corporation 8, Corporation 9, Corporation 10, Corporation 11, Corporation 12, Corporation 13, Corporation 14, and Corporation 15, are State X corporations and Corporation 3 is a State Y corporation (collectively, the "Corporations"). Each Corporation elected at inception to be taxed as a subchapter S corporation for federal income tax purposes, except for Corporation 3, Corporation 5, Corporation 9, and Corporation 13, which are former C corporations. Each of these former C corporations has been an S corporation for more than 10 years, exception for Corporation 3, which elected S status on Date 3. The Shareholders collectively own all of the issued and outstanding stock of each Corporation. The Shareholder 1 owns at least 80 percent of all of the issued and outstanding stock of each Corporation. Some of the Corporations' wholly owned corporate subsidiaries have elected to be treated as qualified subchapter S subsidiaries (the "QSubs") for federal income tax purposes (the "Affiliate QSubs").

The taxpayer represents that in order to accomplish corporate business purposes, the Shareholders desire to consolidate the operations of the Corporations and Acquiring. To accomplish these goals, the taxpayer intends to complete the following proposed transactions (the "Proposed Transactions"):

(i) The Shareholders will simultaneously transfer 100 percent of the stock of Corporation 1 through Corporation 15 to Acquiring (the "Contributions") in exchange for additional shares of Acquiring voting stock and non-voting stock.

(ii) Acquiring will elect to treat each of Corporation 1 through Corporation 15 as a QSUB and to treat each Affiliate QSub as a QSub (the "QSub Elections"). For federal income tax purposes, the QSub Elections will result in the deemed liquidations of Corporation 1 through Corporation 15 into Acquiring (the "Liquidations"). The Contribution to, and Liquidation of, each of Corporation 1 through Corporation 15 are referred to herein as the "Corporation 1 Proposed Transaction", "Corporation 2 Proposed Transaction", and so on through the "Corporation 15 Proposed Transaction".

In addition to the Proposed Transactions, the following additional transactions (the "Additional Transactions") are being contemplated and may or may not occur, regardless of whether any or all of the Proposed Transactions is consummated:

(1) One or more Shareholders will contribute stock in one or more foreign corporations and one or more C corporations to Acquiring; (2) Shareholders and Acquiring will make

certain modifications to existing shareholder agreements; (3) Shareholders will have all or a portion of their stock in Acquiring and/or Corporations redeemed or acquired pursuant to the terms of existing incentive/compensation plans (the "Incentive Compensation Plans"); and (4) Acquiring will amend its articles of incorporation and issue both voting and non-voting stock in the Proposed Transactions. The taxpayer represents that the voting and non-voting stock have identical distribution and liquidation rights and only differ with respect to voting rights.

With respect to each of the Proposed Transactions (the Corporation 1 Proposed Transaction through the Corporation 15 Proposed Transaction), the taxpayer has submitted certain representations. In these representations, the term "Corporation" refers to Corporation 1 with respect to the Corporation 1 Proposed Transaction, to Corporation 2 with respect to the Corporation 2 Proposed Transaction, and so on through the Corporation 15 Proposed Transaction. Specifically, with respect to each of the Proposed Transactions, the taxpayer represents that:

(A) The fair market value of the Acquiring stock received by each Corporation shareholder will be approximately equal to the fair market value of the Corporation stock deemed surrendered in the exchange.

(B) Except for redemptions and acquisitions that might occur pursuant to the Incentive Compensation Plans, there is no plan or intention by the shareholders of Corporation who own one percent or more of the Corporation stock, and to the best of the knowledge of the management of Corporation, there is no plan or intention on the part of the remaining shareholders of Corporation to sell, exchange, or otherwise dispose of a number of shares of Acquiring stock received in the transaction that would reduce the Corporation shareholders' ownership of Acquiring stock to a number of shares having a value, as of the date of the transaction, of less than 50 percent of the value of all of the formerly outstanding stock of Corporation as of the same date. For purposes of this representation, shares of Corporation stock exchanged for cash or other property, or exchanged for cash in lieu of fractional shares of Acquiring stock will be treated as outstanding Corporation stock on the date of the transaction. Moreover, shares of Corporation stock and shares of Acquiring stock held by Corporation shareholders and otherwise sold, redeemed, or disposed of prior or subsequent to the transaction will be considered in making this representation.

(C) 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 Corporation immediately prior to the transaction. For purposes of this representation, amounts used by Corporation to pay its reorganization expenses, all redemptions, and any distributions (except for regular normal dividends) made by Corporation immediately preceding the transfer will be included as assets of Corporation held immediately prior to the transaction.

(D) After the transaction, the shareholders of Corporation will be in control of Acquiring within the meaning of section 368(a)(2)(H) of the Internal Revenue Code (the "Code").

(E) Except for redemptions and acquisitions that may occur pursuant to the Incentive Compensation Plans, Acquiring has no plan or intention to reacquire any of its stock issued in the transaction.

(F) Acquiring has no plan or intention to sell or otherwise dispose of any of the assets of Corporation acquired in the transaction, except for dispositions made in the ordinary course of business.

(G) The liabilities of Corporation transferred to Acquiring, plus the liabilities, if any, to which the transferred assets are subject were incurred by Corporation in the ordinary course of its business and are associated with the assets transferred.

(H) Following the transaction, Acquiring will continue the historic business of Corporation or use a significant portion of the historic business assets of Corporation in a business.

(I) At the time of the transaction, Acquiring will not have outstanding any warrants, options, convertible securities, or any other type of right pursuant to which any person could acquire stock in Acquiring that, if exercised or converted, would affect the Corporation shareholders' acquisition or retention of control of Acquiring, as defined in section 368(a)(2)(H) of the Code.

(J) Acquiring, Corporation, and the shareholders of Corporation will pay their respective expenses, if any, incurred in connection with the transaction.

(K) There is no intercorporate indebtedness existing between Acquiring and Corporation that was issued, acquired, or will be settled at a discount.

(L) No two parties to the transaction are investment companies as defined in section 368(a)(2)(F)(iii) and (iv) of the Code.

(M) The total fair market value of the assets transferred to Acquiring by Corporation will exceed the sum of (a) the amount of liabilities assumed by Acquiring in connection with the exchange, (b) the amount of liabilities owed to Acquiring that are discharged or extinguished in connection with the exchange, and (c) the amount of any money and the fair market value of any other property (other than stock permitted to be received under section 361(a) without the recognition of gain) received by Corporation in connection with the exchange. The fair market value of the assets of Acquiring will exceed the amount of its liabilities immediately after the exchange.

(N) The total adjusted basis of the assets of Corporation transferred to Acquiring will equal or exceed the sum of the liabilities to be transferred to Acquiring, plus the amount of liabilities, if any, to which the transferred assets are subject.

(O) Corporation is not under the jurisdiction of a court in a Title 11 or similar case within the meaning of section 368(a)(3)(A) of the Code.

(P) The payment of cash in lieu of fractional shares of Acquiring stock is solely for the purpose of avoiding the expense and inconvenience to Acquiring of issuing fractional shares and does not represent separately bargained-for consideration. The total cash consideration that will be paid in the transaction to the shareholders of Corporation instead of issuing fractional shares of Acquiring stock will not exceed 1 percent of the total consideration that will be issued in the transaction to the shareholders of Corporation in exchange for their shares of Corporation stock. The fractional share interests of each shareholder of Corporation will be aggregated, and no shareholder of Corporation will receive cash in an amount equal to or greater than the value of one full share of Acquiring stock.

(Q) Except as provided in the Incentive Compensation Plans, none of the compensation received by any shareholder-employee of Corporation will be separate consideration for, or allocable to, any of his or her shares of Corporation stock; none of the shares of Acquiring stock received by any shareholder-employee will be separate consideration for, or allocable to, any employment agreement; and the compensation paid to any shareholder-employee will be for services actually rendered and will be commensurate with amounts paid to third parties bargaining at arm's-length for similar services.

(R) Acquiring will pay or assume only those expenses of Corporation that are solely and directly related to the transaction in accordance with the guidelines established in Rev. Rul. 73-54, 1973-1 CB 187.

Based solely on the information submitted and on the representations set forth above, we hold as follows with respect to each of the Proposed Transactions:

(1) For federal income tax purposes, the Contribution and Liquidation will be treated as the transfer by Corporation of substantially all of its respective assets to Acquiring in exchange for Acquiring stock and the transfer to Acquiring of all of the liabilities of Corporation, followed by the liquidation of Corporation.

(2) The Contribution and Liquidation will constitute a reorganization within the meaning of section 368(a)(1)(D) of the Code. For purposes of this ruling, "substantially all" means 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 of Corporation. Acquiring and Corporation will each be "a party to a reorganization" within the meaning of section 368(b) of the Code.

- (3) No gain or loss will be recognized to Corporation on the transfer of substantially all of its assets to Acquiring in exchange for Acquiring voting and non-voting stock (sections 361(a) and 357(a)).
- (4) No gain or loss will be recognized to Acquiring upon the receipt of substantially all of the assets of Corporation in exchange for Acquiring voting and non-voting stock (section 1032(a)).
- (5) No gain or loss will be recognized to the Corporation's shareholders by reason of the exchange of such shareholders' shares of Corporation stock solely for shares of Acquiring voting and non-voting stock (section 354(a)(1)).
- (6) No gain or loss will be recognized to Corporation upon the distribution of Acquiring voting stock to the Corporation's shareholders (section 361(c)(1)).
- (7) The basis of Corporation's assets in the hands of Acquiring will be the same as the basis of those assets in the hands of Corporation immediately prior to the transfer (section 362(b)).
- (8) The holding period of Corporation's assets in the hands of Acquiring will include the period during which such assets were held by Corporation (section 1223(2)).
- (9) The basis of the shares of Acquiring voting and non-voting stock received by the Corporation's shareholders will be the same as their basis in the Corporation stock surrendered in exchange therefor (section 358(a)(1)).
- (10) The holding period of the Acquiring voting and non-voting stock received by the Corporation's shareholders will include the holding period of the Corporation stock surrendered in exchange therefor, provided that such Corporation stock is held as a capital asset on the date of the exchange (section 1223(1)).
- (11) The taxable year of Corporation will end at the close of the day before the QSub election becomes effective (section 381(b) and sections 1.381(b)-1(a), 1.1361-4(a), and 1.1361-4(b)(3)(ii) of the Income Tax Regulations (the "Regulations")). Pursuant to section 381(a) of the Code and section 1.381(a)-1 of the Regulations, Acquiring will succeed to and take into account, as of the date of the proposed transfer, as defined in section 1.381(b)-1(b) of the Regulations, the items of Corporation described in section 381(c) of the Code, subject to the conditions and limitations specified in sections 381, 382, 383, and 384 of the Code and the Regulations thereunder.
- (12) As provided by section 381(c)(2) of the Code and section 1.381(c)(2)-1 of the Regulations, Acquiring will succeed to and take into account the earnings and profits, or deficit in earnings and profits, of Corporation as of the date of transfer. Any deficit in the

earnings or profits of either Corporation or Acquiring will be used only to offset the earnings and profits accumulated after the date of transfer (section 381(c)(2)(B)).

(13) To the extent that the assets of Corporation 3 are presently subject to the built-in gain provisions of section 1374, they will continue to be subject to the built-in gain provisions of section 1374 in the hands of Acquiring on the same basis as they were subject to such provisions in the hands of Corporation.

(14) The payment of cash to a Corporation's shareholder in lieu of issuing fractional share interests of Acquiring stock will be treated as if the fractional shares were distributed as part of the exchange and then were redeemed by Acquiring. These cash payments will be treated as having been received as distributions in full payment in exchange for the stock redeemed as provided in section 302(a) of the Code. This receipt of cash will result in gain or loss measured by the difference between the basis of such fractional share interest and the cash received. Such gain or loss will be capital gain or loss to the Corporation's shareholder, provided the Acquiring stock or the Corporation stock (as the case may be), is a capital asset in the hands of such shareholder and, as such, will be subject to the provisions and limitations of Subchapter P of Chapter 1. Rev. Rul. 66-365, 1965-2 C.B. 116 and Rev. Proc. 77-41, 1977-2 C.B. 574.

(15) The voting and nonvoting stock that will be issued to the shareholders of Corporation in the reorganization will not be considered different classes of stock within the meaning of section 1361(b)(1)(D). Therefore, assuming Acquiring's S election is otherwise valid, the issuance of the voting and nonvoting common stock will not cause Acquiring's S election to terminate (section 1.1361-1(l)(1)).

We express no opinion about the tax treatment of the transaction under other provisions of the Code or the Regulations or about the tax treatment of any conditions existing at the time of, or effects resulting from, the Proposed Transactions that are not specifically covered by the above rulings. In particular, no ruling was requested and no opinion is expressed regarding the tax consequences of the Additional Transactions, or the validity of the subchapter S election or the Qsub elections.

The rulings contained in this letter are predicated upon facts and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by the appropriate party. This office has not verified any of the material submitted in support of the request for a ruling. Verification of the factual information, representations, and other data may be required as part of the audit process.

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

Each affected taxpayer must attach a copy of this letter to the taxpayer's federal

income tax return for the taxable year in which the transaction covered by this letter ruling is consummated. 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 in this office, a copy of this letter is being sent to your authorized representative.

Sincerely yours,

Lisa A. Fuller
Senior Counsel, Branch 1
Office of Associate Chief Counsel (Corporate)

cc: