

Internal Revenue Service

Department of the Treasury
Washington, DC 20224

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Person To Contact:

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Telephone Number:

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Date:

April 14, 2004

Taxpayer =

Sub =

Business 1 =

Business 2 =

State A =

Country B =

Date 1 =

Date 2 =

Dear

We respond to your representative's letter dated December 5, 2003, requesting a ruling concerning the federal tax consequences of a transaction. Additional information

was submitted in a letter dated March 4, 2004. The material information submitted for consideration is summarized below.

Taxpayer, a domestic holding corporation formed under the laws of State A, is publicly held and is engaged through its principle subsidiaries (including Sub) in Business 1. Sub, a corporation operating under the laws of Country B, is a wholly owned subsidiary of Taxpayer also engaged in Business 2.

Taxpayer issued stock options with respect to its stock to employees of Sub as compensation for services provided by those employees to Sub (the "Options"). Between Date 1 and Date 2, employees of Sub exercised a certain number of those Options and paid the exercise price for the Options to Taxpayer. Sub now seeks to make a payment (the "Reimbursement") to Taxpayer that, when combined with any payments the employees of Sub previously made to exercise the Options, will not exceed the fair market value of the Taxpayer stock that was the subject of the Options, in order to reimburse Taxpayer for the cost of providing compensation to employees of Sub.

Taxpayer represents that the Options issued are nonstatutory stock options without a readily ascertainable fair market value, as determined under § 1.83-7(b) of the Income Tax Regulations. Taxpayer further represents that, pursuant to § 1.1032-3, it will reduce its deemed capital contribution to Sub by the Reimbursement.

Based solely on the information submitted and the representations above, we hold:

- (1) The Reimbursement will not constitute a distribution by Sub with respect to its stock to Taxpayer within the meaning of § 301(a) of the Internal Revenue Code.
- (2) Taxpayer will be deemed, pursuant to § 1.1032-3, to have made a cash contribution to Sub in an amount, if any, equal to the difference between the fair market value on the exercise date of the Taxpayer stock that was the subject of the Options and the fair market value of the money or other property it received as payment from the employees of Sub or Sub (including the Reimbursement) and, accordingly, will adjust its basis in its Sub stock pursuant to § 358 and the regulations thereunder.

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.

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.

This ruling is directed only to the taxpayer(s) requesting it. Section 6110(k)(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.

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,

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