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PLR-128263-04

Date:

April 27, 2005

Legend

Old Parent =

Sub 1 =

Sub 2 =

Acquiring =

Sub 3 =

Sub 4 =

Sub 5 =

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2

Sub 6 =

Sub 7 =

Sub 8 =

Shareholder 1 =

Shareholder 2 =

Shareholder 3 =

Shareholder 4 =

Shareholder 5 =

Shareholder 6 =

Shareholder 7 =

Shareholder 8 =

Shareholder 9 =

Shareholder 10 =

Shareholder 11 =

State X =

State Y =

Business 1 =

Business 2 =

Business 3 =

Closing =

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4

Agreement #1

Closing =

Agreement #2

Closing =

Agreement #3

Closing =

Agreement #4

Closing =

Agreement #5

Closing =

Agreement #6

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5

Closing =  
Agreement #7

Closing =  
Agreement #8

Closing =  
Agreement #9

Closing =  
Agreement #10

Closing =  
Agreement #11

Closing =  
Agreement #12

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6

Certain Sub 1 =

Assets

Certain Old =

Parent Assets

Other Old =

Parent Assets

Certain Sub 3 =

Assets

Other Sub 3 =

Assets

Certain Property =

Asset 1 =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Date 5 =

xx =

yy =

zz =

aa =

bb =

cc =

aaa =

bbb =

ccc =

mmm =

nnn =

ooo =

r =

s =

t =

Dear :

We respond to your letter dated August 6, 2003 (a date prior to the effective date of Rev. Proc. 2003-48, 2003-2 C.B. 86), requesting rulings concerning the Federal income tax consequences of a proposed transaction. Additional information was submitted in letters dated May 5, August 10, August 30, September 1, October 28, November 10, and November 15, 2004, and January 6, February 4, February 22, April 5, and April 20, 2005. The material information submitted for consideration is summarized below.

Old Parent, a State Y corporation, is engaged in Business 1, Business 2, and Business 3 either directly or through its subsidiaries. Old Parent owns all the stock of Sub 1, Sub 2, Acquiring, Sub 3, and Sub 4. Sub 1 owns all the stock of Sub 5 and Sub 6. Sub 3 owns all the stock of Sub 7 and Sub 8. Sub 1, Sub 2, Sub 4, Sub 5, and Sub 6 are all incorporated in State X. Acquiring, Sub 3, Sub 7, and Sub 8 either are or will be incorporated in State Y. All the above-indicated corporations use, or will use, an accrual method of accounting.

Old Parent has xx shares of class A common stock, yy shares of class B common stock, and zz shares of preferred stock outstanding. The preferred stock is non-voting with a par value of \$s, is entitled to a non-cumulative annual dividend of r percent, and is callable at the option of Old Parent at \$s per share. Old Parent has represented that the zz shares of preferred stock outstanding is nonqualified preferred stock as defined in section 351(g)(2) of the Internal Revenue Code. But for this callable feature, the Old Parent preferred stock does not have any of the proscribed terms specified in sections 351(g)(2)((A)(i), (ii), (iii), or (iv) of the Code. Shareholder 1, Shareholder 4, and Shareholder 7 each own aa shares, and Shareholder 10 owns aaa shares of Old Parent's class A common stock. Shareholder 2, Shareholder 5, and Shareholder 8 each own bb shares, and Shareholder 11 owns bbb shares, of Old Parent's class B common stock. Shareholder 3, Shareholder 6, and Shareholder 9 each own cc shares, and Shareholder 10 owns ccc shares, of Old Parent's preferred stock. Shareholder 1, Shareholder 2, Shareholder 3, Shareholder 4, Shareholder 5, Shareholder 6, Shareholder 7, Shareholder 8, and Shareholder 9 together compose the "Family N Shareholders," and Shareholder 10 and Shareholder 11 together compose the "Family H Shareholders."

Old Parent established a capital construction fund ("CCF") under section 607 of the Merchant Marine Act of 1936, as amended (the "Act") on Date 1, and owns qualified CCF vessels. Sub 1 established a CCF under the Act on Date 2, and owns qualified CCF vessels. Sub 2 established a CCF under the Act on Date 3, and owns qualified CCF vessels. Old Parent, Sub 1, and Sub 2 each have maintained their respective CCFs pursuant to agreements with the Secretary of Commerce acting through the National Marine Fisheries Service ("NMFS").

Financial information has been received which indicates that Business 1 (conducted through Sub 1 and Sub 2), Business 2 (conducted through Acquiring and Sub 3), and Business 3 (conducted through Sub 5 and Sub 6) each have had gross receipts and operating expenses representative of the active conduct of a trade or business for each of the past five years.

Old Parent is owned and managed by two families, the Family N Shareholders and the Family H Shareholders, who have been involved in a long-standing, acrimonious, and irreconcilable dispute over the management and operation of the



businesses of Parent and its subsidiaries. Following a review of the history of Old Parent's businesses and the effect the dispute between the Family N Shareholders and the Family H Shareholders was having on the management of those businesses, both a new law firm and a new accounting firm hired by Old Parent to represent its interests separately from those of its shareholders recommended that the dispute be resolved by the families parting ways and dividing the three businesses of Old Parent and its subsidiaries among them with each family taking half of each respective business.

Moreover, significant disputes between three separate groups comprising the Family N Shareholders (Shareholder 1, Shareholder 2, and Shareholder 3; Shareholder 4, Shareholder 5, and Shareholder 6; and Shareholder 7, Shareholder 8, and Shareholder 9) over protracted litigation and the resultant distrust amongst themselves have adversely affected their ability to manage and operate their portion of Business 2 of Old Parent. The Family N Shareholders all live in State Y and all of them are involved in the daily operations and management of their respective portion of Business 2, which is currently being conducted through Sub 3 (as if each separate shareholder group's interest (one-third) were being operated as a separate division of Sub 3). This is having an adverse affect on the day to day operations of Sub 3 and is only a temporary measure pending consummation of the proposed transaction described below.

On the other hand, the Family N Shareholders are not having disputes over Business 1 and Business 3, both of which are located in another state (State X). All key managerial decisions and daily activity for the Family N Shareholders' respective interest in Business 1 and Business 3 are made solely by key employees, none of whom are related to any of the Family N Shareholders. The Family N Shareholders have represented that they intend to continue to directly engage in the management and operations of their respective share of Business 2 (in State Y), but not Business 1 and Business 3 (both in State X). The Family N Shareholders have further represented that in the event either of the key employees for Business 1 or Business 3 (currently run through Sub 1 and Sub 5, respectively) cease to perform their duties, Sub 1 and Sub 5 will hire another key employee, who is unrelated to any of the Family N Shareholders, to handle all managerial duties of the business.

Accordingly, to address these issues, the following transaction has been proposed and partially consummated:

- (i) On Date 4, Old Parent transferred its Business 2 assets to Acquiring and Sub 3 in exchange for stock in Acquiring and Sub 3, respectively. The taxpayer has represented that each exchange constituted a tax-free exchange under section 351 of the Code.
- (ii) On Date 5, Old Parent transferred a qualified CCF vessel to Sub 2 in constructive exchange for additional Sub 2 stock. Old Parent and Sub 2

have made an application to the Commissioner of Internal Revenue ("Commissioner") to enter into Closing Agreement #1 with respect to the vessel transfer. The taxpayer has represented that this transaction constituted a tax-free exchange under section 351.

- (iii) Sub 1 will transfer Certain Sub 1 Assets to Sub 6 (including an interest in a qualified CCF vessel) in constructive exchange for additional stock of Sub 6 (the "First Contribution"). Sub 6 will not assume any liabilities nor will it receive Certain Sub 1 Assets subject to any liabilities. Sub 1 and Sub 6 have made an application to the Commissioner to enter into Closing Agreement #2 with respect to the transfer of the interest in the vessel.
- (iv) Sub 1 will distribute all the stock of Sub 6 to Old Parent (the "First Distribution").
- (v) Sub 1 will transfer one qualified CCF vessel (the "First Vessel") and its license to Sub 2 in exchange for three qualified CCF vessels (the "Second Vessels") and their licenses in a transaction which the taxpayer has represented will qualify for nonrecognition treatment under section 1031. Sub 1 and Sub 2 have made an application to the Commissioner to enter into Closing Agreement #3 with respect to the vessel exchange.
- (vi) Sub 4 will distribute to Old Parent Certain Property used in State X. Old Parent will transfer Certain Property to Sub 2 in constructive exchange for additional Sub 2 stock. The taxpayer has represented that Old Parent's transfer of Certain Property to Sub 2 will constitute a tax-free exchange under section 351.
- (vii) Old Parent will contribute Certain Old Parent Assets, subject to liabilities, relating to Business 2 (including part of its CCF, an undivided 50 percent interest in Asset 1, and a qualified CCF vessel) to Sub 3 (the "Second Contribution"). Immediately prior this transfer, Sub 3 will enter into an agreement with the Secretary of Commerce, acting through NMFS, to establish a CCF. Old Parent and Sub 3 have made an application to the Commissioner to enter into Closing Agreement #4 with respect to the vessel transfer and Closing Agreement #5 with respect to the CCF transfer.
- (viii) Old Parent will contribute Other Old Parent Assets, subject to liabilities, relating to Business 2 (including part of its CCF, an undivided 50 percent interest in Asset 1, and four qualified CCF vessels) and the stock of Sub 2 to Acquiring in constructive exchange for additional Acquiring stock. The taxpayer has represented that this exchange will constitute a tax-free exchange under section 351. Immediately prior this step, Acquiring will

enter into an agreement with the Secretary of Commerce, acting through NMFS, to establish a CCF. Old Parent and Acquiring have made an application to the Commissioner to enter into Closing Agreement #6 with respect to the vessel transfers and Closing Agreement #7 with respect to the CCF transfer.

- (ix) Sub 3 will contribute Certain Sub 3 Assets, subject to liabilities, relating to Business 2 (including part of the capital construction funds that it received in the Second Contribution (step (vii), above) and one qualified CCF vessel) to Sub 7 in exchange for t shares of Sub 7 common stock (the "Third Contribution"). Immediately prior this step, Sub 7 will enter into an agreement with the Secretary of Commerce, acting through NMFS, to establish a CCF. Sub 3 and Sub 7 have made an application to the Commissioner to enter into Closing Agreement #8 with respect to the vessel transfer and Closing Agreement #9 with respect to the CCF transfer.
- (x) Sub 3 will distribute all the outstanding shares of Sub 7 to Old Parent (the "Second Distribution").
- (xi) Sub 3 will contribute Other Sub 3 Assets, subject to liabilities, relating to Business 2 (including part of the capital construction funds that it received in the Second Contribution (step (vii), above)) to Sub 8 in exchange for t shares of its common stock (the "Fourth Contribution"). Immediately prior this step, Sub 8 will enter into an agreement with the Secretary of Commerce, acting through NMFS, to establish a CCF. Sub 3 and Sub 8 have made an application to the Commissioner to enter into Closing Agreement #10 with respect to the CCF transfer.
- (xii) Sub 3 will distribute all the outstanding shares of Sub 8 to Old Parent (the "Third Distribution").
- (xiii) Old Parent will transfer one-third of the interest in two separate qualified CCF vessels, one-third of Sub 4's common stock, and one-third of Sub 1's class A and class B common stock, to each of Sub 3, Sub 7, and Sub 8 in constructive exchange for additional shares in each respective corporation. The taxpayer has represented that these three exchanges will constitute tax-free exchanges under section 351. Old Parent, Sub 3, Sub 7, and Sub 8 have made an application to the Commissioner to enter into Closing Agreement #11 with respect to the vessel transfers.
- (xiv) Sub 3, Sub 7, and Sub 8 will transfer its respective interests in the two qualified vessels (transferred in step (xiii), above) and its respective interest in the Sub 4 stock (transferred in step (xiii), above) to Sub 1 in

constructive exchange for additional shares of Sub 1's stock. The taxpayer has represented that each exchange will constitute a tax-free exchange under section 351. Sub 3, Sub 7, Sub 8, and Sub 1 have made an application to the Commissioner to enter into Closing Agreement #12 with respect to the vessel transfers.

- (xv) Sub 3, Sub 7, and Sub 8 each will amend its certificate of incorporation so that it will have three classes of stock (class A common stock, class B common stock, and preferred stock) that mirror the capital structure of Old Parent (except that the preferred stock of each of Sub 3, Sub 7, and Sub 8 shall provide that the issuing corporation may not exercise its right to redeem or purchase such stock within the 20 year period beginning on the date such stock is issued). After the amendments: Old Parent will exchange all of its shares of Sub 3 common stock for mmm shares of new Sub 3 class A common stock, nnn shares of new Sub 3 class B common stock, and ooo shares of new Sub 3 preferred stock; all of its shares of Sub 7 common stock for mmm shares of new Sub 7 class A common stock, nnn shares of new Sub 7 class B common stock, and ooo shares of new Sub 7 preferred stock; and all of its shares of Sub 8 common stock for mmm shares of new Sub 8 class A common stock, nnn shares of new Sub 8 class B common stock, and ooo shares of new Sub 8 preferred stock (together, the "Exchanges"). It has been represented that the Exchanges will each qualify under section 368(a)(1)(E).
- (xvi) Old Parent will distribute mmm shares of Sub 3's new class A common stock to Shareholder 4 in exchange for Shareholder 4's aa shares of Old Parent class A common stock; nnn shares of Sub 3's new class B common stock to Shareholder 5 in exchange for Shareholder 5's bb shares of Old Parent class B common stock; and ooo shares of Sub 3's new preferred stock to Shareholder 6 in exchange for Shareholder 6's cc shares of Old Parent preferred stock (the "Fourth Distribution").
- (xvii) Old Parent will distribute mmm shares of Sub 7's new class A common stock to Shareholder 1 in exchange for Shareholder 1's aa shares of Old Parent class A common stock; nnn shares of Sub 7's new class B common stock to Shareholder 2 in exchange for Shareholder 2's bb shares of Old Parent class B common stock; and ooo shares of Sub 7's new preferred stock to Shareholder 3 in exchange for Shareholder 3's cc shares of Old Parent's preferred stock (the "Fifth Distribution").
- (xviii) Old Parent will distribute mmm shares of Sub 8's new class A common stock to Shareholder 7 in exchange for Shareholder 7's aa shares of Old Parent class A common stock; nnn shares of Sub 8's new class B common stock to Shareholder 8 in exchange for Shareholder 8's bb

shares of Old Parent class B common stock; and 000 shares of Sub 8's new preferred stock to Shareholder 9 in exchange for Shareholder 9's cc shares of Old Parent's preferred stock (the "Sixth Distribution").

Following this step, the split up between the Family N Shareholders and the Family H Shareholders will be complete. The Family N Shareholders will have exchanged all their stock in Old Parent for stock in Sub 3, Sub 7 and Sub 8, and the Family H Shareholders will hold all the outstanding stock in Old Parent.

- (xix) Acquiring will amend its certificate of incorporation so that it will have three classes of stock (class A common stock, class B common stock, and preferred stock) that mirror the capital structure of Old Parent (except that the preferred stock of Acquiring shall provide that the issuing corporation may not exercise its right to redeem or purchase such stock within the 20 year period beginning on the date such stock is issued). After these amendments, Old Parent will exchange all of its shares of old Acquiring common stock for aaa shares of new Acquiring class A common stock, bbb shares of new Acquiring class B common stock, and ccc shares of new Acquiring preferred stock (the "Acquiring Exchange"). It has been represented that the Acquiring Exchange will qualify under section 368(a)(1)(E).
- (xx) Old Parent will merge with and into Acquiring, with Acquiring as the surviving corporation (the "Merger"). Pursuant to the Merger, Acquiring will acquire all of Old Parent's remaining assets (including all the stock of Sub 6) and assume all of Old Parent's liabilities. As a result of the Merger, Shareholder 10 will exchange aaa shares of Old Parent class A common stock and ccc shares of Old Parent preferred stock for aaa shares of new Acquiring class A common stock and ccc shares of new Acquiring preferred stock, and Shareholder 11 will exchange bbb shares of Old Parent class B common stock for bbb shares of new Acquiring class B common stock. It has been represented that the merger of Old Parent with and into Acquiring will qualify as a reorganization under section 368(a)(1)(A).

Also, in connection with the forgoing transactions, the Family H Shareholders and the Family N Shareholders have entered into a number of agreements providing for the separation of the companies and governing various relationships between them:

- (1) Acquiring and Sub 3 have entered into agreements (a) governing the indemnification of one party to the other for certain liabilities (the "Indemnification Obligations"), (b) providing to jointly defend and equally fund claims arising out of the ordinary course of business, or from known or foreseeable business risks, of Old Parent or its subsidiaries from

conduct or activities occurring prior to the date the reorganization agreement was signed (the "Defense Obligations"), collectively (the "Separation Agreements"), and (c) representing they each will operate their undivided interest in Asset 1 independently of each other, and with their own and separate employees in their respective business.

- (2) Before the proposed transactions, Sub 3, Sub 7, and Sub 8 will have entered into an agreement (a) providing each will be jointly and severally liable to Acquiring for Sub 3's share of the Separation Agreements, and (b) providing for adjustment payments to be made after the proposed transaction if, as of the date the proposed transaction takes place, certain financial measurements regarding Asset 1 for the three companies differ from previously agreed upon amounts (the "Family N True-Up Agreement").

Following the proposed transaction, Shareholder 1, Shareholder 2, and Shareholder 3 will own all of the outstanding stock of Sub 7; Shareholder 4, Shareholder 5, and Shareholder 6 will own all the outstanding stock of Sub 3; and Shareholder 7, Shareholder 8, and Shareholder 9 will own all the outstanding stock of Sub 8. Sub 3, Sub 7, and Sub 8 will each own one-third of each class of the outstanding shares of Sub 1 (which will own all the outstanding stock of Sub 4 and Sub 5). Shareholder 10 and Shareholder 11 will own all the outstanding stock of Acquiring (which will own all the outstanding stock of Sub 2 and Sub 6). Sub 1 and Sub 2 will be engaged in Business 1; Acquiring, Sub 3, Sub 7, and Sub 8 will be engaged in Business 2; and Sub 5 and Sub 6 will be engaged in Business 3.

### **The First Distribution**

The taxpayers have made the following representations in connection with the First Contribution (step (iii), above) and the First Distribution (step (iv), above):

- (a) No part of the consideration to be distributed by Sub 1 will be received by a shareholder as a creditor, employee or in any capacity other than that of a shareholder of the corporation.
- (b) The five years of financial information submitted on behalf of Sub 1 and Sub 6 represents the corporations' present operations. There have been no substantial operational changes since the date of the last financial statements submitted.
- (c) Following the First Distribution, Sub 1 and Sub 6 will each continue the active conduct of its respective business, independently and with its separate employees.

- (d) The First Distribution is being carried out for the purpose of facilitating the division of the two shareholder groups (the Family N Shareholders and the Family H Shareholders), thereby eliminating the negative impact on Old Parent's businesses that has resulted from the disputes (including litigation) between them. The First Distribution is motivated, in whole or substantial part, by this corporate business purpose.
- (e) There is no plan or intention by Sub 1 or Sub 6 to make an election pursuant to § 1361(a) to be treated as a S corporation.
- (f) Except as described in the step (xiii) and step (xiv), above, and in the Merger (step (xx), above), there is no plan or intention by the shareholders of Sub 1 to sell, exchange, transfer by gift, or otherwise dispose of any of their stock of either Sub 1 or Sub 6 after the proposed transaction.
- (g) There is no plan or intention by either Sub 1 or Sub 6, directly or through any subsidiary corporation, to purchase any of its outstanding stock after the transaction, other than through stock purchases meeting the requirements of section 4.05(1)(b) of Rev. Proc. 96-30.
- (h) There is no plan or intention to liquidate either Sub 1 or Sub 6, to merge either corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation after the transaction, except in the ordinary course of business.
- (i) No intercorporate debt will exist between Sub 1 and Sub 6 at the time of, or subsequent to, the First Distribution.
- (j) Payments made in connection with all continuing transactions between Sub 1 and its subsidiary, and Sub 6, will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.
- (k) No two parties to the transaction are investment companies as defined in § 368(a)(2)(F)(iii) and (iv).
- (l) The First Distribution is not part of a plan or series of related transactions (within the meaning of § 355(e)) pursuant to which one or more persons will acquire directly or indirectly stock possessing 50 percent or more of the total combined voting power of all classes of stock of either Sub 1 or Sub 6, or stock possessing 50 percent or more of the total value of all classes of stock of Sub 1 or Sub 6.
- (m) Sub 1 and Sub 6 represent that the interest of either corporation, or both, in the qualified CCF vessel described in Closing Agreement #2, will be

sold or otherwise disposed of as soon as practicable after the completion of the proposed transaction, and in no event later than 12 months after the date of the issuance of this letter.

Based solely on the information submitted and the representations set forth above, we hold as follows regarding the First Contribution and First Distribution (as described in step (iii) and step (iv), above):

- (1) The First Contribution followed by the First Distribution will constitute a reorganization within the meaning of § 368(a)(1)(D). Sub 1 and Sub 6 each will be a “party to the reorganization” within the meaning of § 368(b).
- (2) Sub 1 will recognize no gain or loss upon the First Contribution (§ 361(a)).
- (3) Sub 6 will recognize no gain or loss upon the First Contribution (§ 1032(a)).
- (4) Sub 6’s basis for each asset received in the First Contribution will equal the basis of that asset in the hands of Sub 1 immediately prior to the transfer (§ 362(b)).
- (5) Sub 6’s holding period for each asset received in the First Contribution will include the period during which Sub 1 held such asset (§ 1223(2)).
- (6) Sub 1 will recognize no gain or loss on the First Distribution (§ 361(c)(1)).
- (7) Old Parent will recognize no gain or loss and no amount will be included in its income upon the First Distribution (§ 355(a)(1)).
- (8) The holding period of the Sub 6 stock received by Old Parent in the First Distribution will include the holding period of the Sub 1 stock with respect to which the First Distribution will be made, provided Old Parent held the Sub 1 stock as a capital asset on the date of the First Distribution (§ 1223(1)).
- (9) Earnings and profits will be allocated between Sub 1 and Sub 6 in accordance with § 1.312-10(a).
- (10) If the transfer of the interest of the qualified vessel by Sub 1 to Sub 6 in step (iii), above, qualifies under § 351 or § 361 and Closing Agreement #2 is properly entered into, then, Closing Agreement #2 shall determine the CCF tax consequences resulting from the transfer.

### **The Second Distribution and Third Distribution**



The taxpayers have made the following representations in connection with the Third Contribution (step (ix)) and Second Distribution (step (x)), and the Fourth Contribution (step (xi)) and Third Distribution (step (xii)):

- (aa) The indebtedness owed by Sub 7 and Sub 8 to Sub 3, if any, after the Second Distribution and the Third Distribution will not constitute stock or securities.
- (bb) No part of the consideration to be distributed by Sub 3 will be received by a shareholder as a creditor, employee or in any capacity other than that of a shareholder of the corporation.
- (cc) The five years of financial information submitted on behalf of Sub 3 represents the corporation's present operations. There have been no substantial operational changes since the date of the last financial statements submitted.
- (dd) Following the Second Distribution and the Third Distribution, Sub 3, Sub 7, and Sub 8 will each continue, independently and with its separate employees, the active conduct of its share of all the integrated activities of the business conducted by Sub 3 prior to the consummation of the transaction.
- (ee) The Second Distribution and the Third Distribution are being carried out for the purposes of (1) facilitating the division of the two shareholder groups (the Family N Shareholders and the Family H Shareholders), thereby eliminating the negative impact on Old Parent's businesses that has resulted from the disputes (including litigation) between them, and (2) facilitating the division of the three Family N Shareholder groups (Shareholder 1, Shareholder 2, and Shareholder 3; Shareholder 4, Shareholder 5, and Shareholder 6; and Shareholder 7, Shareholder 8, and Shareholder 9), thereby eliminating the negative impact on Old Parent's businesses that has resulted from the disputes (including litigation) between them. The Second Distribution and the Third Distribution are motivated, in whole or substantial part, by this corporate business purpose.
- (ff) There is no plan or intention by Sub 3, Sub 7, or Sub 8 to make an election pursuant to § 1361(a) to be treated as a S corporation.
- (gg) Except as described in the Exchanges (step (xv), above) and the Fourth Distribution (step (xvi), above), the Fifth Distribution (step (xvii), above), and the Sixth Distribution (step (xviii), above), there is no plan or intention by the shareholders of Sub 3 to sell, exchange, transfer by gift, or

otherwise dispose of any of their stock of either Sub 3, Sub 7, or Sub 8 after the Second Distribution and the Third Distribution.

- (hh) There is no plan or intention by Sub 3, Sub 7, or Sub 8, directly or through any subsidiary corporation, to purchase any of its outstanding stock after the transaction, other than through stock purchases meeting the requirements of section 4.05(1)(b) of Rev. Proc. 96-30.
- (ii) There is no plan or intention to liquidate Sub 3, Sub 7, or Sub 8, to merge any corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation after the transaction, except in the ordinary course of business.
- (jj) The total adjusted basis and the fair market value of the assets transferred by Sub 3 to each of Sub 7 and Sub 8 each equals or exceeds the sum of the liabilities assumed, if any, by Sub 7 and Sub 8, respectively, plus any liabilities to which the transferred assets are subject.
- (kk) The liabilities assumed in the transaction and the liabilities to which the transferred assets are subject were incurred in the ordinary course of business and are associated with the assets being transferred.
- (ll) Except for obligations under the Family N True-Up Agreement, or to Old Parent under the Separation Agreements, no intercorporate debt will exist between Sub 3, Sub 7, or Sub 8 at the time of, or subsequent to, the Second Distribution and the Third Distribution.
- (mm) Payments made in connection with all continuing transactions, if any, between Sub 3 and Sub 7 or Sub 8 will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.
- (nn) Sub 3, Sub 7, and Sub 8 are not investment companies as defined in § 368(a)(2)(F)(iii) and (iv).
- (oo) The Second Distribution and the Third Distribution are not part of a plan or series of related transactions (within the meaning of § 355(e)) pursuant to which one or more persons will acquire directly or indirectly stock possessing 50 percent or more of the total combined voting power of all classes of stock of either Sub 3, Sub 7 or Sub 8, or stock possessing 50 percent or more of the total value of all classes of stock of Sub 3, Sub 7 or Sub 8.

Based solely on the information submitted and the representations as set forth above, we hold as follows regarding the Third Contribution and the Second Distribution,

and the Fourth Contribution and the Third Distribution (described in step (ix), step (x), step (xi), and step (xii), above):

- (11) The Third Contribution followed by the Second Distribution will constitute a reorganization within the meaning of § 368(a)(1)(D). Sub 3 and Sub 7 each will be a “party to the reorganization” within the meaning of § 368(b).
- (12) The Fourth Contribution followed by the Third Distribution will constitute a reorganization within the meaning of § 368(a)(1)(D). Sub 3 and Sub 8 each will be a “party to the reorganization” within the meaning of § 368(b).
- (13) Sub 3 will recognize no gain or loss upon either the Third Contribution or the Fourth Contribution (§§ 361(a) and 357(a)).
- (14) Sub 7 and Sub 8 will recognize no gain or loss upon the Third Contribution and the Fourth Contribution, respectively (§ 1032(a)).
- (15) Sub 7’s basis for each asset received in the Third Contribution and Sub 8’s basis for each asset received in Fourth Contribution, respectively, will equal the basis of that asset in the hands of Sub 3 immediately prior to the transfer (§ 362(b)).
- (16) Sub 7’s holding period for each asset received in the Third Contribution and Sub 8’s holding period for each asset received in the Fourth Contribution, respectively, will include the period during which Sub 3 held such asset (§ 1223(2)).
- (17) Sub 3 will recognize no gain or loss on the Second Distribution or the Third Distribution (§ 361(c)(1)).
- (18) Old Parent will recognize no gain or loss and no amount will be included in its income upon the Second Distribution and the Third Distribution (§ 355(a)(1)).
- (19) The holding period of the Sub 7 stock and Sub 8 stock received by Old Parent in the Second Distribution and the Third Distribution, respectively, will include the holding period of the Sub 3 stock with respect to which the Second Distribution and the Third Distribution, respectively, are made, provided Old Parent held the Sub 3 stock as a capital asset on the date of the Second Distribution and the Third Distribution (§ 1223(1)).
- (20) Earnings and profits will be allocated between Sub 3 and Sub 7, and Sub 3 and Sub 8 in accordance with § 1.312-10(a).

- (21) If the transfer of the qualified vessel in the Third Contribution (step (ix), above) qualifies under § 351 or § 361 and Closing Agreement #8 is properly entered into, then, Closing Agreement #8 shall determine the CCF tax consequences resulting from the transfer.
- (22) If the transfer of the CCF in the Third Contribution (step (ix), above) qualifies under section 351, and the transfer to and maintenance of the CCF by Sub 7 is approved by the Secretary of Commerce, and Closing Agreement #9 is properly entered into, then, Closing Agreement #9 shall determine the CCF tax consequences resulting from the transfer.
- (23) If the transfer of the CCF in the Fourth Contribution (step (xi), above) qualifies under section 351, and the transfer to and maintenance of the CCF by Sub 8 is approved by the Secretary of Commerce, and Closing Agreement #10 is properly entered into, then, Closing Agreement #10 shall determine the CCF tax consequences resulting from the transfer.
- (24) Payments made between any of Sub 3, Sub 7, or Sub 8 under the Family N True-Up Agreement that (i) have arisen or will arise for a taxable period ending on or before the Second Distribution and the Third Distribution or for a taxable period beginning before and ending after the Second Distribution and the Third Distribution and (ii) will not become fixed and ascertainable until after the Second Distribution and the Third Distribution, will be treated as occurring immediately before the Second Distribution and the Third Distribution (cf. Arrowsmith v. Commissioner, 344 U.S. 6 (1952)) (tax character of later transaction will derive from earlier, related transaction).

### **The Exchanges**

The taxpayer has made the following representation in connection with the Exchanges (step (xv), above):

- (aaa) As of the date of the issuance of preferred stock by Sub 3, Sub 7, and Sub 8 in step (xv), above, the issuing corporation and its shareholders have not and will not have entered into any agreement that grants the issuing corporation's shareholders the right to require the issuing corporation or a related person (as described in section 267(b)) to redeem or purchase the preferred stock, or requires the issuing corporation or a related person (as described in section 267(b)) to redeem or repurchase the preferred stock, or gives the issuing corporation or a related person (as described in section 267(b)) the right to redeem or repurchase the preferred stock before twenty years and one day following the issuance of the preferred stock, except in the case of a shareholder's death, disability, or mental incompetency.

Based solely on the information submitted and the representations as set forth above, we hold as follows regarding the Exchanges (described in step (xv), above):

- (25) The shares of new preferred stock of Sub 3, Sub 7, and Sub 8 received by Old Parent in the Exchanges will not constitute nonqualified preferred stock within the meaning of section 351(g)(2).

**The Fourth Distribution, Fifth Distribution, and Sixth Distribution**

The taxpayer has made the following representations in connection with the Second Contribution (step (vii), above) and Fourth Distribution (step (xvi), above), the Fifth Distribution (step (xvii), above), and the Sixth Distribution (step (xviii), above).

- (aaaa) The indebtedness owed by Sub 3, Sub 7, or Sub 8 to each other, or to Old Parent after their respective distributions will not constitute stock or securities.
- (bbbb) The fair market value of the Sub 3 stock received by each of Shareholder 4, Shareholder 5, and Shareholder 6 will be approximately equal to the fair market value of the Old Parent stock surrendered by each of the shareholders in the exchange. The Sub 7 stock received by each of Shareholder 1, Shareholder 2, and Shareholder 3 will be approximately equal to the fair market value of the Old Parent stock surrendered by each of the shareholders in the exchange. The Sub 8 stock received by each of Shareholder 7, Shareholder 8, and Shareholder 9 will be approximately equal to the fair market value of the Old Parent stock surrendered by each of the shareholders in the exchange.
- (cccc) No part of the consideration to be distributed by Old Parent will be received by a shareholder as a creditor, employee or in any capacity other than that of a shareholder of the corporation.
- (dddd) The five years of financial information submitted on behalf of Old Parent and Sub 3 represents the corporations' present operations. There have been no substantial operational changes since the date of the last financial statements submitted.
- (eeee) Immediately after the Fourth Distribution, Fifth Distribution, and Sixth Distribution, at least 90 percent of the fair market value of the gross assets of Old Parent will consist of the stock and securities of controlled corporations that are engaged in the active conduct of a trade or business as defined in §355(b)(2).
- (ffff) Following the Fourth Distribution, Fifth Distribution, and Sixth Distribution Old Parent (through its subsidiaries), Sub 3, Sub 7, and Sub 8 each will continue the active conduct of its business, independently and with its separate employees.

- (gggg) The Fourth Distribution, Fifth Distribution, and Sixth Distribution are being carried out for the purposes of (1) facilitating the division of the two shareholder groups (the Family N Shareholders and the Family H Shareholders), thereby eliminating the negative impact on Old Parent's businesses that has resulted from the disputes (including litigation) between them, and (2) facilitating the division of the three Family N Shareholder groups (Shareholder 1, Shareholder 2, and Shareholder 3; Shareholder 4, Shareholder 5, and Shareholder 6; and Shareholder 7, Shareholder 8, and Shareholder 9), thereby eliminating the negative impact on Old Parent's businesses that has resulted from the disputes (including litigation) between them. The Fourth Distribution, Fifth Distribution, and Sixth Distribution are motivated, in whole or substantial part, by this corporate business purpose.
- (hhhh) There is no plan or intention by Old Parent or Acquiring, Sub 3, Sub 7, or Sub 8 to make an election pursuant to § 1361(a) to be treated as a S corporation.
- (iii) Except as described in the Merger (step (xx), above), there is no plan or intention by the shareholders of Old Parent or Acquiring to sell, exchange, transfer by gift, or otherwise dispose of any of their stock of either Old Parent or Acquiring, Sub 3, Sub 7, or Sub 8 after the transaction.
- (jjj) There is no plan or intention by either Old Parent or Acquiring or Sub 3, Sub 7, or Sub 8, directly or through any subsidiary corporation, to purchase any of its outstanding stock after the transaction, other than through stock purchases meeting the requirements of section 4.05(1)(b) of Rev. Proc. 96-30.
- (kkkk) Except as described in the Merger (step (xx), above), there is no plan or intention to liquidate either Old Parent or Acquiring or Sub 3, Sub 7 or Sub 8, to merge either corporation (including Acquiring), with any other corporation, or to sell or otherwise dispose of the assets of either corporation after the transaction, except in the ordinary course of business.
- (lll) The total adjusted basis and the fair market value of the assets transferred to Sub 3 by Old Parent each equals or exceeds the sum of the liabilities assumed by Sub 3 plus any liabilities to which the transferred assets are subject.
- (mmm) The liabilities assumed in the transaction and the liabilities to which the transferred assets are subject were incurred in the ordinary course of business and are associated with the assets being transferred.
- (nnnn) No intercorporate debt will exist between Old Parent or Acquiring and Sub 3, Sub 7, or Sub 8 at the time of, or subsequent to, the Fourth Distribution,

Fifth Distribution, and Sixth Distribution except under the Separation Agreements or the Family N True-Up Agreement.

- (oooo) Payments made in connection with all continuing transactions, if any, between Old Parent (or any of its subsidiaries, or Acquiring or any of Old Parent's former subsidiaries), and Sub 3 (or any of its subsidiaries), Sub 7 (or any of its subsidiaries), or Sub 8 (or any of its subsidiaries), will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.
- (pppp) No parties to the transaction are investment companies as defined in § 368(a)(2)(F)(iii) and (iv).
- (qqqq) The Fourth Distribution, Fifth Distribution, and Sixth Distribution are not part of a plan or series of related transactions (within the meaning of § 355(e)) pursuant to which one or more persons will acquire directly or indirectly stock possessing 50 percent or more of the total combined voting power of all classes of stock of either Old Parent, or Sub 3, Sub 7, or Sub 8, or stock possessing 50 percent or more of the total value of all classes of stock of Old Parent, or Sub 3, Sub 7, or Sub 8.

Based solely on the information submitted and the representations as set forth above, we hold as follows regarding the Second Contribution and the Fourth Distribution (step (vii) and step (xvi), above), the Fifth Distribution (step (xvii), above), and the Sixth Distribution (step (xviii), above):

- (26) The Second Contribution followed by the Fourth Distribution will constitute a reorganization within the meaning of § 368(a)(1)(D). Old Parent and Sub 3 each will be a "party to the reorganization" within the meaning of § 368(b).
- (27) Old Parent will recognize no gain or loss upon the Second Contribution (§§ 361(a) and 357(a)).
- (28) Sub 3 will recognize no gain or loss upon the Second Contribution (§ 1032(a)).
- (29) Sub 3's basis for each asset received in the Second Contribution will equal the basis of that asset in the hands of Old Parent immediately prior to the transfer (§ 362(b)).
- (30) Sub 3's holding period for each asset received in the Second Contribution will include the period during which Old Parent held such asset (§ 1223(2)).
- (31) Old Parent will recognize no gain or loss and no amount will be included in its income upon the Fourth Distribution (§ 361(c)(1)).

- (32) Old Parent will recognize no gain or loss and no amount will be included in its income upon the Fifth Distribution and the Sixth Distribution (§ 355(c)(1)).
- (33) Shareholder 4, Shareholder 5, and Shareholder 6 will recognize no gain or loss and no amount will be included in their income upon the Fourth Distribution; Shareholder 1, Shareholder 2, and Shareholder 3 will recognize no gain or loss and no amount will be included in their income upon the Fifth Distribution; and Shareholder 7, Shareholder 8, and Shareholder 9 will recognize no gain or loss and no amount will be included in their income upon the Sixth Distribution (§ 355(a)(1)).
- (34) The aggregate basis of the Sub 3 stock received by each of Shareholder 4, Shareholder 5, and Shareholder 6 in the Fourth Distribution will equal the aggregate adjusted basis of the Old Parent stock surrendered by each of the shareholders, respectively, in exchange therefor (§ 358(a)(1)). The aggregate basis of the Sub 7 stock received by each of Shareholder 1, Shareholder 2, and Shareholder 3 in the Fifth Distribution will equal the aggregate adjusted basis of the Old Parent stock surrendered by each of the shareholders, respectively, in exchange therefor (§ 358(a)(1)). The aggregate basis of the Sub 8 stock received by each of Shareholder 7, Shareholder 8, and Shareholder 9 in the Sixth Distribution will equal the aggregate adjusted basis of the Old Parent stock surrendered by each of the shareholders, respectively, in exchange therefor (§ 358(a)(1)).
- (35) The holding period of the Sub 3 stock received by Shareholder 4, Shareholder 5, and Shareholder 6 in the Fourth Distribution will include the holding period of the Old Parent stock surrendered in exchange therefor, provided the Old Parent stock is held as a capital asset on the date of the distribution (§ 1223(1)). The holding period of the Sub 7 stock received by Shareholder 1, Shareholder 2, and Shareholder 3 in the Fifth Distribution will include the holding period of the Old Parent stock surrendered in exchange therefor, provided the Old Parent stock is held as a capital asset on the date of the distribution (§ 1223(1)). The holding period of the Sub 8 stock received by Shareholder 7, Shareholder 8, and Shareholder 9 in the Sixth Distribution will include the holding period of the Old Parent stock surrendered in exchange therefor, provided the Old Parent stock is held as a capital asset on the date of the distribution (§ 1223(1)).
- (36) Earnings and profits will be allocated between Old Parent and Sub 3 in accordance with § 1.312-10(a).
- (37) Earnings and profits will be allocated between Old Parent and Sub 7, and Old Parent and Sub 8 in accordance with § 1.312-10(b).
- (38) If the transfer of the qualified vessel in the Second Contribution (step (vii), above) qualifies under § 351 or § 361 and Closing Agreement #4 is



properly entered into, then, Closing Agreement #4 shall determine the tax consequences resulting from the transfer.

- (39) If the transfer of the CCF in the Second Contribution (step (vii), above) qualifies under section 351, and the transfer to and maintenance of the fund by Sub 3 is approved by the Secretary of Commerce, and Closing Agreement #5 is properly entered into, then, Closing Agreement #5 shall determine the tax consequences resulting from the transfer.
- (40) Payments made between any of Acquiring, Sub 3, Sub 7, or Sub 8 under the Separation Agreements that (i) have arisen or will arise for a taxable period ending on or before the Fourth Distribution, Fifth Distribution, and Sixth Distribution or for a taxable period beginning before and ending after the Fourth Distribution, Fifth Distribution, and Sixth Distribution and (ii) will not become fixed and ascertainable until after the Fourth Distribution, Fifth Distribution, and Sixth Distribution, will be treated as occurring immediately before the Fourth Distribution, Fifth Distribution, and Sixth Distribution (cf. Arrowsmith v. Commissioner, 344 U.S. 6 (1952)) (tax character of later transaction will derive from earlier, related transaction).
- (41) The Fifth Distribution (step (xvii), above) and the Sixth Distribution (step (xviii), above) will not adversely affect rulings issued regarding the Second Distribution and the Third Distribution (rulings (11) through (24)).

### **The Acquiring Exchange**

The taxpayer has made the following representation in connection with the Acquiring Exchange (step (xix), above):

- (aaaaa) As of the date of the issuance of preferred stock by Acquiring in step (xix), above, the issuing corporation and its shareholders have not and will not have entered into any agreement that grants the issuing corporation's shareholders the right to require the issuing corporation or a related person (as described in section 267(b)) to redeem or purchase the preferred stock, or requires the issuing corporation or a related person (as described in section 267(b)) to redeem or repurchase the preferred stock, or gives the issuing corporation or a related person (as described in section 267(b)) the right to redeem or repurchase the preferred stock before twenty years and one day following the issuance of the preferred stock, except in the case of a shareholder's death, disability, or mental incompetency.

Based solely on the information submitted and the representations as set forth above, we hold as follows regarding the Acquiring Exchange (described in step (xix), above):

- (42) The shares of new preferred stock issued by Acquiring and received by Old Parent in the Acquiring Exchange will not constitute nonqualified preferred stock within the meaning of section 351(g)(2).

### **Miscellaneous Rulings**

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

- (43) If the transfer of the qualified vessel by Old Parent to Sub 2 in step (ii), above, qualifies under § 351 and Closing Agreement #1 is properly entered into, then, Closing Agreement #1 shall determine the CCF tax consequences resulting from the transfer.
- (44) If the transfer by Sub 1 of the First Vessel to Sub 2 in exchange for the Second Vessels (step (v), above) qualifies for tax-free treatment pursuant to section 1031 and Closing Agreement #3 is properly entered into, then, Closing Agreement #3 shall determine the CCF tax consequences resulting from the transfer.
- (45) Gain will be recognized by Sub 4 on its distribution of Certain Property to Old Parent (step (vi), above) to the extent that the fair market value of Certain Property exceeds Sub 4's adjusted basis in Certain Property (§ 311(b)).
- (46) Old Parent will treat the receipt of Certain Property (step (vi), above) as a dividend to the extent of the current earnings and profits and accumulated earnings and profits of Sub 4. To the extent that the fair market value of Certain Property exceeds Sub 4's current earnings and profits and accumulated earnings and profits, the excess will be treated by Old Parent as a reduction to Old Parent's adjusted basis in its Sub 4 stock. To the extent that the fair market value of the Certain Property exceeds Sub 4's current earnings and profits and accumulated earnings and profits and exceeds Old Parent's adjusted basis in its Sub 4 stock, the excess will be treated by Old Parent as gain from the sale or exchange of property (§§ 301(c)(1), (c)(2), and (c)(3), and § 316).
- (47) If the transfer of the qualified vessels by Old Parent to Acquiring in step (viii) above, qualifies under § 351 or § 361, and Closing Agreement #6 is properly entered into, then, Closing Agreement #6 shall determine the CCF tax consequences resulting from the transfer.
- (48) If the transfer of the CCF by Old Parent to Acquiring in step (viii) above, qualifies under § 351(a), and the transfer to and maintenance of the fund by Acquiring is approved by the Secretary of Commerce, and Closing Agreement #7 is properly entered into, then, Closing Agreement #7 shall determine the CCF tax consequences resulting from the transfer.

- (49) If the transfer of the qualified vessel in step (xiii), above, qualifies under § 351 or § 361 and Closing Agreement #11 is properly entered into, then, Closing Agreement #11 shall determine the tax consequences resulting from the transfer.
- (50) If the transfer of the qualified vessel in step (xiv), above, qualifies under § 351 and Closing Agreement #12 is properly entered into, then, Closing Agreement #12 shall determine the tax consequences resulting from the transfer.
- (51) Assuming that step (i), step (ii), step (vi), step (viii), step (xiii), and step (xiv) each qualify as a section 351 transaction, step (xv) and step (xix) each qualify as a reorganization under section 368(a)(1)(E), and the Merger (step (xx), above) qualifies as a reorganization under section 368(a)(1)(A), the Merger will not adversely affect any of the rulings issued herein.

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. Specifically no opinion is expressed regarding (1) whether the requirements of section 351 have been satisfied in step (i), step (ii), step (vi), step (viii), step (xiii) or step (xiv), (2) whether the requirements of section 1031 have been satisfied in step (v), (3) whether the transaction described in step (xv) and step (xix) qualify as a reorganization under section 368(a)(1)(E), or (4) whether the “Merger” described in step (xx) qualifies as a reorganization under section 368(a)(1)(A), or any tax consequences as a result of these transactions.

Closing Agreement #1 through Closing Agreement #12 (together the “Closing Agreements”) are enclosed. The Closing Agreements may not be cited or relied upon by any person or entity whatsoever as precedent in the disposition of any other case. The Closing Agreements may be reopened in the event of fraud, malfeasance, or misrepresentation of material fact; it is subject to Internal Revenue Code sections that expressly provide that effect be given to their provisions (including any stated exception for Code section 7122) notwithstanding any other law or rule of law; and if it relates to a tax period ending after the effective date of the closing agreements, it is subject to any law, enacted after the effective date of this closing agreement, that applies to that tax period.

The original, duplicate, triplicate, and quadruplicate copies of the enclosed Closing Agreements should be signed and dated by each authorized representative of each corporation. Please return the originals and all copies to this office within 30 days of the date of this letter. If the signed original and copies of the Closing Agreements are not received by this office within 30 days, we will assume you no longer desire to enter into the closing agreement and we will close our files in regard to this matter.

All determinations and holdings contained in this letter are contingent on the mutual execution of the Closing Agreements. If either the taxpayer or the

Commissioner fails to execute the Closing Agreements such determinations and holdings will be null and void for Federal income tax purposes.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

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 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.

Sincerely,

*Ken E. Coss*

Richard E. Coss  
Senior Counsel, Branch 3  
Associate Chief Counsel (Corporate)

cc:	
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Closing Agreement #1 -- Step (ii) Vessel TransferCLOSING AGREEMENT ON FINAL DETERMINATION  
COVERING SPECIFIC MATTERS

This closing agreement is made in quadruplicate under and in pursuance of section 7121 of the Internal Revenue Code of 1986, as amended, by and between: (a)

(hereinafter the "Transferor"), and (b)

whose taxpayer identification number is (hereinafter the "Transferee"), and (c) the Commissioner of Internal Revenue:

Whereas, on \_\_\_\_\_, the Transferor transferred the vessel identified on the attached Appendix A to the Transferee, its wholly-owned subsidiary, in exchange for stock of the Transferee, which stock was deemed constructively received by the Transferor for Federal income tax purposes due to the Transferor's ownership of 100% of the Transferee's stock prior to and after the transfer of the vessel,

Whereas, the Transferor, Transferee, and Commissioner desire to finally determine the effect of such exchange under section 607 of the Merchant Marine Act of 1936, as amended (hereinafter the "Act"), the Treasury Regulations thereunder (26 CFR Part 3), and section 7518 of the Internal Revenue Code of 1986, as amended (hereinafter the "Code"),

Whereas, the transfer of the vessel to the Transferee was conditionally approved by the Secretary of Commerce on March 29, 2004, and

Whereas, the Transferor and the Transferee have requested a private letter ruling in conjunction with this closing agreement and made certain representations with respect to the request.

NOW IT IS HEREBY DETERMINED AND AGREED for Federal income tax purposes, provided that the representations incorporated in the private letter ruling attached are correct and the exchange qualifies under section 351 of the Code, then with respect to the transfer of the vessel, the provisions of Proposed Treasury Regulations 26 CFR section 3.6(e), as published on January 29, 1976 in 41 Federal Register 4280 (1976), shall apply for purposes of determining ----

1. The amount of gain to be taken into account by the Transferor under section 607(g)(5) of the Act and section 7518(f)(5) of the Code,
2. The amounts of adjusted basis, and adjustments reflected in the adjusted basis, of the vessel in the hands of the Transferee immediately after the exchange, including for purposes of applying section 607(g)(5) of the Act and section 7518(f)(5) of the Code to a subsequent transaction involving such vessel by the Transferee,
3. The treatment of such amounts, of the adjustments reflected in the adjusted basis of the vessel immediately after the exchange, as attributable to reductions in basis of the vessel in the hands of the Transferee under section 607(g)(2), (3), and (4) of the Act and section 7518(f)(2), (3), and (4) of the Code by reason of qualified withdrawals by the Transferee from a capital construction fund (whether or not it has such a fund),
4. The adjusted basis in the hands of the Transferor of the stock in the Transferee received in exchange for the vessel, and
5. All other consequences of the exchange.

Whereas, the determinations as set forth above are hereby agreed to by the said Transferor and Transferee.

Closing Agreement #1 -- Step (ii) Vessel Transfer

Now, this closing agreement witnesseth, that the said Transferor, said Transferee, and said Commissioner of Internal Revenue hereby mutually agree that:

6. This Agreement is final and conclusive except:

(a) The matters to which it relates may be reopened in the event of fraud, malfeasance, or misrepresentation of material fact,

(b) It is subject to Internal Revenue Code sections that expressly provide that effect be given their provisions (including any stated exception for section 7122) notwithstanding any other law or rule of law, and

(c) If it relates to a tax period ending after the effective date of this Agreement, it is subject to any law, enacted after the effective date of this Agreement, that applies to that tax period.

This Agreement shall be effective as of the date four fully executed original copies of this Agreement are executed by the Commissioner. This Agreement may not be cited or relied upon by any person or entity whatsoever as precedent in the disposition of any other case.

**By signing, the above parties certify that they have read and agreed to the terms of this Agreement.**

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

Date: \_\_\_\_\_

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

Date: \_\_\_\_\_

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

Date: \_\_\_\_\_

COMMISSIONER OF INTERNAL REVENUE

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

Date: \_\_\_\_\_

Associate Chief Counsel (Passthroughs and Special Industries)



*Closing Agreement #1 -- Step (ii) Vessel Transfer*

APPENDIX A  
TO  
CLOSING AGREEMENT WITH

AND  
COMMISSIONER OF INTERNAL REVENUE

VESSEL ACQUIRED, CONSTRUCTED OR RECONSTRUCTED WITH QUALIFIED WITHDRAWALS  
TO BE TRANSFERRED

<u>Vessel Name</u>	<u>Type/General Characteristics</u>	<u>U.S. Coast Guard Registry No.</u>
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Closing Agreement #2 – Step (iii) Vessel TransferCLOSING AGREEMENT ON FINAL DETERMINATION  
COVERING SPECIFIC MATTERS

This closing agreement is made in quadruplicate under and in pursuance of section 7121 of the Internal Revenue Code of 1986, as amended, by and between: (a)

whose taxpayer identification number is (hereinafter the "Transferor"), and (b)

whose taxpayer identification number is (hereinafter the "Transferee"), and (c) the Commissioner of Internal Revenue:

Whereas, the Transferor proposes to transfer an undivided 50-percent ownership interest in the vessel identified on the attached Appendix A to the Transferee, its wholly-owned subsidiary, in exchange for stock of the Transferee, which stock will be deemed constructively received by the Transferor for Federal income tax purposes due to the Transferor's ownership of 100% of the Transferee's stock prior to and after the transfer of the vessel,

Whereas, the Transferor, Transferee, and Commissioner desire to finally determine the effect of such proposed exchange under section 607 of the Merchant Marine Act of 1936, as amended (hereinafter the "Act"), the Treasury Regulations thereunder (26 CFR Part 3), and section 7518 of the Internal Revenue Code of 1986, as amended (hereinafter the "Code"),

Whereas, the transfer of the vessel was conditionally approved by the Secretary of Commerce on March 29, 2004, and

Whereas, the Transferor and the Transferee have requested a private letter ruling in conjunction with this closing agreement and made certain representations with respect to the request.

NOW IT IS HEREBY DETERMINED AND AGREED for Federal income tax purposes, provided that the representations incorporated in the private letter ruling attached are correct and the proposed exchange qualifies under section 351 of the Code, then with respect to the transfer of the vessel, the provisions of Proposed Treasury Regulations 26 CFR section 3.6(e), as published on January 29, 1976 in 41 Federal Register 4280 (1976), shall apply for purposes of determining ----

1. The amount of gain to be taken into account by the Transferor under section 607(g)(5) of the Act and section 7518(f)(5) of the Code,
2. The amounts of adjusted basis, and adjustments reflected in the adjusted basis, of the vessel in the hands of the Transferee immediately after the exchange, including for purposes of applying section 607(g)(5) of the Act and section 7518(f)(5) of the Code to a subsequent transaction involving such vessel by the Transferee,
3. The treatment of such amounts, of the adjustments reflected in the adjusted basis of the vessel immediately after the exchange, as attributable to reductions in basis of the vessel in the hands of the Transferee under section 607(g)(2), (3), and (4) of the Act and section 7518(f)(2), (3), and (4) of the Code by reason of qualified withdrawals by the Transferee from a capital construction fund (whether or not it has such a fund),
4. The adjusted basis in the hands of the Transferor of the stock in the Transferee received in exchange for the vessel, and

5. All other consequences of the proposed exchange.

Whereas, the determinations as set forth above are hereby agreed to by the said Transferor and Transferee.

Closing Agreement #2 – Step (iii) Vessel Transfer

Now, this closing agreement witnesseth, that the said Transferor, said Transferee, and said Commissioner of Internal Revenue hereby mutually agree that:

6. This Agreement is final and conclusive except:

(a) The matters to which it relates may be reopened in the event of fraud, malfeasance, or misrepresentation of material fact,

(b) It is subject to Internal Revenue Code sections that expressly provide that effect be given their provisions (including any stated exception for section 7122) notwithstanding any other law or rule of law, and

(c) If it relates to a tax period ending after the effective date of this Agreement, it is subject to any law, enacted after the effective date of this Agreement, that applies to that tax period.

This Agreement shall be effective as of the date four fully executed original copies of this Agreement are executed by the Commissioner. This Agreement may not be cited or relied upon by any person or entity whatsoever as precedent in the disposition of any other case.

**By signing, the above parties certify that they have read and agreed to the terms of this Agreement.**

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

Date: \_\_\_\_\_

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

Date: \_\_\_\_\_

COMMISSIONER OF INTERNAL REVENUE

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

Date: \_\_\_\_\_

Associate Chief Counsel (Passthroughs and Special Industries)

*Closing Agreement #2 – Step (iii) Vessel Transfer*

APPENDIX A  
TO  
CLOSING AGREEMENT WITH

AND  
COMMISSIONER OF INTERNAL REVENUE

VESSEL ACQUIRED, CONSTRUCTED OR RECONSTRUCTED WITH QUALIFIED WITHDRAWALS  
TO BE TRANSFERRED

<u>Vessel Name</u>	<u>Type/General Characteristics</u>	<u>U.S. Coast Guard Registry No.</u>
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Closing Agreement #3 -- Step (v) Vessel Transfer

CLOSING AGREEMENT ON FINAL DETERMINATION  
COVERING SPECIFIC MATTERS

This closing agreement is made in quadruplicate under and in pursuance of section 7121 of the Internal Revenue Code of 1986, as amended, by and between: (a)

whose taxpayer identification number is                    (hereinafter the "Transferor"), (b)

, whose taxpayer identification number is                    , (hereinafter the "Transferee") and (c)  
the Commissioner of Internal Revenue:

Whereas, the Transferor proposes to exchange the vessel identified on the attached Appendix A (hereinafter the "First Vessel") with Transferee for the three vessels identified on the attached Appendix B (hereinafter the "Second Vessels"),

Whereas, the Transferor, Transferee, and Commissioner desire to finally determine the effect of such proposed exchange under section 607 of the Merchant Marine Act of 1936, as amended (hereinafter the "Act"), the Treasury Regulations thereunder (26 CFR Part 3), and section 7518 of the Internal Revenue Code of 1986, as amended (hereinafter the "Code"),

Whereas, the transfer of the vessels was conditionally approved by the Secretary of Commerce on March 29, 2004, and

Whereas, the Transferor and Transferee have requested a private letter ruling in conjunction with this closing agreement and made certain representations with respect to the request.

NOW IT IS HEREBY DETERMINED AND AGREED for Federal income tax purposes, provided that the representations incorporated in the private letter ruling attached are correct and the proposed exchange qualifies under section 1031 of the Code, then with respect to the exchange of the First Vessel for the Second Vessels, the provisions of Proposed Treasury Regulations 26 CFR section 3.6(e), as published on January 29, 1976 in 41 Federal Register 4280 (1976), shall apply for purposes of determining ----

1.        The amount of gain to be taken into account by the Transferor and Transferee under section 607(g)(5) of the Act and section 7518(f)(5) of the Code,
2.        The amounts of adjusted basis, and adjustments reflected in the adjusted basis, of the First Vessel and of each of the Second Vessels in the hands of the Transferor and Transferee immediately after the exchange,
3.        The treatment of such amounts of the adjustments reflected in the adjusted basis of First Vessel and of each of the Second Vessels immediately after the exchange as attributable to reductions in basis of the First Vessel and Second Vessels in the hands of the Transferor and Transferee under section 607(g)(2), (3), and (4) of the Act and section 7518(f)(2), (3), and (4) of the Code by reason of qualified withdrawals by the Transferor and Transferee from a capital construction fund (whether or not they have such a fund), and
4.        All other consequences of the proposed exchange.

Whereas, the determinations as set forth above are hereby agreed to by the said Transferor and Transferee,

Closing Agreement #3 -- Step (v) Vessel Transfer

Now, this closing agreement witnesseth, that the said Transferor, Transferee, and said Commissioner of Internal Revenue hereby mutually agree that:

5. This Agreement is final and conclusive except:

(a) The matters to which it relates may be reopened in the event of fraud, malfeasance, or misrepresentation of material fact,

(b) It is subject to Internal Revenue Code sections that expressly provide that effect be given their provisions (including any stated exception for section 7122) notwithstanding any other law or rule of law, and

(c) If it relates to a tax period ending after the effective date of this Agreement, it is subject to any law, enacted after the effective date of this Agreement, that applies to that tax period.

This Agreement shall be effective as of the date four fully executed original copies of this Agreement are executed by the Commissioner. This Agreement may not be cited or relied upon by any person or entity whatsoever as precedent in the disposition of any other case.

**By signing, the above parties certify that they have read and agreed to the terms of this Agreement.**

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

Date: \_\_\_\_\_

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

Date: \_\_\_\_\_

COMMISSIONER OF INTERNAL REVENUE

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

Date: \_\_\_\_\_

Associate Chief Counsel (Passthroughs and Special Industries)

Closing Agreement #3 -- Step (v) Vessel Transfer

APPENDIX A  
TO  
CLOSING AGREEMENT WITH

AND  
COMMISSIONER OF INTERNAL REVENUE

VESSEL ACQUIRED, CONSTRUCTED OR RECONSTRUCTED WITH QUALIFIED WITHDRAWALS

<u>Vessel Name</u>	<u>Type/General Characteristics</u>	<u>U.S. Coast Guard Registry No.</u>
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Closing Agreement #4 – Step (vii) Vessel TransferCLOSING AGREEMENT ON FINAL DETERMINATION  
COVERING SPECIFIC MATTERS

This closing agreement is made in quadruplicate under and in pursuance of section 7121 of the Internal Revenue Code of 1986, as amended, by and between: (a)

(hereinafter the "Transferor"), and (b) whose taxpayer identification number is (hereinafter the "Transferee"), and (c) the Commissioner of Internal Revenue:

Whereas, the Transferor proposes to transfer the vessel identified on the attached Appendix A to the Transferee, its wholly-owned subsidiary, in exchange for stock of the Transferee, which stock will be deemed constructively received by the Transferor for Federal income tax purposes due to the Transferor's ownership of 100% of the Transferee's stock prior to and after the transfer of the vessel,

Whereas, the Transferor, Transferee, and Commissioner desire to finally determine the effect of such proposed exchange under section 607 of the Merchant Marine Act of 1936, as amended (hereinafter the "Act"), the Treasury Regulations thereunder (26 CFR Part 3), and section 7518 of the Internal Revenue Code of 1986, as amended (hereinafter the "Code"),

Whereas, the transfer of the vessel was conditionally approved by the Secretary of Commerce on March 29, 2004, and

Whereas, the Transferor and the Transferee have requested a private letter ruling in conjunction with this closing agreement and made certain representations with respect to the request.

NOW IT IS HEREBY DETERMINED AND AGREED for Federal income tax purposes, provided that the representations incorporated in the private letter ruling attached are correct and the proposed exchange qualifies under section 351 of the Code, then with respect to the transfer of the vessel, the provisions of Proposed Treasury Regulations 26 CFR section 3.6(e), as published on January 29, 1976 in 41 Federal Register 4280 (1976), shall apply for purposes of determining ----

1. The amount of gain to be taken into account by the Transferor under section 607(g)(5) of the Act and section 7518(f)(5) of the Code,
2. The amounts of adjusted basis, and adjustments reflected in the adjusted basis, of the vessel in the hands of the Transferee immediately after the exchange, including for purposes of applying section 607(g)(5) of the Act and section 7518(f)(5) of the Code to a subsequent transaction involving such vessel by the Transferee,
3. The treatment of such amounts, of the adjustments reflected in the adjusted basis of the vessel immediately after the exchange, as attributable to reductions in basis of the vessel in the hands of the Transferee under section 607(g)(2), (3), and (4) of the Act and section 7518(f)(2), (3), and (4) of the Code by reason of qualified withdrawals by the Transferee from a capital construction fund (whether or not it has such a fund),



- 4. The adjusted basis in the hands of the Transferor of the stock in the Transferee received in exchange for the vessel, and
- 5. All other consequences of the proposed exchange.

Whereas, the determinations as set forth above are hereby agreed to by the said Transferor and Transferee.

Closing Agreement #4 – Step (vii) Vessel Transfer

Now, this closing agreement witnesseth, that the said Transferor, said Transferee, and said Commissioner of Internal Revenue hereby mutually agree that:

- 6. This Agreement is final and conclusive except:
  - (a) The matters to which it relates may be reopened in the event of fraud, malfeasance, or misrepresentation of material fact,
  - (b) It is subject to Internal Revenue Code sections that expressly provide that effect be given their provisions (including any stated exception for section 7122) notwithstanding any other law or rule of law, and
  - (c) If it relates to a tax period ending after the effective date of this Agreement, it is subject to any law, enacted after the effective date of this Agreement, that applies to that tax period.

This Agreement shall be effective as of the date four fully executed original copies of this Agreement are executed by the Commissioner. This Agreement may not be cited or relied upon by any person or entity whatsoever as precedent in the disposition of any other case.

**By signing, the above parties certify that they have read and agreed to the terms of this Agreement.**

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

Date: \_\_\_\_\_

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

Date: \_\_\_\_\_

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

Date: \_\_\_\_\_

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

Date: \_\_\_\_\_

Associate Chief Counsel (Passthroughs and Special Industries)

Closing Agreement #4 – Step (vii) Vessel Transfer

APPENDIX A  
TO  
CLOSING AGREEMENT WITH

, AND  
COMMISSIONER OF INTERNAL REVENUE

VESSEL ACQUIRED, CONSTRUCTED OR RECONSTRUCTED WITH QUALIFIED WITHDRAWALS  
TO BE TRANSFERRED

<u>Vessel Name</u>	<u>Type/General Characteristics</u>	<u>U.S. Coast Guard Registry No.</u>
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CLOSING AGREEMENT ON FINAL DETERMINATION  
COVERING SPECIFIC MATTERS

This closing agreement is made in quadruplicate under and in pursuance of section 7121 of the Internal Revenue Code of 1986, as amended, by and between: (a)

whose taxpayer identification number is

(hereinafter the "Transferor"),

and (b)

whose taxpayer identification

number is

(hereinafter the "Transferee"), and (c) the Commissioner of Internal Revenue:

Whereas, the Transferor proposes to transfer property (including property held in its capital construction fund as described in Treasury Regulations 26 CFR section 3.1(a), (hereinafter the "Fund")) to the Transferee, its wholly-owned subsidiary, in exchange for stock of the Transferee, which stock will be deemed constructively received by the Transferor for Federal income tax purposes due to the Transferor's ownership of 100% of the Transferee's stock prior to and after the transfer of the Fund,

Whereas, the transfer of the Fund to, and maintenance of the Fund by, the Transferee was conditionally approved by the Secretary of Commerce on \_\_\_\_\_,

Whereas, the Transferor, Transferee, and Commissioner desire to finally determine the effect of such proposed exchange under section 607 of the Merchant Marine Act of 1936, as amended (hereinafter the "Act"), the Treasury Regulations thereunder (26 CFR Part 3), and section 7518 of the Internal Revenue Code of 1986, as amended (hereinafter the "Code"), and

Whereas, the Transferor and the Transferee have requested a private letter ruling in conjunction with this closing agreement and made certain representations with respect to the request.

NOW IT IS HEREBY DETERMINED AND AGREED for Federal income tax purposes, provided that the representations incorporated in the private letter ruling attached are correct and the proposed exchange qualifies under section 351(a) of the Code, then with respect to the transfer of the Fund, the provisions of Proposed Treasury Regulations 26 CFR section 3.8(b), as published on January 29, 1976 in 41 Federal Register 4280 (1976), shall apply for purposes of determining ----

1. If the Fund includes property covered by an election under Treasury Regulations 26 CFR section 3.2(g)(2), the amount of gain to be taken into account by the Transferor under Treasury Regulations 26 CFR section 3.2(g)(2) and Proposed Treasury Regulations 26 CFR section 3.8(b)(3)(ii),

2. The Transferor's basis of the stock received in the exchange from the Transferee, except that Proposed Treasury Regulation section 3.8 (b)(3)(iv)(b) shall not apply, and instead, the Transferor's basis in such stock shall be reduced by the entire amount (if any) in the capital gain account;

3. The tax attributes of the Fund and property in the Fund in the hands of the Transferee, and

4. All other consequences of the proposed exchange.

Whereas, the determinations as set forth above are hereby agreed to by the said Transferor and Transferee.

Now, this closing agreement witnesseth, that the said Transferor, said Transferee, and said Commissioner of Internal Revenue hereby mutually agree that:

Closing Agreement #5 – Step (vii) CCF Transfer

6. This Agreement is final and conclusive except:

(a) The matters to which it relates may be reopened in the event of fraud, malfeasance, or misrepresentation of material fact,

(b) It is subject to Internal Revenue Code sections that expressly provide that effect be given their provisions (including any stated exception for section 7122) notwithstanding any other law or rule of law, and

(c) If it relates to a tax period ending after the effective date of this Agreement, it is subject to any law, enacted after the effective date of this Agreement, that applies to that tax period.

This Agreement shall be effective as of the date four fully executed original copies of this Agreement are executed by the Commissioner. This Agreement may not be cited or relied upon by any person or entity whatsoever as precedent in the disposition of any other case.

**By signing, the above parties certify that they have read and agreed to the terms of this Agreement.**

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

Date: \_\_\_\_\_

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

Date: \_\_\_\_\_

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

Date: \_\_\_\_\_

COMMISSIONER OF INTERNAL REVENUE

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

Date: \_\_\_\_\_

Associate Chief Counsel (Passthroughs and Special Industries)

Closing Agreement #6 – Step (viii) Vessel TransferCLOSING AGREEMENT ON FINAL DETERMINATION  
COVERING SPECIFIC MATTERS

This closing agreement is made in quadruplicate under and in pursuance of section 7121 of the Internal Revenue Code of 1986, as amended, by and between: (a) \_\_\_\_\_ whose taxpayer identification number is \_\_\_\_\_ (hereinafter the "Transferor"), and (b) \_\_\_\_\_ whose taxpayer identification number is \_\_\_\_\_ (hereinafter the "Transferee"), and (c) the Commissioner of Internal Revenue:

Whereas, the Transferor proposes to transfer the vessels identified on the attached Appendix A to the Transferee, its wholly-owned subsidiary, in exchange for stock of the Transferee, which stock will be deemed constructively received by the Transferor for Federal income tax purposes due to the Transferor's ownership of 100% of the Transferee's stock prior to and after the transfer of the vessels,

Whereas, the Transferor, Transferee, and Commissioner desire to finally determine the effect of such proposed exchange under section 607 of the Merchant Marine Act of 1936, as amended (hereinafter the "Act"), the Treasury Regulations thereunder (26 CFR Part 3), and section 7518 of the Internal Revenue Code of 1986, as amended (hereinafter the "Code"),

Whereas, the transfer of the vessels was conditionally approved by the Secretary of Commerce on March 29, 2004, and

Whereas, the Transferor and the Transferee have requested a private letter ruling in conjunction with this closing agreement and made certain representations with respect to the request.

NOW IT IS HEREBY DETERMINED AND AGREED for Federal income tax purposes, provided that the representations incorporated in the private letter ruling attached are correct and the proposed exchange qualifies under section 351 of the Code, then with respect to the transfer of each vessel, the provisions of Proposed Treasury Regulations 26 CFR section 3.6(e), as published on January 29, 1976 in 41 Federal Register 4280 (1976), shall apply for purposes of determining ----

1. The amount of gain to be taken into account by the Transferor under section 607(g)(5) of the Act and section 7518(f)(5) of the Code,
2. The amounts of adjusted basis, and adjustments reflected in the adjusted basis, of the vessel in the hands of the Transferee immediately after the exchange, including for purposes of applying section 607(g)(5) of the Act and section 7518(f)(5) of the Code to a subsequent transaction involving such vessel by the Transferee,
3. The treatment of such amounts, of the adjustments reflected in the adjusted basis of the vessel immediately after the exchange, as attributable to reductions in basis of the vessel in the hands of the Transferee under section 607(g)(2), (3), and (4) of the Act and section 7518(f)(2), (3), and (4) of the Code by reason of qualified withdrawals by the Transferee from a capital construction fund (whether or not it has such a fund),
4. The adjusted basis in the hands of the Transferor of the stock in the Transferee received in exchange for the vessel, and
5. All other consequences of the proposed exchange.

Whereas, the determinations as set forth above are hereby agreed to by the said Transferor and Transferee.

Closing Agreement #6 – Step (viii) Vessel Transfer

Now, this closing agreement witnesseth, that the said Transferor, said Transferee, and said Commissioner of Internal Revenue hereby mutually agree that:

6. This Agreement is final and conclusive except:

(a) The matters to which it relates may be reopened in the event of fraud, malfeasance, or misrepresentation of material fact,

(b) It is subject to Internal Revenue Code sections that expressly provide that effect be given their provisions (including any stated exception for section 7122) notwithstanding any other law or rule of law, and

(c) If it relates to a tax period ending after the effective date of this Agreement, it is subject to any law, enacted after the effective date of this Agreement, that applies to that tax period.

This Agreement shall be effective as of the date four fully executed original copies of this Agreement are executed by the Commissioner. This Agreement may not be cited or relied upon by any person or entity whatsoever as precedent in the disposition of any other case.

**By signing, the above parties certify that they have read and agreed to the terms of this Agreement.**

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

Date: \_\_\_\_\_

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

Date: \_\_\_\_\_

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

Date: \_\_\_\_\_

COMMISSIONER OF INTERNAL REVENUE

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

Date: \_\_\_\_\_

Associate Chief Counsel (Passthroughs and Special Industries)

*Closing Agreement #6 – Step (viii) Vessel Transfer*

APPENDIX A  
TO  
CLOSING AGREEMENT WITH

, AND  
COMMISSIONER OF INTERNAL REVENUE

VESSELS ACQUIRED, CONSTRUCTED OR RECONSTRUCTED WITH QUALIFIED WITHDRAWALS  
TO BE TRANSFERRED

<u>Vessel Name</u>	<u>Type/General Characteristics</u>	<u>U.S. Coast Guard Registry No.</u>
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Closing Agreement #7 – Step (viii) CCF TransferCLOSING AGREEMENT ON FINAL DETERMINATION  
COVERING SPECIFIC MATTERS

This closing agreement is made in quadruplicate under and in pursuance of section 7121 of the Internal Revenue Code of 1986, as amended, by and between: (a)

whose taxpayer identification number is

(hereinafter the "Transferor"),

and (b)

identification number is

(hereinafter the "Transferee"), and (c) the Commissioner of Internal Revenue:

Whereas, the Transferor proposes to transfer property (including property held in its capital construction fund as described in Treasury Regulations 26 CFR section 3.1(a), (hereinafter the "Fund")) to the Transferee, its wholly-owned subsidiary, in exchange for stock of the Transferee, which stock will be deemed constructively received by the Transferor for Federal income tax purposes due to the Transferor's ownership of 100% of the Transferee's stock prior to and after the transfer of the Fund,

Whereas, the transfer of the Fund to, and maintenance of the Fund by the Transferee was conditionally approved by the Secretary of Commerce on \_\_\_\_\_,

Whereas, the Transferor, Transferee, and Commissioner desire to finally determine the effect of such proposed exchange under section 607 of the Merchant Marine Act of 1936, as amended (hereinafter the "Act"), the Treasury Regulations thereunder (26 CFR Part 3), and section 7518 of the Internal Revenue Code of 1986, as amended (hereinafter the "Code"), and

Whereas, the Transferor and the Transferee have requested a private letter ruling in conjunction with this closing agreement and made certain representations with respect to the request.

NOW IT IS HEREBY DETERMINED AND AGREED for Federal income tax purposes, provided that the representations incorporated in the private letter ruling attached are correct and the proposed exchange qualifies under section 351(a) of the Code, then with respect to the transfer of the Fund, the provisions of Proposed Treasury Regulations 26 CFR section 3.8(b), as published on January 29, 1976 in 41 Federal Register 4280 (1976), shall apply for purposes of determining ----

1. If the Fund includes property covered by an election under Treasury Regulations 26 CFR section 3.2(g)(2), the amount of gain to be taken into account by the Transferor under Treasury Regulations 26 CFR section 3.2(g)(2) and Proposed Treasury Regulations 26 CFR section 3.8(b)(3)(ii),
2. The Transferor's basis of the stock received in the exchange from the Transferee, except that Proposed Treasury Regulation section 3.8 (b)(3)(iv)(b) shall not apply, and, instead, the Transferor's basis in such stock shall be reduced by the entire amount (if any) in the capital gain account;
3. The tax attributes of the Fund and property in the Fund in the hands of the Transferee, and
4. All other consequences of the proposed exchange.

Whereas, the determinations as set forth above are hereby agreed to by the said Transferor and Transferee.



Closing Agreement #7 – Step (viii) CCF Transfer

Now, this closing agreement witnesseth, that the said Transferor, said Transferee, and said Commissioner of Internal Revenue hereby mutually agree that:

6. This Agreement is final and conclusive except:

(a) The matters to which it relates may be reopened in the event of fraud, malfeasance, or misrepresentation of material fact,

(b) It is subject to Internal Revenue Code sections that expressly provide that effect be given their provisions (including any stated exception for section 7122) notwithstanding any other law or rule of law, and

(c) If it relates to a tax period ending after the effective date of this Agreement, it is subject to any law, enacted after the effective date of this Agreement, that applies to that tax period.

This Agreement shall be effective as of the date four fully executed original copies of this Agreement are executed by the Commissioner. This Agreement may not be cited or relied upon by any person or entity whatsoever as precedent in the disposition of any other case.

**By signing, the above parties certify that they have read and agreed to the terms of this Agreement.**

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

Date: \_\_\_\_\_

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

Date: \_\_\_\_\_

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

Date: \_\_\_\_\_

COMMISSIONER OF INTERNAL REVENUE

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

Date: \_\_\_\_\_

Associate Chief Counsel (Passthroughs and Special Industries)

Closing Agreement #8– Step (ix) Vessel Transfer

CLOSING AGREEMENT ON FINAL DETERMINATION  
COVERING SPECIFIC MATTERS

This closing agreement is made in quadruplicate under and in pursuance of section 7121 of the Internal Revenue Code of 1986, as amended, by and between: (a) \_\_\_\_\_ whose taxpayer identification number is \_\_\_\_\_ (hereinafter the "Transferor"), and (b) \_\_\_\_\_ whose taxpayer identification number is \_\_\_\_\_ (hereinafter the "Transferee"), and (c) the Commissioner of Internal Revenue:

Whereas, the Transferor proposes to transfer the vessel identified on the attached Appendix A to the Transferee, its wholly-owned subsidiary, in exchange for stock of the Transferee, which stock will be deemed constructively received by the Transferor for Federal income tax purposes due to the Transferor's ownership of 100% of the Transferee's stock prior to and after the transfer of the vessel,

Whereas, the Transferor, Transferee, and Commissioner desire to finally determine the effect of such proposed exchange under section 607 of the Merchant Marine Act of 1936, as amended (hereinafter the "Act"), the Treasury Regulations thereunder (26 CFR Part 3), and section 7518 of the Internal Revenue Code of 1986, as amended (hereinafter the "Code"),

Whereas, the transfer of the vessel was conditionally approved by the Secretary of Commerce on March 29, 2004, and

Whereas, the Transferor and the Transferee have requested a private letter ruling in conjunction with this closing agreement and made certain representations with respect to the request.

NOW IT IS HEREBY DETERMINED AND AGREED for Federal income tax purposes, provided that the representations incorporated in the private letter ruling attached are correct and the proposed exchange qualifies under section 351 of the Code, then with respect to the transfer of the vessel, the provisions of Proposed Treasury Regulations 26 CFR section 3.6(e), as published on January 29, 1976 in 41 Federal Register 4280 (1976), shall apply for purposes of determining ----

1. The amount of gain to be taken into account by the Transferor under section 607(g)(5) of the Act and section 7518(f)(5) of the Code,
2. The amounts of adjusted basis, and adjustments reflected in the adjusted basis, of the vessel in the hands of the Transferee immediately after the exchange, including for purposes of applying section 607(g)(5) of the Act and section 7518(f)(5) of the Code to a subsequent transaction involving such vessel by the Transferee,
3. The treatment of such amounts, of the adjustments reflected in the adjusted basis of the vessel immediately after the exchange, as attributable to reductions in basis of the vessel in the hands of the Transferee under section 607(g)(2), (3), and (4) of the Act and section 7518(f)(2), (3), and (4) of the Code by reason of qualified withdrawals by the Transferee from a capital construction fund (whether or not it has such a fund),
4. The adjusted basis in the hands of the Transferor of the stock in the Transferee received in exchange for the vessel, and

5. All other consequences of the proposed exchange.

Whereas, the determinations as set forth above are hereby agreed to by the said Transferor and Transferee.

Closing Agreement #8– Step (ix) Vessel Transfer

Now, this closing agreement witnesseth, that the said Transferor, said Transferee, and said Commissioner of Internal Revenue hereby mutually agree that:

6. This Agreement is final and conclusive except:

(a) The matters to which it relates may be reopened in the event of fraud, malfeasance, or misrepresentation of material fact,

(b) It is subject to Internal Revenue Code sections that expressly provide that effect be given their provisions (including any stated exception for section 7122) notwithstanding any other law or rule of law, and

(c) If it relates to a tax period ending after the effective date of this Agreement, it is subject to any law, enacted after the effective date of this Agreement, that applies to that tax period.

This Agreement shall be effective as of the date four fully executed original copies of this Agreement are executed by the Commissioner. This Agreement may not be cited or relied upon by any person or entity whatsoever as precedent in the disposition of any other case.

**By signing, the above parties certify that they have read and agreed to the terms of this Agreement.**

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

Date: \_\_\_\_\_

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

Date: \_\_\_\_\_

COMMISSIONER OF INTERNAL REVENUE

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

Date: \_\_\_\_\_

Associate Chief Counsel (Passthroughs and Special Industries)

*Closing Agreement #8– Step (ix) Vessel Transfer*

APPENDIX A  
TO  
CLOSING AGREEMENT WITH

AND  
COMMISSIONER OF INTERNAL REVENUE

VESSEL ACQUIRED, CONSTRUCTED OR RECONSTRUCTED WITH QUALIFIED WITHDRAWALS  
TO BE TRANSFERRED

<u>Vessel Name</u>	<u>Type/General Characteristics</u>	<u>U.S. Coast Guard Registry No.</u>
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Closing Agreement #9 – Step (ix) CCF TransferCLOSING AGREEMENT ON FINAL DETERMINATION  
COVERING SPECIFIC MATTERS

This closing agreement is made in quadruplicate under and in pursuance of section 7121 of the Internal Revenue Code of 1986, as amended, by and between: (a)

whose taxpayer identification number is \_\_\_\_\_ (hereinafter the "Transferor"), and (b)

whose taxpayer identification number is \_\_\_\_\_ (hereinafter the "Transferee"), and (c) the Commissioner of Internal Revenue:

Whereas, the Transferor proposes to transfer property (including property held in its capital construction fund as described in Treasury Regulations 26 CFR section 3.1(a), (hereinafter the "Fund")) to the Transferee, its wholly-owned subsidiary, in exchange for stock of the Transferee, which stock will be deemed constructively received by the Transferor for Federal income tax purposes due to the Transferor's ownership of 100% of the Transferee's stock prior to and after the transfer of the Fund,

Whereas, the transfer of the Fund to, and maintenance of the Fund by the Transferee was approved by the Secretary of Commerce on \_\_\_\_\_,

Whereas, the Transferor, Transferee, and Commissioner desire to finally determine the effect of such proposed exchange under section 607 of the Merchant Marine Act of 1936, as amended (hereinafter the "Act"), the Treasury Regulations thereunder (26 CFR Part 3), and section 7518 of the Internal Revenue Code of 1986, as amended (hereinafter the "Code"), and

Whereas, the Transferor and the Transferee have requested a private letter ruling in conjunction with this closing agreement and made certain representations with respect to the request.

NOW IT IS HEREBY DETERMINED AND AGREED for Federal income tax purposes, provided that the representations incorporated in the private letter ruling attached are correct and the proposed exchange qualifies under section 351(a) of the Code, then with respect to the transfer of the Fund, the provisions of Proposed Treasury Regulations 26 CFR section 3.8(b), as published on January 29, 1976 in 41 Federal Register 4280 (1976), shall apply for purposes of determining ----

1. If the Fund includes property covered by an election under Treasury Regulations 26 CFR section 3.2(g)(2), the amount of gain to be taken into account by the Transferor under Treasury Regulations 26 CFR section 3.2(g)(2) and Proposed Treasury Regulations 26 CFR section 3.8(b)(3)(ii),
2. The Transferor's basis of the stock received in the exchange from the Transferee, except that Proposed Treasury Regulation section 3.8(b)(3)(iv)(b) shall not apply, and, instead, the Transferor's basis in such stock shall be reduced by the entire amount (if any) in the capital gain account;
3. The tax attributes of the Fund and property in the Fund in the hands of the Transferee, and
4. All other consequences of the proposed exchange.

Whereas, the determinations as set forth above are hereby agreed to by the said Transferor and Transferee.

Closing Agreement #9 – Step (ix) CCF Transfer

Now, this closing agreement witnesseth, that the said Transferor, said Transferee, and said Commissioner of Internal Revenue hereby mutually agree that:

6. This Agreement is final and conclusive except:

(a) The matters to which it relates may be reopened in the event of fraud, malfeasance, or misrepresentation of material fact,

(b) It is subject to Internal Revenue Code sections that expressly provide that effect be given their provisions (including any stated exception for section 7122) notwithstanding any other law or rule of law, and

(c) If it relates to a tax period ending after the effective date of this Agreement, it is subject to any law, enacted after the effective date of this Agreement, that applies to that tax period.

This Agreement shall be effective as of the date four fully executed original copies of this Agreement are executed by the Commissioner. This Agreement may not be cited or relied upon by any person or entity whatsoever as precedent in the disposition of any other case.

**By signing, the above parties certify that they have read and agreed to the terms of this Agreement.**

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

Date: \_\_\_\_\_

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

Date: \_\_\_\_\_

COMMISSIONER OF INTERNAL REVENUE

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

Date: \_\_\_\_\_

Associate Chief Counsel (Passthroughs and Special Industries)

Closing Agreement #10 – Step (xi) CCF TransferCLOSING AGREEMENT ON FINAL DETERMINATION  
COVERING SPECIFIC MATTERS

This closing agreement is made in quadruplicate under and in pursuance of section 7121 of the Internal Revenue Code of 1986, as amended, by and between: (a)

whose taxpayer identification number is \_\_\_\_\_ (hereinafter the "Transferor"), and (b) and \_\_\_\_\_ whose taxpayer identification number is \_\_\_\_\_ (hereinafter the "Transferee"), and (c) the Commissioner of Internal Revenue:

Whereas, the Transferor proposes to transfer property (including property held in its capital construction fund as described in Treasury Regulations 26 CFR section 3.1(a), (hereinafter the "Fund")) to the Transferee, its wholly-owned subsidiary, in exchange for stock of the Transferee, which stock will be deemed constructively received by the Transferor for Federal income tax purposes due to the Transferor's ownership of 100% of the Transferee's stock prior to and after the transfer of the Fund,

Whereas, the transfer of the Fund to, and maintenance of the Fund by the Transferee was approved by the Secretary of Commerce on \_\_\_\_\_,

Whereas, the Transferor, Transferee, and Commissioner desire to finally determine the effect of such proposed exchange under section 607 of the Merchant Marine Act of 1936, as amended (hereinafter the "Act"), the Treasury Regulations thereunder (26 CFR Part 3), and section 7518 of the Internal Revenue Code of 1986, as amended (hereinafter the "Code"), and

Whereas, the Transferor and the Transferee have requested a private letter ruling in conjunction with this closing agreement and made certain representations with respect to the request.

NOW IT IS HEREBY DETERMINED AND AGREED for Federal income tax purposes, provided that the representations incorporated in the private letter ruling attached are correct and the proposed exchange qualifies under section 351(a) of the Code, then with respect to the transfer of the Fund, the provisions of Proposed Treasury Regulations 26 CFR section 3.8(b), as published on January 29, 1976 in 41 Federal Register 4280 (1976), shall apply for purposes of determining ----

1. If the Fund includes property covered by an election under Treasury Regulations 26 CFR section 3.2(g)(2), the amount of gain to be taken into account by the Transferor under Treasury Regulations 26 CFR section 3.2(g)(2) and Proposed Treasury Regulations 26 CFR section 3.8(b)(3)(ii),
2. The Transferor's basis of the stock received in the exchange from the Transferee, except that Proposed Treasury Regulation section 3.8(b)(3)(iv)(b) shall not apply, and, instead, the Transferor's basis in such stock shall be reduced by the entire amount (if any) in the capital gain account;
3. The tax attributes of the Fund and property in the Fund in the hands of the Transferee, and
4. All other consequences of the proposed exchange.

Whereas, the determinations as set forth above are hereby agreed to by the said Transferor and Transferee.

Closing Agreement #10 – Step (xi) CCF Transfer

Now, this closing agreement witnesseth, that the said Transferor, said Transferee, and said Commissioner of Internal Revenue hereby mutually agree that:

6. This Agreement is final and conclusive except:

(a) The matters to which it relates may be reopened in the event of fraud, malfeasance, or misrepresentation of material fact,

(b) It is subject to Internal Revenue Code sections that expressly provide that effect be given their provisions (including any stated exception for section 7122) notwithstanding any other law or rule of law, and

(c) If it relates to a tax period ending after the effective date of this Agreement, it is subject to any law, enacted after the effective date of this Agreement, that applies to that tax period.

This Agreement shall be effective as of the date four fully executed original copies of this Agreement are executed by the Commissioner. This Agreement may not be cited or relied upon by any person or entity whatsoever as precedent in the disposition of any other case.

**By signing, the above parties certify that they have read and agreed to the terms of this Agreement.**

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

Date: \_\_\_\_\_

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

Date: \_\_\_\_\_

COMMISSIONER OF INTERNAL REVENUE

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

Date: \_\_\_\_\_

Associate Chief Counsel (Passthroughs and Special Industries)



Closing Agreement #11 – Step (xiii) Vessel TransferCLOSING AGREEMENT ON FINAL DETERMINATION  
COVERING SPECIFIC MATTERS

This closing agreement is made in quadruplicate under and in pursuance of section 7121 of the Internal Revenue Code of 1986, as amended, by and between: (a)

whose taxpayer identification number is

(hereinafter the "Transferor"),

and (b)

number is , and

whose taxpayer identification

whose

taxpayer identification number is , and

whose taxpayer identification number is (hereinafter the "Transferees"), and (c)

the Commissioner of Internal Revenue:

Whereas, the Transferor proposes to transfer the vessels identified on the attached Appendix A to the Transferees, its wholly-owned subsidiaries, in exchange for stock of the Transferees, which stock will be deemed constructively received by the Transferor for Federal income tax purposes due to the Transferor's ownership of 100% of the Transferees' stock prior to and after the transfer of the vessels,

Whereas, the Transferor, Transferees, and Commissioner desire to finally determine the effect of such proposed exchange under section 607 of the Merchant Marine Act of 1936, as amended (hereinafter the "Act"), the Treasury Regulations thereunder (26 CFR Part 3), and section 7518 of the Internal Revenue Code of 1986, as amended (hereinafter the "Code"), and

Whereas, the Transferor and the Transferees have requested a private letter ruling in conjunction with this closing agreement and made certain representations with respect to the request.

NOW IT IS HEREBY DETERMINED AND AGREED for Federal income tax purposes, provided that the representations incorporated in the private letter ruling attached are correct and the proposed exchange qualifies under section 351 of the Code, then with respect to the transfer of each vessel, the provisions of Proposed Treasury Regulations 26 CFR section 3.6(e), as published on January 29, 1976 in 41 Federal Register 4280 (1976), shall apply for purposes of determining ----

1. The amount of gain to be taken into account by the Transferor under section 607(g)(5) of the Act and section 7518(f)(5) of the Code,

2. The amounts of adjusted basis, and adjustments reflected in the adjusted basis, of the vessel in the hands of each Transferee immediately after the exchange, including for purposes of applying section 607(g)(5) of the Act and section 7518(f)(5) of the Code to a subsequent transaction involving such vessel by the Transferee,

3. The treatment of such amounts, of the adjustments reflected in the adjusted basis of the vessel immediately after the exchange, as attributable to reductions in basis of the vessel in the hands of each Transferee under section 607(g)(2), (3), and (4) of the Act and section 7518(f)(2), (3), and (4) of the Code by reason of qualified withdrawals by the Transferee from a capital construction fund (whether or not it has such a fund),

4. The adjusted basis in the hands of the Transferor of the stock in each Transferee received in exchange for the vessel, and

5. All other consequences of the proposed exchange.

Whereas, the determinations as set forth above are hereby agreed to by the said Transferor and Transferees.

Closing Agreement #11 – Step (xiii) Vessel Transfer

Now, this closing agreement witnesseth, that the said Transferor, said Transferees, and said Commissioner of Internal Revenue hereby mutually agree that:

6. This Agreement is final and conclusive except:

(a) The matters to which it relates may be reopened in the event of fraud, malfeasance, or misrepresentation of material fact,

(b) It is subject to Internal Revenue Code sections that expressly provide that effect be given their provisions (including any stated exception for section 7122) notwithstanding any other law or rule of law, and

(c) If it relates to a tax period ending after the effective date of this Agreement, it is subject to any law, enacted after the effective date of this Agreement, that applies to that tax period.

This Agreement shall be effective as of the date four fully executed original copies of this Agreement are executed by the Commissioner. This Agreement may not be cited or relied upon by any person or entity whatsoever as precedent in the disposition of any other case.

**By signing, the above parties certify that they have read and agreed to the terms of this Agreement.**

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

Date: \_\_\_\_\_

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

Date: \_\_\_\_\_

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

Date: \_\_\_\_\_

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

Date: \_\_\_\_\_

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

Date: \_\_\_\_\_

COMMISSIONER OF INTERNAL REVENUE

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

Date: \_\_\_\_\_

Associate Chief Counsel (Passthroughs and Special Industries)

*Closing Agreement #11 – Step (xiii) Vessel Transfer*

APPENDIX A  
TO  
CLOSING AGREEMENT WITH

, AND  
COMMISSIONER OF INTERNAL REVENUE

VESSELS ACQUIRED, CONSTRUCTED OR RECONSTRUCTED WITH QUALIFIED WITHDRAWALS  
TO BE TRANSFERRED

<u>Vessel Name</u>	<u>Type/General Characteristics</u>	<u>U.S. Coast Guard Registry No.</u>
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reason of qualified withdrawals by the Transferee from a capital construction fund (whether or not it has such a fund),

4. The adjusted basis in the hands of each Transferor of the stock in the Transferee received in exchange for the vessel, and

5. All other consequences of the proposed exchange.

Whereas, the determinations as set forth above are hereby agreed to by the said Transferors and Transferee.

Closing Agreement #12 – Step (xiv) Vessel Transfer

Now, this closing agreement witnesseth, that the said Transferors, said Transferee, and said Commissioner of Internal Revenue hereby mutually agree that:

6. This Agreement is final and conclusive except:

(a) The matters to which it relates may be reopened in the event of fraud, malfeasance, or misrepresentation of material fact,

(b) It is subject to Internal Revenue Code sections that expressly provide that effect be given their provisions (including any stated exception for section 7122) notwithstanding any other law or rule of law, and

(c) If it relates to a tax period ending after the effective date of this Agreement, it is subject to any law, enacted after the effective date of this Agreement, that applies to that tax period.

This Agreement shall be effective as of the date four fully executed original copies of this Agreement are executed by the Commissioner. This Agreement may not be cited or relied upon by any person or entity whatsoever as precedent in the disposition of any other case.

**By signing, the above parties certify that they have read and agreed to the terms of this Agreement.**

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

Date: \_\_\_\_\_

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

Date: \_\_\_\_\_

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

Date: \_\_\_\_\_

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

Date: \_\_\_\_\_

COMMISSIONER OF INTERNAL REVENUE

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

Date: \_\_\_\_\_

Associate Chief Counsel (Passthroughs and Special Industries)

*Closing Agreement #12 – Step (xiv) Vessel Transfer*

APPENDIX A  
TO  
CLOSING AGREEMENT WITH

AND  
COMMISSIONER OF INTERNAL REVENUE

CAPITAL CONSTRUCTION FUND  
VESSELS ACQUIRED, CONSTRUCTED OR RECONSTRUCTED WITH QUALIFIED WITHDRAWALS  
TO BE TRANSFERRED

Vessel Name

Type/General  
Characteristics

U.S. Coast Guard  
Registry No.

Closing Agreement #3 – Step (v) Vessel Transfer

APPENDIX B  
TO  
CLOSING AGREEMENT WITH

AND  
COMMISSIONER OF INTERNAL REVENUE

CAPITAL CONSTRUCTION FUND  
VESSELS ACQUIRED, CONSTRUCTED OR RECONSTRUCTED WITH QUALIFIED  
WITHDRAWALS

<u>Vessel Name</u>	<u>Type/General Characteristics</u>	<u>U.S. Coast Guard Registry No.</u>
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