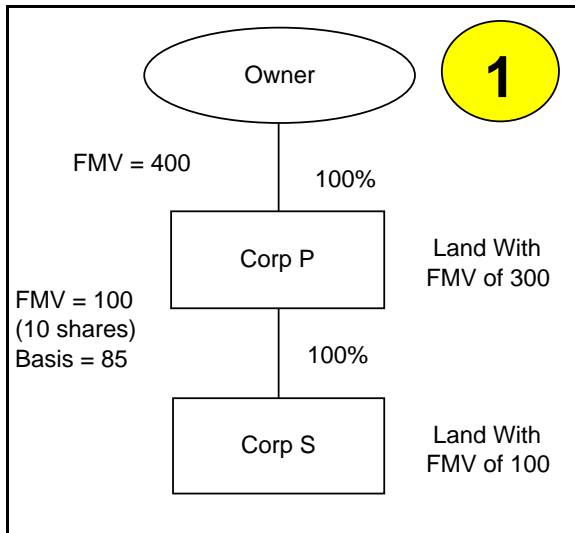
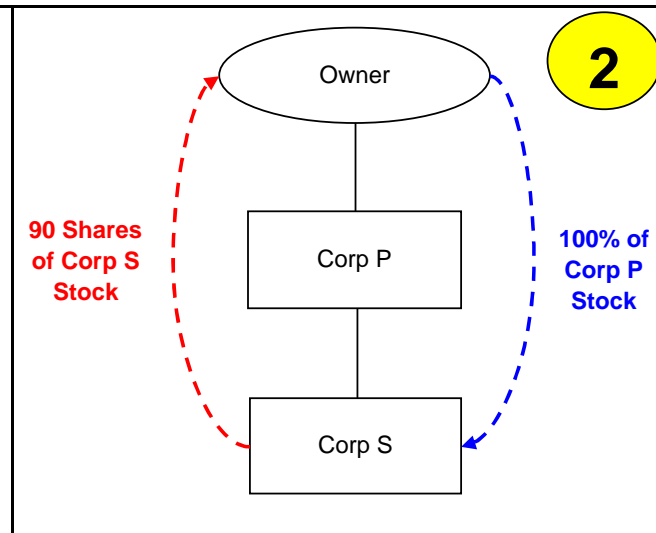


**Domestic Inversion With
Disproportionate Shares Issued**

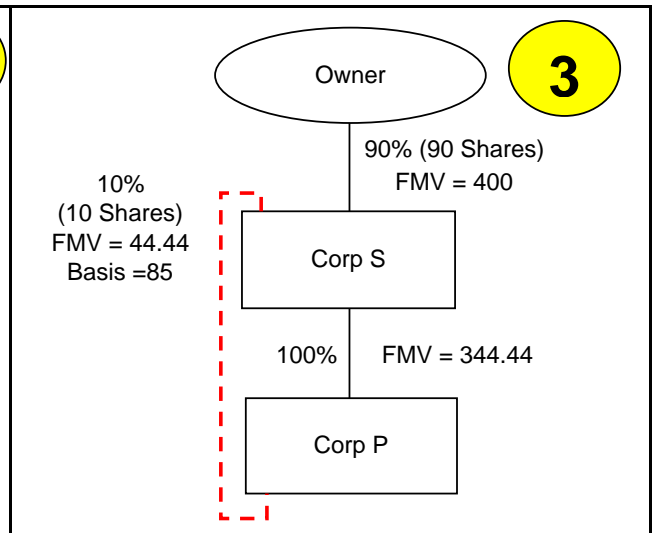
Initial Structure



Inversion via 351 Exchange



Ending Point



Owner (who may be a single shareholder or a group of shareholders) holds 100 percent of the outstanding stock of P. P holds land worth \$300 and the 10 outstanding shares of stock of its wholly owned subsidiary, S. S holds land worth \$100. P's adjusted basis in the S stock is \$85. Owner transfers all of its stock of P to S in exchange for 90 newly issued shares of S stock. After this exchange, Owner holds 90 percent of the S stock, P holds the remaining 10 percent, and S holds 100 percent of the P stock. Assume that an unrelated third party would have paid \$400 to Owner for the P stock before the inversion transaction and would pay \$400 to Owner for the 90 shares of S stock after the inversion transaction.

As a result of this inversion transaction, P's percentage interest in S has been reduced from 100 percent to 10 percent. An unrelated third party would pay only \$44.44 for P's stock in S after the inversion transaction (disregarding any minority discount or control premium), compared to the \$100 that a third party would have paid for the stock before the inversion transaction. This reduced amount reflects the fact that, after the inversion transaction and the sale by P of its S stock to the third party, the third party buyer would have a 10 percent interest in the PS group and the PS group would hold assets with a value of \$444.44 (\$400 in land plus \$44.44 cash from the sale of P's stock in S). The inversion transaction also reduces the amount that a third party would pay for the P stock from \$400 (\$300 in land plus \$100 in S stock) to \$344.44 (\$300 in land plus \$44.44 in S stock).

No such reductions in the amount a third party would pay for P's stock in S or S's stock in P would occur if S issued 40 shares (instead of 90 shares) to Owner. In that case, P's percentage interest in S would decline from 100 percent to 20 percent (instead of 10 percent) and an unrelated third party still would be willing to pay P \$100 for its S stock (disregarding any minority discount or control premium). This \$100 purchase price reflects the fact that, after the inversion transaction and subsequent sale, the PS group would hold assets with a value of \$500 (\$400 in land plus \$100 cash), the third party would have a 20 percent interest in the PS group worth \$100 (disregarding any minority discount or control premium), and Owner would have an 80 percent interest in the PS group worth \$400 (disregarding any minority discount or control premium). In addition, the amount an unrelated third party would pay for the P stock would remain unchanged at \$400 after the inversion transaction (\$300 for the land plus \$100 for the S stock).