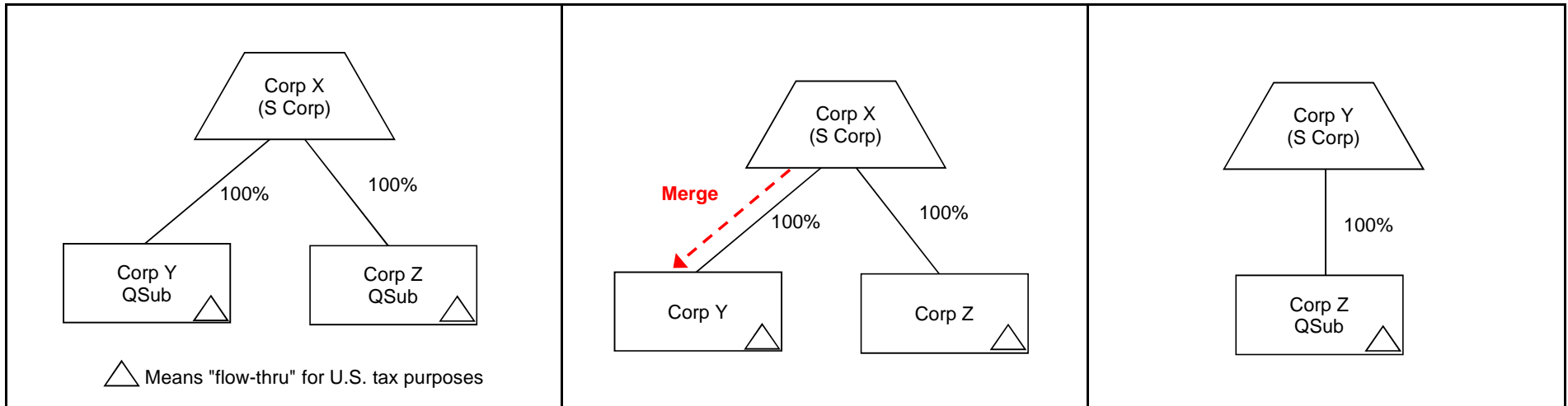


**Downstream "F" Reorganization  
of S Corp into QSub**

Initial Structure

Downstream Merger

Ending Point



Corp X, an S corporation, owned 100% of both Corp Y and Z. Corp Y and Z had elected to be QSubs. Corp X merged downstream into Corp Y. The private letter ruling held that the merger should be treated as a 368(a)(1)(F) reorganization. Corp X's "S" election will continue with respect to Corp Y after the merger. Rev. Rul. 64-250. Corp Z's Qsub election is not terminated. Rev. Rul. 2004-85.

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