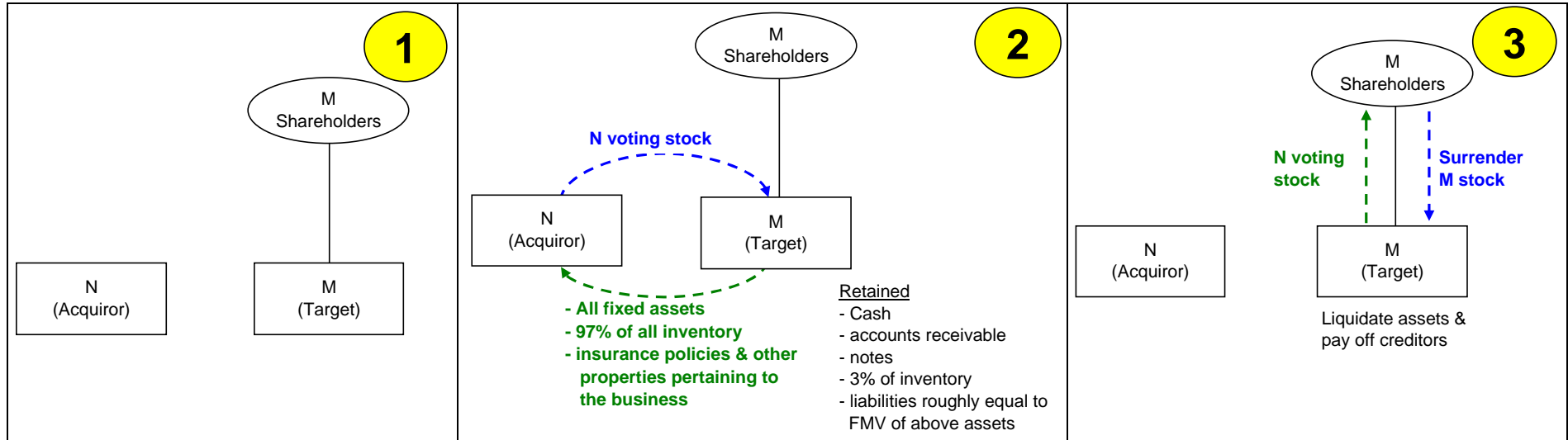


**C Reorganization
Substantially All of the Properties**

Initial Structure

Asset Transfer

Liquidation



N corporation acquired most of M corporation's business and operating assets. Under a plan of reorganization, M corporation transferred to N corporation (1) all of its fixed assets (plant and equipment) at net book values, (2) 97 percent of all its inventories at book values, and (3) insurance policies and other properties pertaining to the business. In exchange therefor, N corporation issued shares of its voting common stock to M corporation.

The properties retained by M corporation include cash, accounts receivable, notes, and three percent of its total inventory. The fair market value of the assets retained by M was roughly equivalent to the amount of its liabilities. M corporation proceeded to liquidate its retained properties as expeditiously as possible and applied the proceeds to its outstanding debts. The property remaining after the discharge of all its liabilities was turned over to N corporation, and M corporation was liquidated

The specific question presented is what constitutes "substantially all of the properties" as defined in section 368(a)(1)(C). Among the elements of importance that are to be considered in arriving at the conclusion are the nature of the properties retained by the transferor, the purpose of the retention, and the amount thereof. Assets were retained by M to liquidate its liabilities and no assets were retained for the purpose of engaging in any business or for distribution to stockholders. The assets transferred by M to N constitute "substantially all" of M's assets. As a result, the exchanges will constitute a section 368(a)(1)(C) reorganization.

Ending Point

