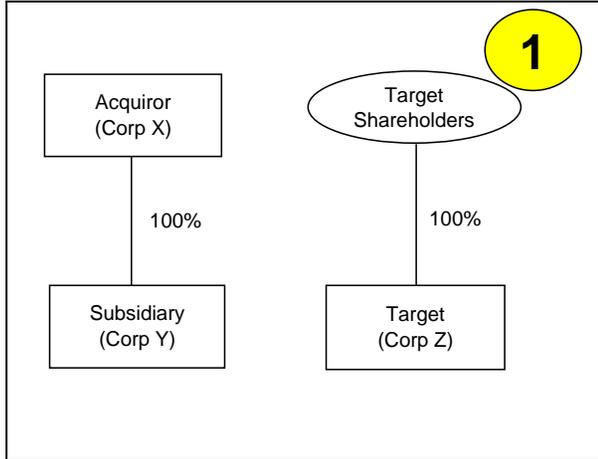
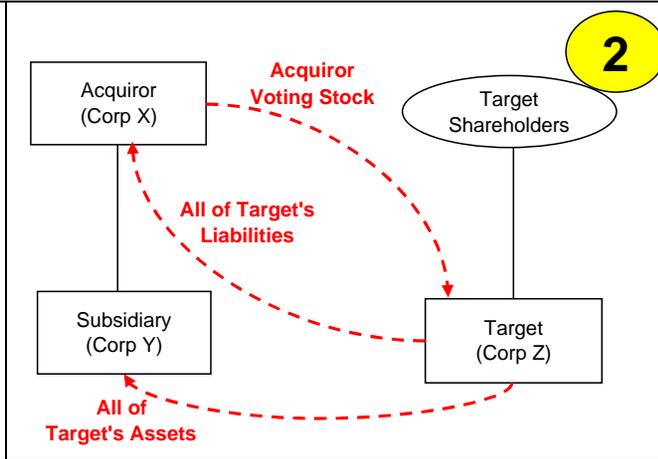


C Reorganization - Assets Transferred Directly to Subsidiary, But Liabilities to Acquiror

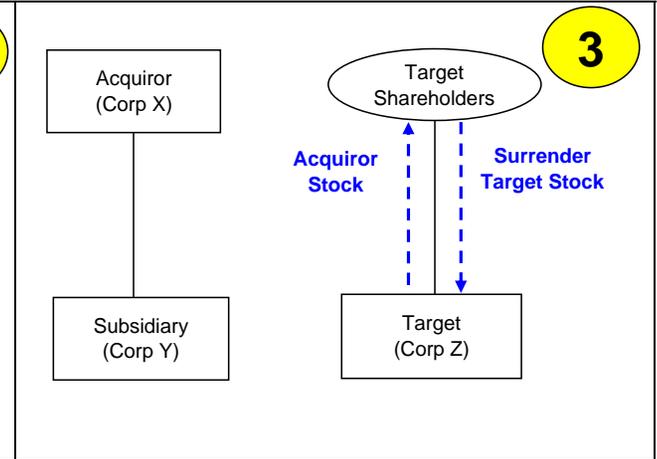
Initial Structure



Asset & Liability Transfers



Target Liquidation



Acquiror proposed to acquire all of the properties of Target. Acquiror and Target entered into a plan of reorganization and agreement that provided Acquiror would acquire all of the properties of Target solely in exchange for voting stock of Acquiror and Acquiror would assume all of the liabilities of Target. Pursuant to the plan, Acquiror caused the assets of Target to be transferred directly to Subsidiary. Acquiror issued its voting stock to Target and assumed the liabilities of Target.

Section 368(a)(1)(C) provides that the term "reorganization" means an acquisition by one corporation, in exchange solely for all or a part of its voting stock (or in exchange solely for all or a part of the voting stock of a corporation which is in control of the acquiring corporation), of substantially all of the properties of another corporation. Section 368(a)(2)(C) provides that a transaction otherwise qualifying under section 368(a)(1)(C) will not be disqualified by reason of the fact that part or all of the assets acquired in the transaction are transferred to a corporation controlled by the corporation acquiring such assets.

Rev. Rul. 64-73 holds that a transaction qualifies as a C reorganization where the acquiror causes some of the assets of the target to be transferred directly to the wholly owned subsidiary of a corporation controlled by the acquiror [cause to be directed doctrine]. The remaining assets of the target were transferred to the acquiror. The transaction was viewed as an acquisition of substantially all of the properties by the acquiror even though some of the assets were transferred directly to the wholly owned subsidiary of a corporation controlled by the acquiror.

The transaction in the instant case is treated as an acquisition by Acquiror, solely in exchange for its voting stock and the assumption of Target's liabilities, of substantially all of the properties of Target, and is, therefore, a reorganization within the meaning of section 368(a)(1)(C) and section 368(a)(2)(C). The fact that all the assets of Target were transferred directly to Subsidiary rather than through Acquiror to Subsidiary does not affect the reorganization. Compare Rev. Rul. 70-107, where the subsidiary corporation directly acquired all of the assets using the stock of its parent corporation where the parent corporation assumed the liabilities.

Ending Point

