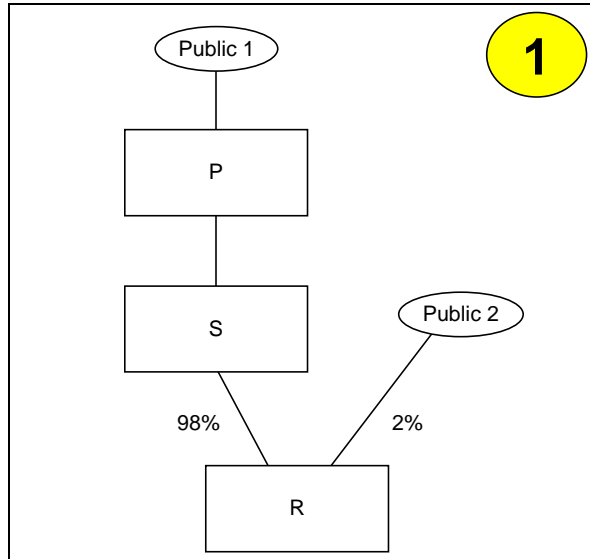
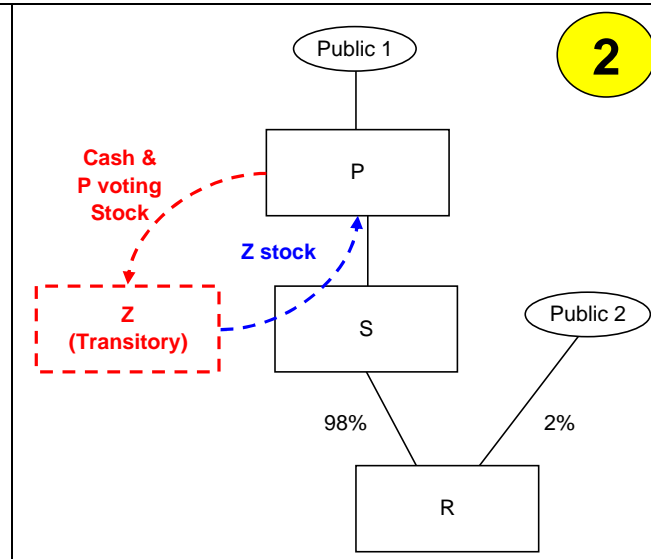


**Merger of Transitory Entity
Treated as B Reorganization**

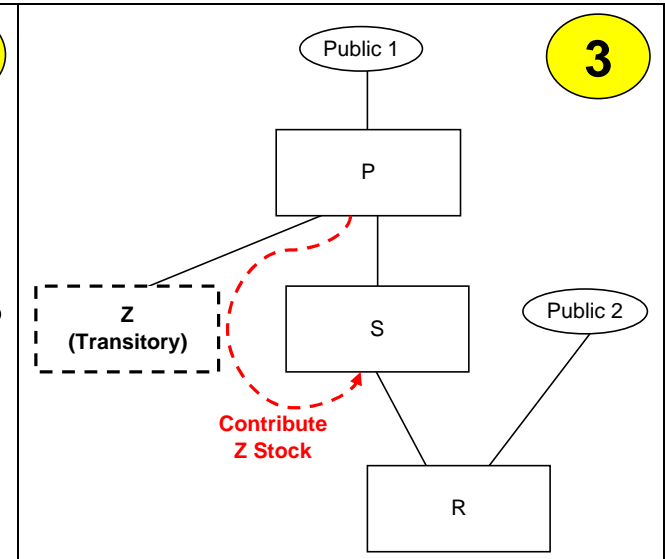
Initial Structure



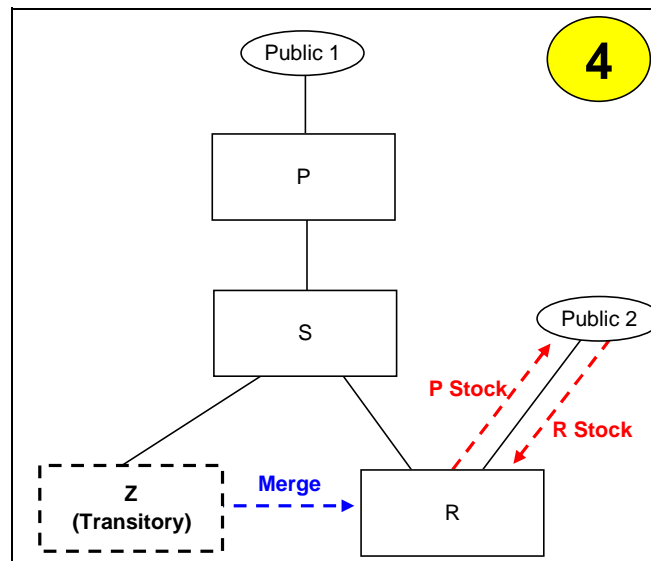
Formation of Transitory (Z)



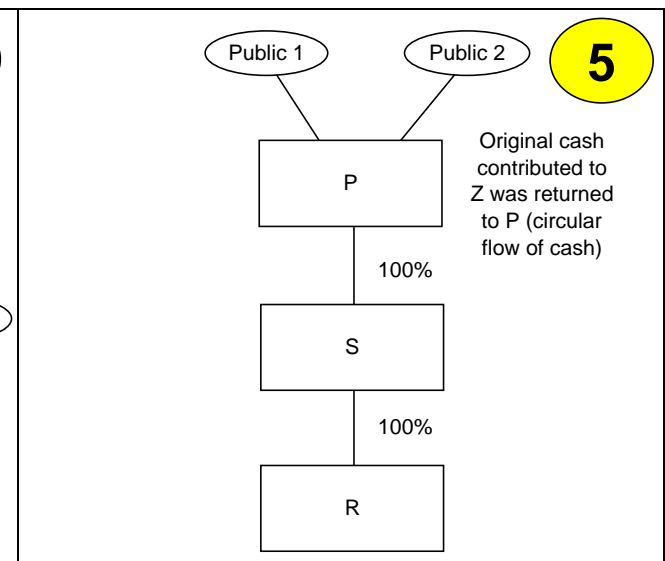
Contribution of Transitory



Merger of Transitory



Ending Point



The transaction does not qualify as a reverse triangular merger under sections 368(a)(1)(A) and 368(a)(2)(E) because 1) stock of P, rather than the stock of the controlling corporation, S, was transferred to the R shareholders, and 2) a sufficient amount of R stock to constitute control was not obtained by S in the transaction.

In this case the net effect was that S acquired, solely for voting stock of P, additional shares of stock of R. Accordingly, the transaction will be treated as a section 368(a)(1)(B) reorganization.

The cash transferred by P to Z and returned to P in the transaction is disregarded and has no tax consequences (circular flow of cash).