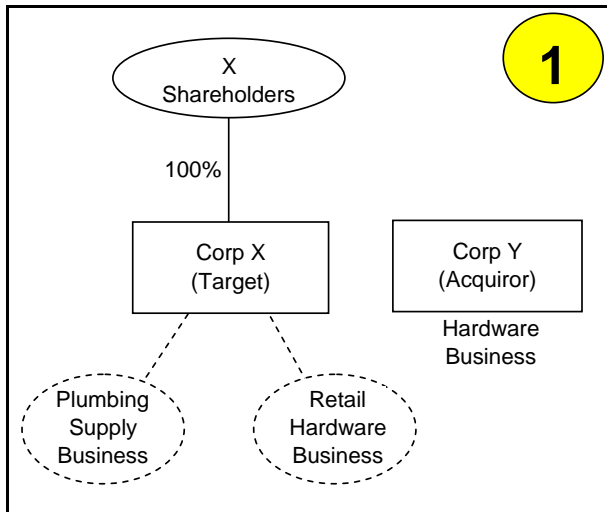
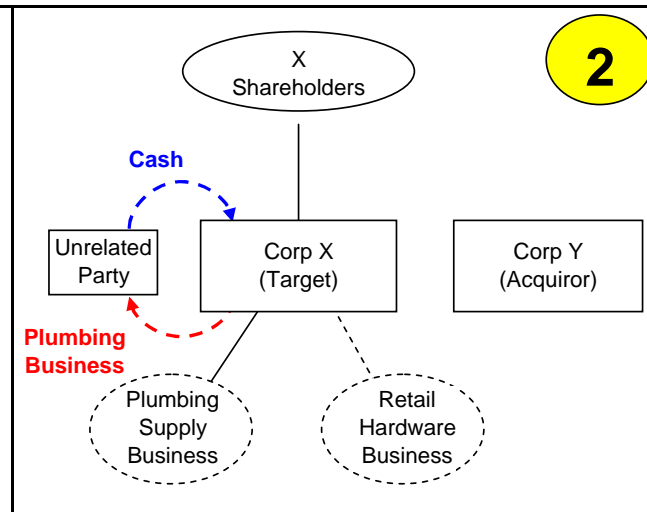


**"Sub-All" In C Reorganization  
With 50% of Assets Sold**

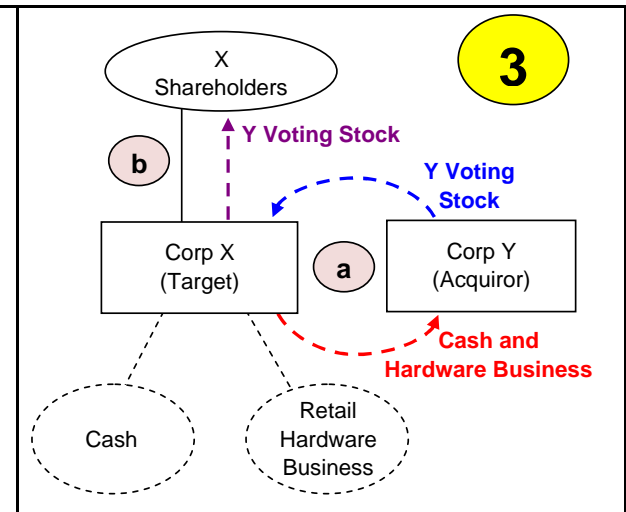
**Initial Structure**



**Sale of Plumbing Business**



**C Reorganization**



X and Y were unrelated corporations that for many years were engaged in the hardware business. X operated two significant lines of business, a retail hardware business and a wholesale plumbing supply business. Y desired to acquire and continue to operate X's hardware business but did not desire to acquire the other business. Accordingly, pursuant to an overall plan, the following steps were taken. First, in a taxable transaction, X sold its entire interest in the plumbing supply business (constituting 50 percent of its total historic business assets) to purchasers unrelated to either X or Y or their shareholders. Second, X transferred all of its assets, including the cash proceeds from the sale, to Y solely for Y voting stock and the assumption of X's liabilities. Finally, in pursuance of the plan of reorganization, X distributed the Y stock (the sole asset X then held) to the X shareholders in complete liquidation. Except for the issue relating to the "substantially all" requirement, the transfer of assets from X to Y constituted a corporate reorganization within the meaning of section 368(a)(1)(C).

Fifty percent of the X assets acquired by Y consisted of cash from the sale of one of X's significant historic businesses. Although Y acquired substantially all the assets X held at the time of transfer, the prior sale prevented Y from acquiring substantially all of X's historic business assets. The transaction here at issue, however, was not divisive. The sale proceeds were not retained by the transferor corporation or its shareholders, but were transferred to the acquiring corporation. Moreover, the prior sale of the historic business assets was to unrelated purchasers, and the X shareholders retained no interest, direct or indirect, in these assets. Under these circumstances, the "substantially all" requirement of section 368(a)(1)(C) was met because all of the assets of X were transferred to Y.

**Ending Point**

