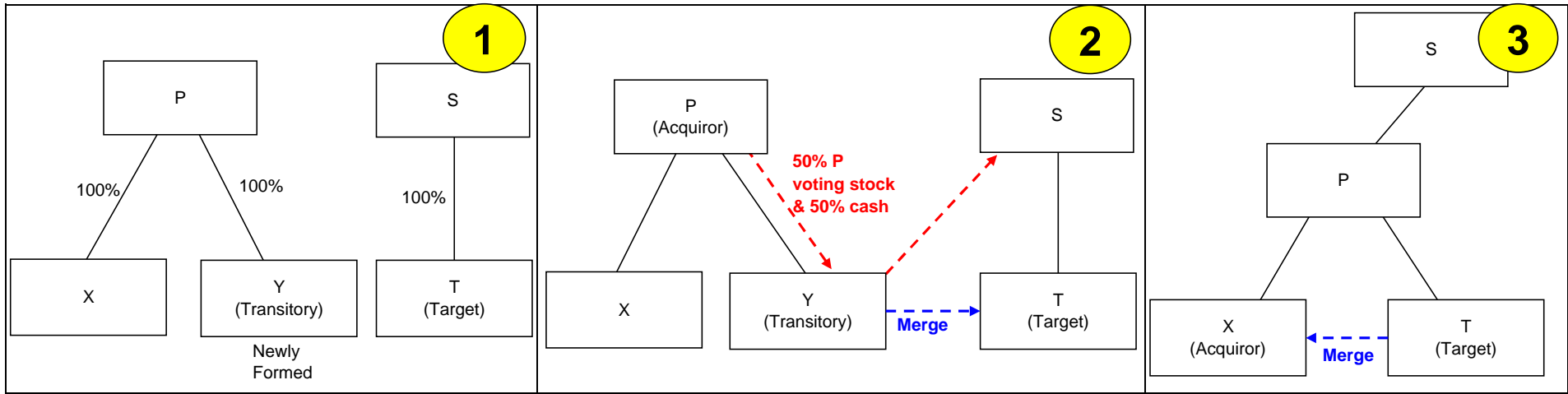


**Stock Acquisition Merger
Followed By Brother-Sister Merger -
With 338(h)(10) Election**

Initial Structure

Stock Acquisition Merger

Brother-Sister Merger



P owns all the stock of Y, a newly formed subsidiary. S owns all the stock of T. Each of P, S, T and Y is a domestic corporation. P acquires all of the T stock in a statutory merger of Y into X, a domestic corporation that is a wholly owned subsidiary of P. In the merger, S receives consideration consisting of 50% P voting stock and 50% cash. Viewed independently of any other step, P's acquisition of T stock constitutes a qualified stock purchase. Viewed independently of any other step, T's merger into X qualifies as a reorganization described in section 368(a). Absent the application of these special rules, the step transaction doctrine would apply to treat P's acquisition of the T stock and T's merger into X as an acquisition by X of T's assets in a reorganization described in section 368(a).

Pursuant to the special rules of Reg. 1.338(h)(10)-1(c)(2), as a result of the election under section 338(h)(10), for all Federal tax purposes, P's acquisition of T stock is treated as a qualified stock purchase and P's acquisition of T stock is not treated as part of a reorganization described in section 368(a).

Ending Point

