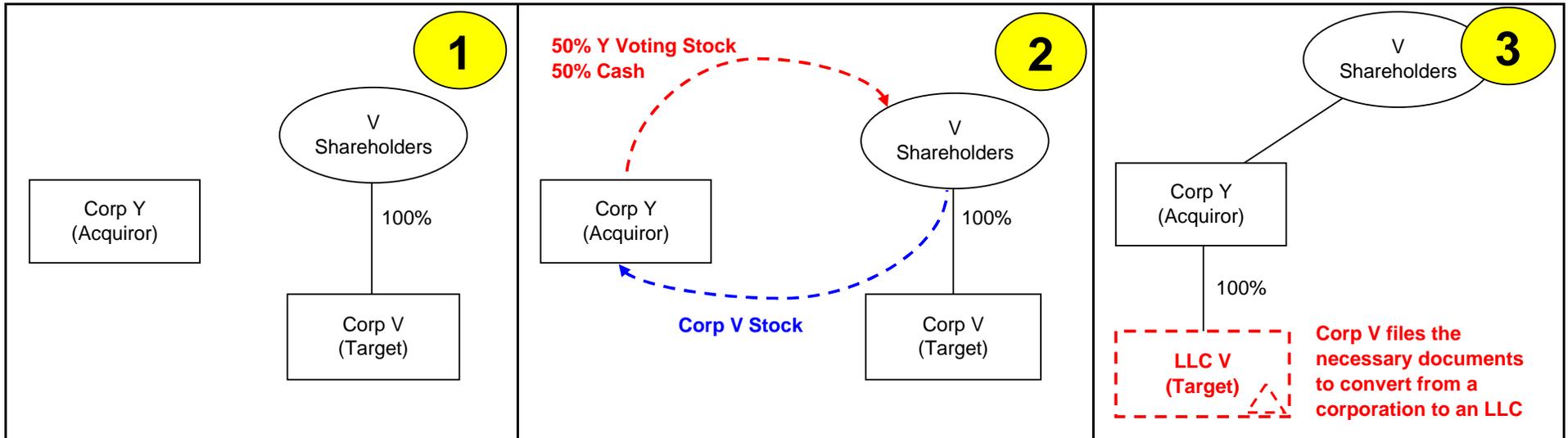


Conversion of Target to an LLC

Initial Structure

Stock Exchange

Conversion to LLC



△ means flow-thru for U.S. tax purposes

Y acquires the stock of V from the V shareholders in exchange for consideration that consists of 50% voting stock of Y and 50% cash. Immediately after the stock acquisition, V converts from a corporation to a limited liability company (LLC) under State W law. Y's acquisition of the stock of V and the conversion of V to an LLC are steps in a single integrated acquisition by Y of the assets of V.

Y's acquisition of the assets of V does not qualify as a statutory merger or consolidation for purposes of section 368(a)(1)(A) because V, the combining entity of the transferor unit, does not cease its separate legal existence. Although V is an entity disregarded from its owner for Federal income tax purposes, it continues to exist as a juridical entity after the conversion.

The above transaction would be treated as a section 338 qualified stock purchase and the deemed liquidation of V (through its conversion to an LLC) would be treated as a separate 332 liquidation. See Reg. 1.338-3(d). If Y had transferred more of its own stock and less cash to the V shareholders, then the combined transaction may have qualified as a C reorganization. See Rev. Rul. 67-274.

Ending Point

