**Domestic Inversion With Disproportionate Shares Issued**

**Initial Structure**

- Owner holds 100% of Corp P. Corp P holds land worth $300 and 10 shares of Corp S stock with a FMV of $300 and an adjusted basis of $85.
- Corp S holds land worth $100.

**Inversion via 351 Exchange**

- Owner transfers all of its stock of Corp P to Corp S in exchange for 90 shares of Corp S stock. After this exchange, Owner holds 90% of Corp S stock, Corp P holds 10% of Corp S stock, and Corp S holds 100% of Corp P stock.
- Assume that an unrelated third party would have paid $400 for the Corp P stock before the inversion transaction and would pay $400 for the 90 shares of Corp S stock after the inversion transaction.

**Ending Point**

- As a result of this inversion transaction, Corp P's percentage interest in Corp S has been reduced from 100% to 10%. An unrelated third party would pay only $44.44 for Corp P's stock in Corp S after the inversion transaction (disregarding any minority discount or control premium), compared to the $100 that a third party would have paid for the stock before the inversion transaction. This reduced amount reflects the fact that, after the inversion transaction and the sale by Corp P of its S stock to the third party, the third party buyer would have a 10 percent interest in the PS group and the PS group would hold assets with a value of $444.44 ($400 in land plus $44.44 cash from the sale of Corp P's stock in Corp S). The inversion transaction also reduces the amount that a third party would pay for the Corp P stock from $400 ($300 in land plus $100 in Corp S stock) to $344.44 ($300 in land plus $44.44 in Corp S stock).

No such reductions in the amount a third party would pay for Corp P's stock in Corp S or Corp S's stock in Corp P would occur if Corp S issued 40 shares (instead of 90 shares) to Owner. In that case, Corp P's percentage interest in Corp S would decline from 100% to 20% (instead of 10%) and an unrelated third party still would be willing to pay $100 for its S stock (disregarding any minority discount or control premium). This $100 purchase price reflects the fact that, after the inversion transaction and subsequent sale, the PS group would hold assets with a value of $500 ($400 in land plus $100 cash), the third party would have a 20 percent interest in the PS group worth $100 (disregarding any minority discount or control premium), and Owner would have an 80 percent interest in the PS group worth $400 (disregarding any minority discount or control premium). In addition, the amount an unrelated third party would pay for the Corp P stock would remain unchanged at $400 after the inversion transaction ($300 for the land plus $100 for the Corp S stock).

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