368(a)(1)(B) & 368(a)(2)(C)

**B Reorganization with a Drop**

**Initial Structure**

1. Acquiror
   - 368(c) control
   - Target
   - Subsidiary

2. Acquiror
   - Solely Acquiror voting stock
   - Target
   - Subsidiary

**Stock for Stock Exchange**

- Stock of Target (after the transfer, Acquirer must hold 368(c) control of Target)

**Drop**

3. Acquiror
   - 368(c) control
   - Target
   - Subsidiary

**Ending Point**

4. Acquiror
   - 368(c) control
   - Subsidiary
   - Target

**Nonrecognition Operative Provisions:**

- Acquiror - section 1032, Shareholders - section 354(a)(1)
- Acquiror - section 351, or no 1001 amount realized
- Subsidiary - section 351 or 118(a)

Acquiror shareholders omitted for simplicity purposes.

368(a)(1) ... the term "reorganization" means ... (B) the acquisition by one corporation, in exchange solely for all or a part of its voting stock ... of stock of another corporation if, immediately after the acquisition, the acquiring corporation has control of such other corporation (whether or not such acquiring corporation had control immediately before the acquisition);

368(a)(2)(C) A transaction otherwise qualifying under paragraph ... (1)(B) ... . shall not be disqualified by reason of the fact that part or all of the ... stock ... which were acquired in the transaction are transferred to a corporation controlled by the corporation acquiring such ... stock ...