D Reorganization with a Drop

Initial Structure

1. Acquiror Shareholder(s) → Target Shareholder(s) → Subsidiary
   - Acquiror
   - Target
   - Subsidiary
   - 368(c) control

2. Stock (actual or deemed) → Target Shareholder(s)
   - Acquiror
   - Target
   - Subsidiary
   - Substantially All Assets

3. Target Shareholder(s) → Transfer remaining assets, including Acquiror Stock just received
   - Acquiror
   - Target
   - Subsidiary

Nonrecognition Operative Provisions:
- Acquiror - section 1032
- Target - section 361(a)
- Shareholders - section 354(a)(1)
- Target - section 361(c)

368(a)(1)(D) . . . the term "reorganization" means . . . (D) a transfer by a corporation of all or a part of its assets to another corporation if immediately after the transfer the transferor, or one or more of its shareholders (including persons who were shareholders immediately before the transfer), or any combination thereof, is in control of the corporation to which the assets are transferred; but only if, in pursuance of the plan, stock or securities of the corporation to which the assets are transferred are distributed in a transaction which qualifies under section 354, 355, or 356;

Rev. Rul. 2002-85 held that the drop of assets to a subsidiary after a purported D reorg does not disqualify the D reorg.

Drop

4. Acquiror Shareholder(s) → Target Shareholder(s)
   - Acquiror
   - Target
   - Subsidiary
   - 304(c) control
   - Transfer of all or part of Target assets

Ending Point

5. Acquiror Shareholder(s) → Target Shareholder(s)
   - Acquiror
   - Target
   - Subsidiary
   - 368(c) control
   - All or part of Target assets

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