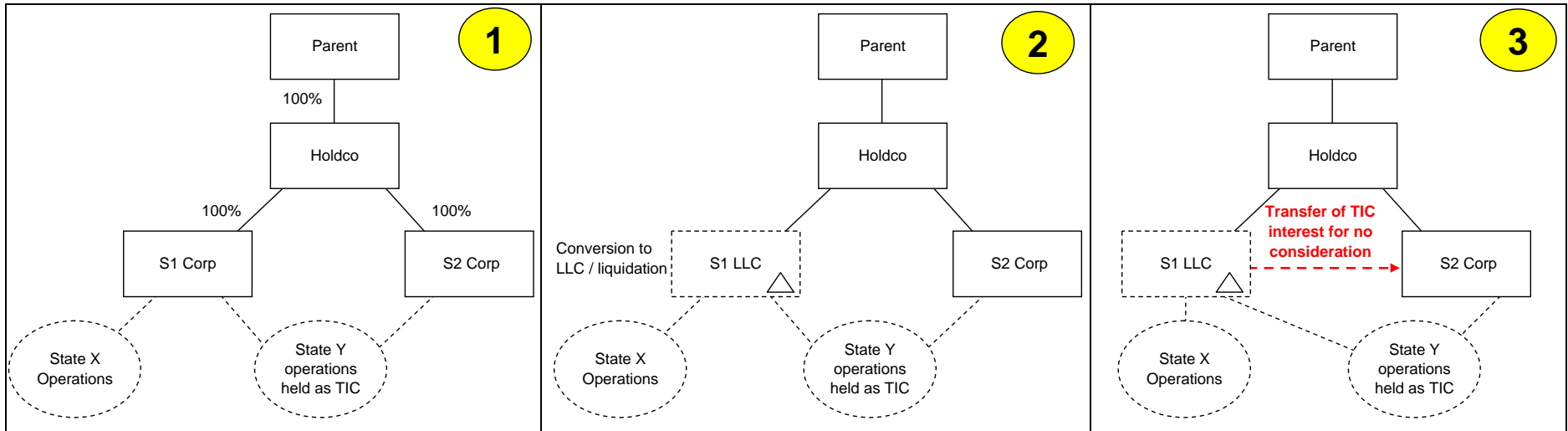


Initial Structure

Upstream C Reorg

368(a)(2)(C) "Drop" One



Parent, a State X publicly traded holding company, owns all of Holdco, an intermediate holding company. Holdco has only voting stock that is authorized or issued and outstanding. Holdco owns all of S1 and S2. S1 is engaged in Business A and is incorporated in both State X and State Y. S2 is incorporated in State Y and also is engaged in Business A. The assets comprising the State Y operations are held as a tenancy in common ("TIC") owned by S1 and S2, notwithstanding the fact that all of the income and expenses of the State Y operations have been reported on S2's federal and state tax returns. Parent has taken the position that the TIC is not a partnership for federal income tax purposes.

For administrative and regulatory purposes, Parent proposes the following transaction:

- (i) S1 will convert under State X law to a single-member limited liability company ("S1 LLC") that will be disregarded as an entity separate from Holdco (the "Reorganization").
- (ii) S1 LLC will transfer its interest in the TIC to S2 for no consideration (the "TIC Transfer").
- (iii) S1 LLC will convert back to a corporation ("New S1") under State X law (the "Reincorporation").

S1's interest in the TIC is the only asset that will actually move for state law purposes. The initial conversion of S1 to S1 LLC under State X law will cause S1 no longer to be incorporated under the laws of State Y. When S1 LLC converts back to a corporation, it will do so solely under State X law. As a result, New S1 will not be incorporated under or subject to the laws of State Y.

For federal income tax purposes, the Reorganization will be treated as a transfer by S1 of substantially all of its assets to Holdco solely in exchange for Holdco voting stock and the assumption of the liabilities of S1, followed by the distribution by S1 of the Holdco voting stock to Holdco in complete liquidation. The deemed transfers, will qualify as a reorganization under section 368(a)(1)(C). The Reorganization will not be disqualified or recharacterized by reason of the TIC Transfer or the Reincorporation. Section 368(a)(2)(C) and Treas. Reg. § 1.368-2(k).

368(a)(2)(C) "Drop" Two

