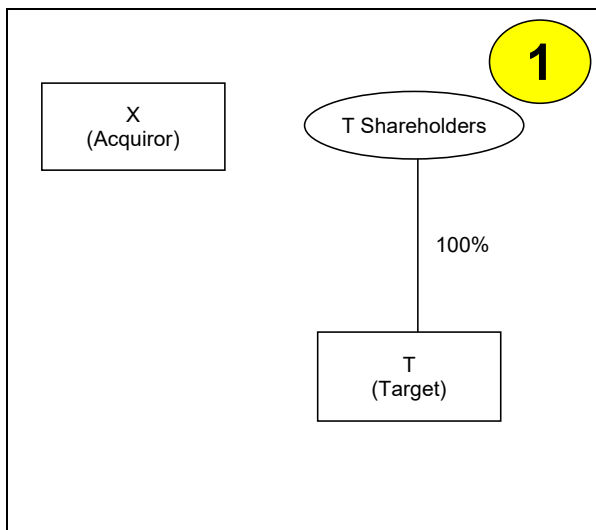
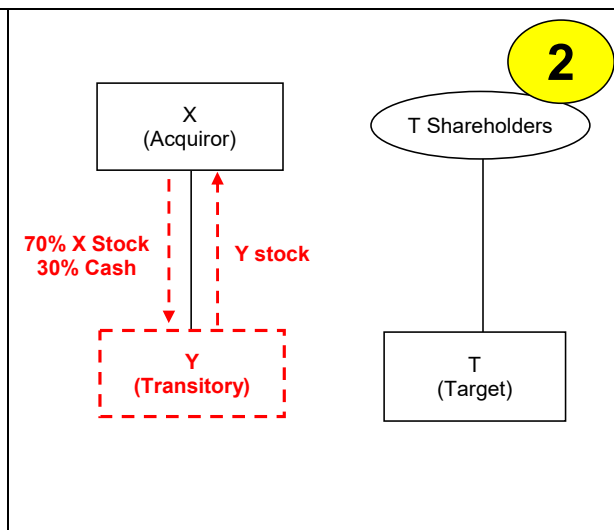


**Multi-Step Tax Free Reorganization  
was Not a Qualified Stock Purchase**

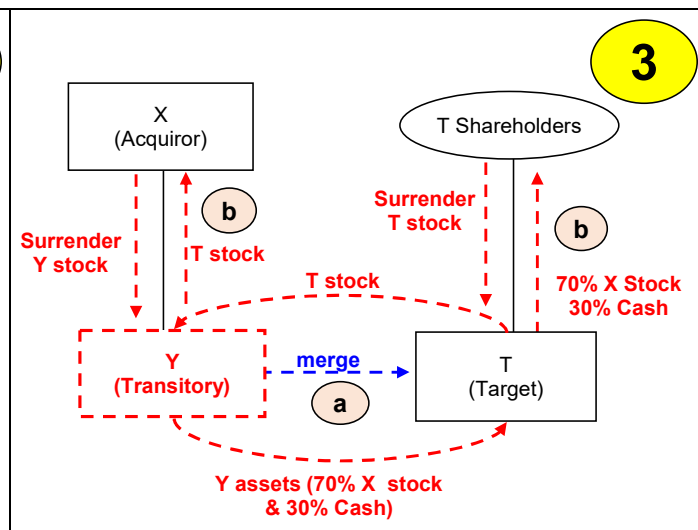
**Initial Structure**



**Subsidiary Formation and Funding**



**Acquisition Merger**

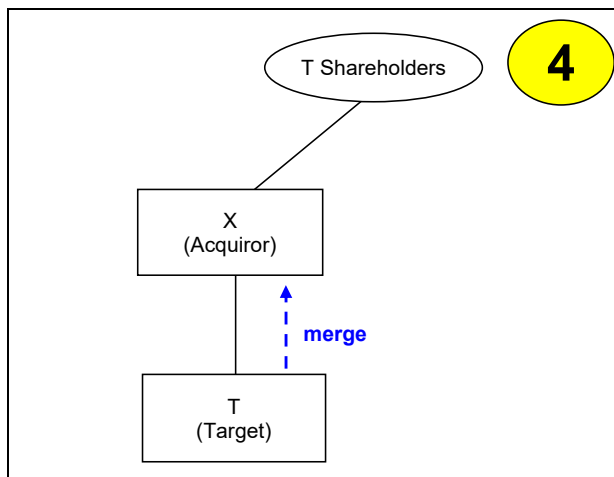


Standing alone, the Acquisition Merger would not have qualified as a tax free reorganization (not a reverse triangular merger under section 368(a)(2)(E) because T Shareholders did not exchange 80% of their T stock for X stock -- only 70% of the consideration was X stock). However, under the step transaction doctrine, the combined Acquisition and Upstream Mergers qualify as a tax free section 368(a)(1)(A) reorganization.

Because the combined transaction qualifies as a tax free reorganization, X's acquisition of T stock is not treated as a "purchase" under section 338(h)(3) and no section 338 election can be made. See also Rev. Rul. 67-274 and King Enterprises, 418 F.2d 511 (Ct. Cl. 1969).

Situation 2 of the ruling confirmed the same result, even if the Acquisition Merger would itself qualify as a reorganization.

**Upstream Merger**



**Ending Point**

