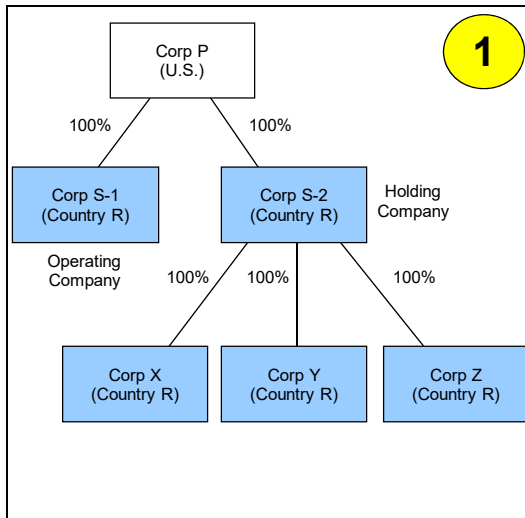


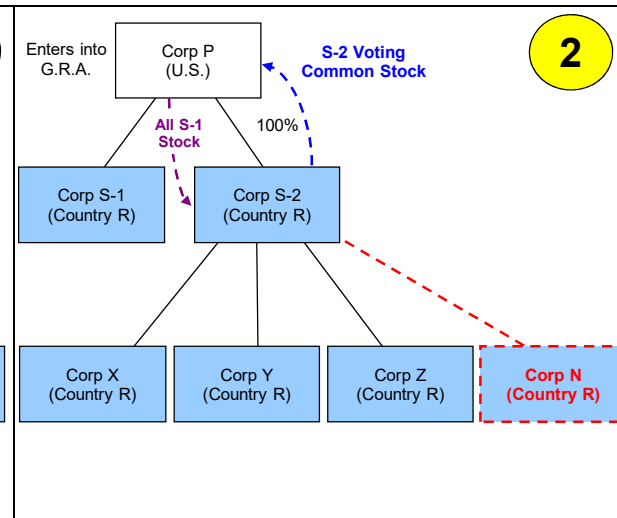
**Outbound 351 & Asset Reorg - Form Respected
(No Longer Recast as a Triangular C Reorg)**

Initial Structure



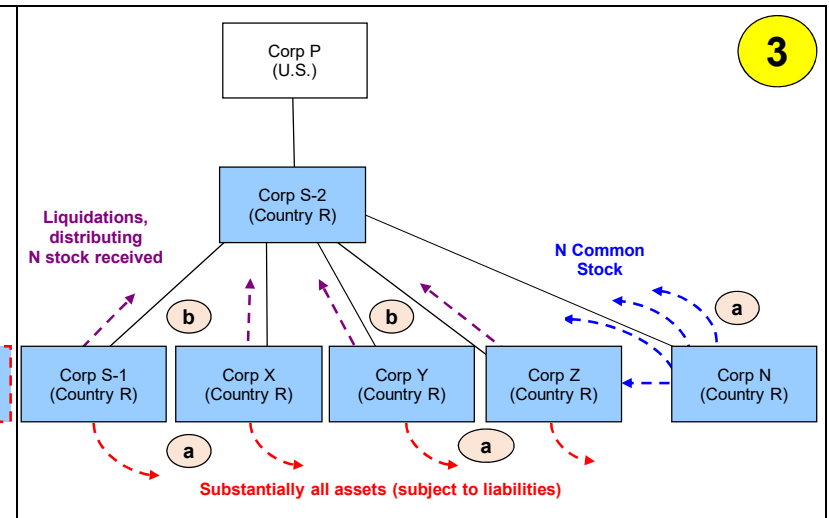
1

NewCo Formation & Outbound of S-1



2

Asset Transfers & Liquidations



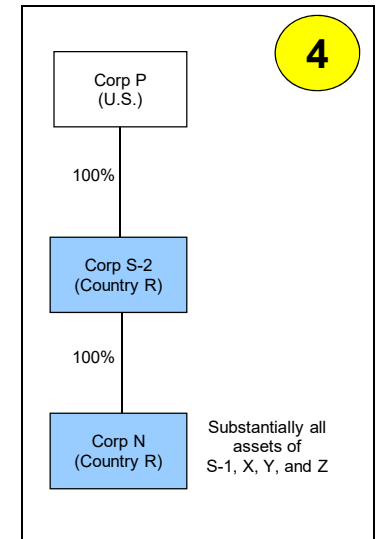
3

P, a domestic corporation, owns all of the stock of S-1 and S-2, both of which are incorporated in foreign country R. S-1 is an operating company. S-2 is a holding company that owns all of the stock of corporations X, Y, and Z, which are also incorporated in foreign country R. All of the operating companies in country R are to be combined into a new subsidiary of S-2 to be formed in country R in accordance with the following plan: (a) S-2 will organize N corporation, in foreign country R, solely for the purpose of participating in the proposed transaction. (b) P will then transfer all of the stock of S-1 to S-2 in exchange for additional shares of voting common stock of S-2. (c) Immediately after P's transfer of the stock of S-1 to S-2, X, Y, and Z, as well as S-1, will transfer substantially all of their assets (subject to liabilities) to N, in exchange for additional shares of common stock of N. (d) X, Y, Z, and S-1 will then be liquidated and S-2 will receive in liquidation the N stock held by X, Y, Z, and S-1. Following the transaction, N will continue to conduct the businesses formerly conducted by X, Y, Z, and S-1. To avoid gain recognition under Code §367(a)(1) and Treas. Reg. §1.367(a)-(3)(a) on the transfer of the S-1 stock to S-2, P will enter into a gain recognition agreement pursuant to Treas. Reg. §1.367(a)-8.

Under the facts of this revenue ruling, P's transfer satisfies the formal requirements of Code §351, including the requirement that P control S-2 within the meaning of Code §368(c) immediately after the exchange. Moreover, even though P's transfer and S-1's transfer and liquidation are steps in a prearranged, integrated plan that has as its objective the consolidation of S-1 and the other operating companies in N, an analysis of the transaction as a whole does not dictate that P's transfer be treated other than in accordance with its form in order to reflect the substance of the transaction. Accordingly, P's transfer is respected as a Code §351 exchange, and no gain or loss is recognized by P on the transfer of all of the stock of S-1 to S-2. S-1's transfer followed by S-1's liquidation is a reorganization under Code §368(a)(1)(D). X, Y, and Z's transfers followed by X, Y, and Z's liquidations are also reorganizations under Code §368(a)(1)(D).

The IRS held that a transaction in which (1) a domestic corporation transfers all of the stock of its foreign operating subsidiary to its foreign holding company subsidiary in exchange for additional stock, (2) the foreign operating subsidiary and three foreign subsidiaries of the foreign holding company transfer substantially all of their assets to a newly-formed foreign subsidiary of the foreign holding company in exchange for stock of the new subsidiary, and (3) the subsidiaries that transfer their assets are liquidated, is properly treated for federal income tax purposes as a transfer of the foreign operating subsidiary's stock in an exchange governed by Code §351 followed by reorganizations under Code §368(a)(1)(D). Rev. Rul. 78-130 is revoked.

Ending Point



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