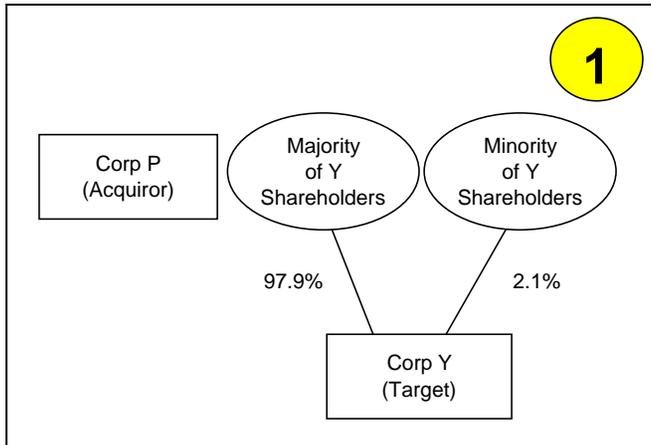
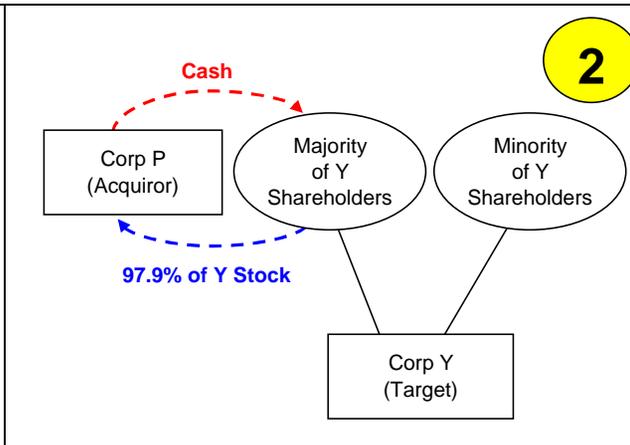


**"Squeeze Out" Merger
(Circular Flow of Cash)**

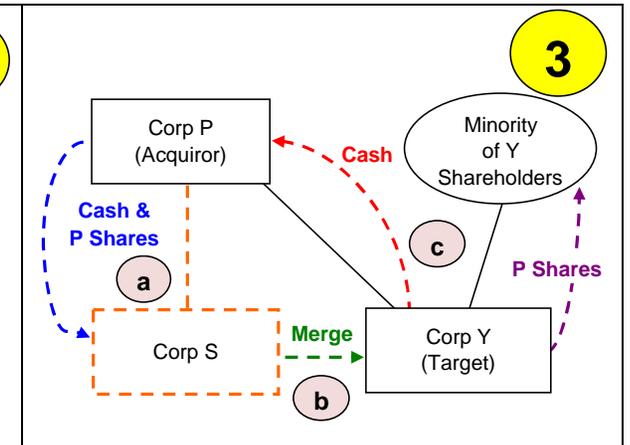
Initial Structure



Cash Acquisition



"Squeeze-Out" Merger



Corporation P wanted to acquire all of the outstanding stock of corporation Y for cash and thereby become the sole shareholder of Y. Pursuant to the plan of acquisition, P was only able to purchase 97.9 percent of the outstanding stock of Y for cash. In order to complete the acquisition, P, as part of the same plan, acquired the remaining 2.1 percent of the outstanding stock of Y in the following manner.

P transferred to S, a wholly owned subsidiary formed solely to effectuate the acquisition, 5x dollars (solely to satisfy capital requirements of state law) and 10x shares of P stock in exchange for 10x shares of S stock. Pursuant to the applicable state laws, S was merged with and into Y, with Y acquiring all the assets of S (the 5x dollars and the 10x shares of P stock). Y distributed the 10x shares of P stock received in the merger to the minority shareholders of Y in exchange for their stock, and by operation of state law the S stock held by P was automatically converted into Y stock. Y, as part of the plan, returned the 5x dollars to P.

The result of the entire plan described above was that P acquired all of the stock of Y partly in exchange for cash and partly in exchange for P voting stock, with Y becoming a wholly owned subsidiary of P. Therefore, the transaction will be treated for Federal income tax purposes as though P transferred its stock directly to the minority shareholders of Y in exchange for their Y stock. Furthermore, the transitory existence of S, and therefore the transaction described above involving S, will be disregarded. The ruling held as follows: 1. No gain or loss will be recognized to P upon the receipt of the Y stock from the minority shareholders of Y in exchange for P stock under section 1032(a). 2. No gain or loss is realized by S or Y as a result of the transactions described above. 3. Gain or loss is realized and recognized to the minority shareholders of Y upon the receipt by them from P of P stock in exchange for their Y stock under sections 1001 and 1002. Gain or loss is also realized and recognized by those former shareholders of Y who received cash from P in exchange for their Y stock under sections 1001 and 1002. 4. The 5x dollars transferred by P to S to satisfy capital requirements and which was returned to P by Y is disregarded and results in no tax consequences. Rev. Rul. 67-448 distinguished.

Ending Point

