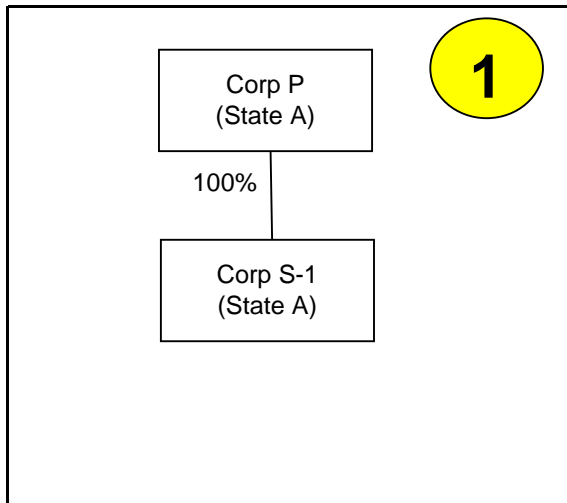
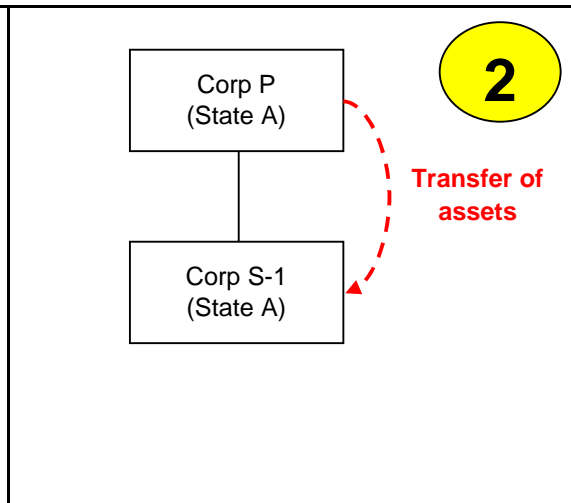


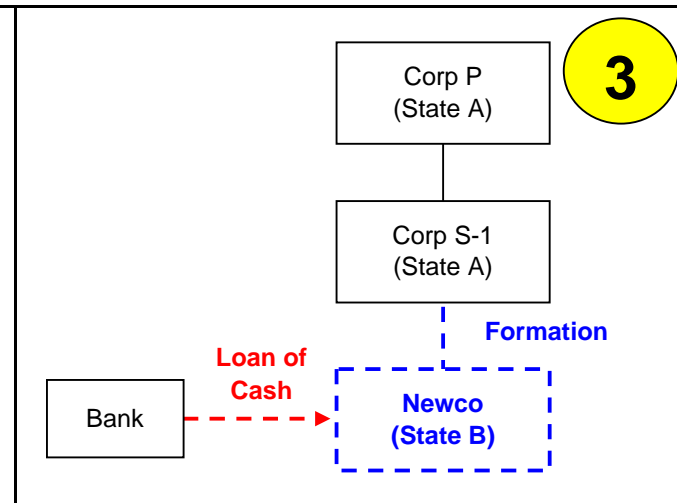
**Initial Structure**



**First Drop Down**



**Formation of Newco & Borrowing**



P corporation and its wholly owned subsidiary, S-1, are incorporated in state A. State A has advantageous corporate laws. P transferred to S-1 certain property with which S-1 set up a branch operation in state B. No liabilities of P were assumed by S-1 and the assets transferred were not subject to liabilities. In order for the branch operation to avail itself of financing at favorable interest rates under the laws of state B, S-1 formed a new corporation (Newco) in state B. Newco borrowed the necessary operating funds from a bank in state B. Then, as part of the same plan, Newco and S-1 established a partnership (PRS) formed under a statute of state B corresponding to the Uniform Partnership Act, to which Newco contributed the borrowed funds and S-1 contributed the assets it received from P, PRS conducted the business of the state B branch operation under the sole management of S-1.

In Rev. Rul. a corporation transferred assets to a wholly owned subsidiary, which in turn transferred, as part of the same plan, the same assets to its own wholly owned subsidiary. The transfers were viewed as separate transactions, each of which satisfied the requirements of section 351 of the Code. Under the circumstances described above, the transfers are also viewed separately. Because the transfer from P to S-1 satisfies the requirements of section 351 of the Code, and the contributions by S-1 and Newco to PRS satisfy the requirements of section 721, no gain or loss is recognized by the transferors.

**Second Drop Down**

