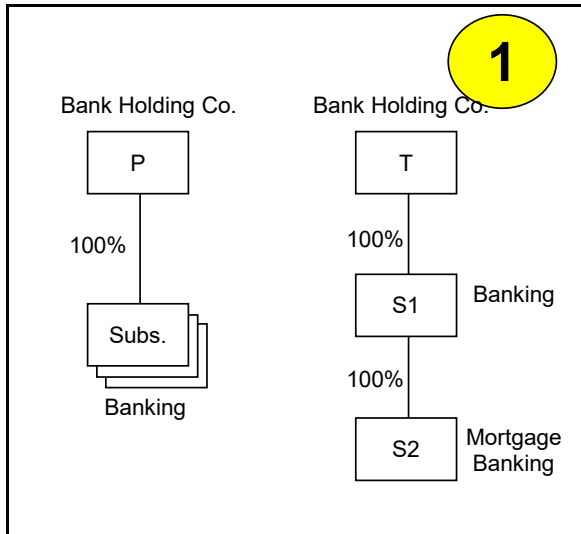
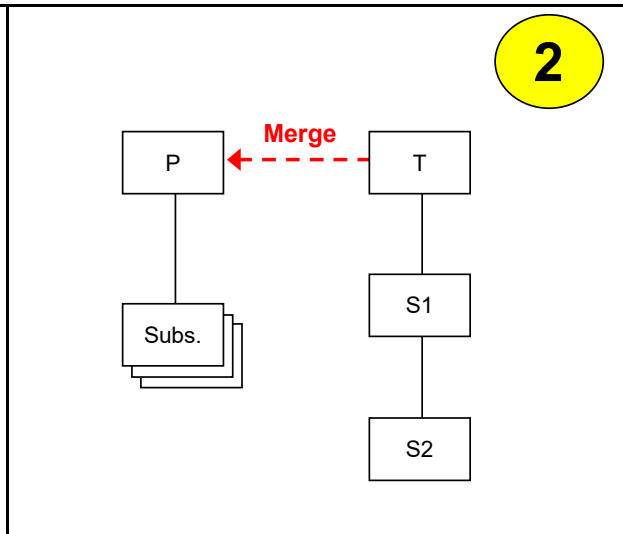


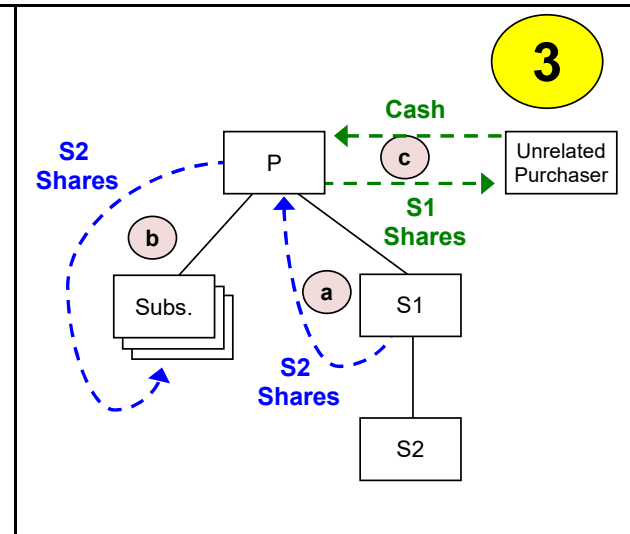
Initial Structure



Merger



Distribution, Contribution & Sale



P is a bank holding company with a number of wholly owned banking subsidiaries. T is a bank holding company with one banking subsidiary, S1. T owns all of the stock of S1. S1 owns all of the stock of S2, a mortgage banking company. The value of the S2 stock represents a substantial percentage of the value of S1. In order to acquire the existing mortgage banking business of S2, P will acquire T. Pursuant to a single overall plan, T will merge with and into P. P will then cause S1 to distribute all of the stock of S2 to P. P will transfer the S2 stock to one of its wholly-owned banking subsidiaries and, for valid business reasons, P will sell S1 to an unrelated purchaser.

Reg. 1.368-1(d)(2) states that a continuity of business enterprise requires that the acquiring corporation either continue the historic business of the acquired corporation or use a significant portion of the acquired corporation's historic business assets in a business. The same regulation states that the application of this general rule to certain transactions, such as mergers of holding companies, will depend on all facts and circumstances. The policy underlying this general rule, which is to ensure that reorganizations are limited to readjustments of continuing interests in property under modified corporate form, provides the guidance necessary to make these facts and circumstances determinations. Also, Reg. 1.368-1(d)(3)(ii) states that if the acquired corporation has more than one line of business, the acquiring corporation need only continue a significant line of business.

In the instant case, the policy enunciated in Reg. 1.368-1(d)(2) is satisfied. T indirectly operates two significant businesses through its wholly owned subsidiaries, S1 and S2. After the merger P will continue to operate, indirectly, one of the two significant businesses through S2, now P's second tier subsidiary. See Reg. 1.368-1(d)(5), Ex. 1. The continuity of business enterprise requirement is satisfied.

Ending Point

