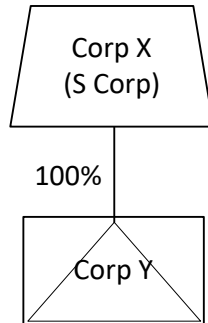


**"F" Reorganization Upon S Corp
Merger into its QSub**

1

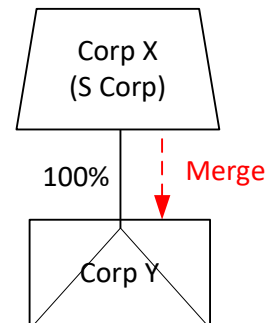
Initial Structure



△ means flow-thru for U.S. tax purposes

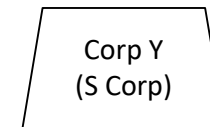
2

Merger / "F" Reorganization



3

Ending Point



X, an S corporation, owns 100 percent of the stock of Y, a corporation for which a QSub election is in effect. X merges into Y under state law, causing the QSub election for Y to terminate, and Y survives the merger. The formation of the new corporation, Y, and the merger of X into Y can qualify as a reorganization described in section 368(a)(1)(F) if the transaction otherwise satisfies the requirements of that section.