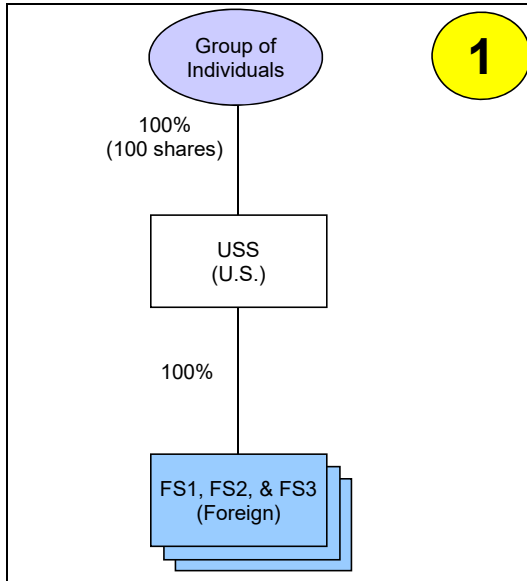


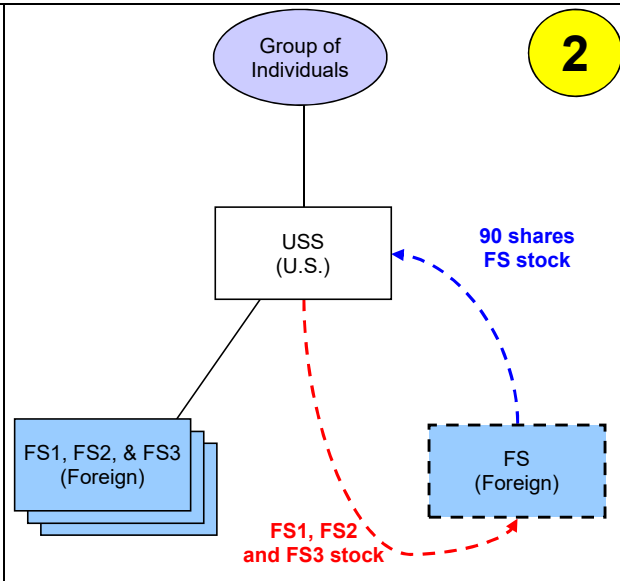
Inversion Via Triangular Merger with Hook Stock

Initial Structure



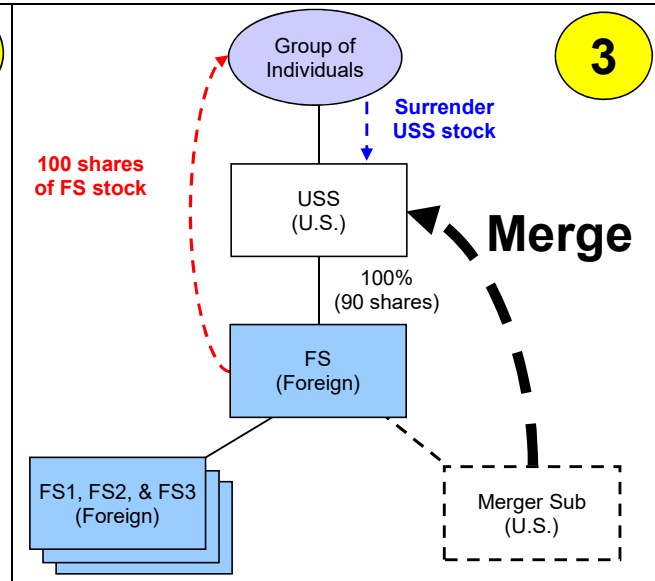
1

Outbound 351 of CFCs



2

Triangular Merger

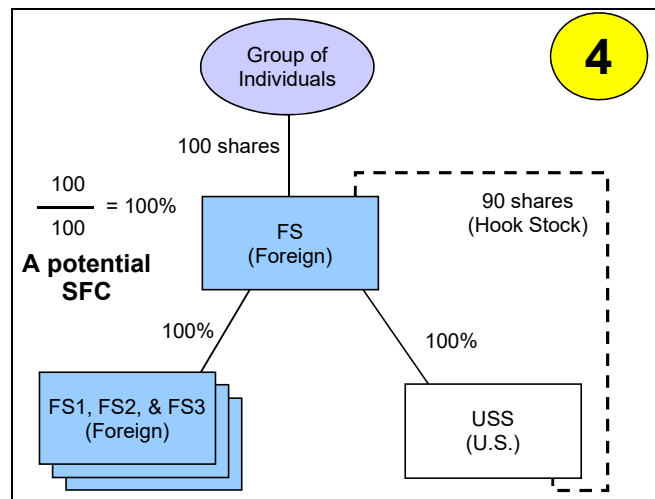


3

USS, a domestic corporation, has 100 shares of stock outstanding. USS's stock is held by a group of individuals. Pursuant to a plan, USS forms FS, a foreign corporation, and transfers to FS the stock of several wholly owned foreign corporations, in exchange for 90 shares of FS stock. FS then forms Merger Sub, a domestic corporation. Under a merger agreement and state law, Merger Sub merges into USS, with USS surviving the merger. In exchange for their USS stock, the former shareholders of USS receive, in the aggregate, 100 shares of newly issued FS stock. As a result of the merger FS holds 100 percent of the USS stock. USS continues to hold 90 shares of FS stock.

FS has indirectly acquired substantially all the properties held directly or indirectly by USS pursuant to a plan. After the acquisition, the former shareholders of USS hold 100 shares of FS stock by reason of holding stock in USS, and USS holds 90 shares of FS stock. Under Reg. 1.7874-1(b), the 90 shares of FS stock held by USS, a member of the EAG, are not included in either the numerator or the denominator of the ownership fraction. Accordingly, the ownership fraction is 100/100. If the no substantial business activities condition in section 7874(a)(2)(B)(iii) is satisfied, FS is a surrogate foreign corporation which is treated as a domestic corporation under section 7874(b). The analysis is limited to a discussion of issues under section 7874, even though the example may raise other issues (for example, under section 367).

Triangular Merger



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