**Study Questions**

**Here are the base case facts applicable to the below problems:**

**Target is a C corporation, incorporated under the laws of Delaware. Target is owned by three individuals: Mr. A, Ms. B and Ms. C. There are 100 shares outstanding, each with a fair market value of $10. The below chart summarizes each individual’s stock ownership.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Shareholders** | | | | |
| Shareholder |  | Mr. A | Ms. B | Ms. C |
| Number of Shares |  | 50 | 30 | 20 |
| FMV of Stock ($10/s) |  | $500 | $300 | $200 |
| Tax Basis |  | $200 | $400 | $150 |
| Potential BIG/BIL |  | $300 | ($100) | $50 |

**The total FMV of Target stock (in the hands of A, B and C) is equal to $1000 (FMV Assets less Liabilities) based on the following underlying assets held by Target:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Target’s Assets** | | | | |
|  |  | Tax Basis | Fair Market Value | Potential BIG/BIL |
| Non-Operating Assets |  | $200 | $300 | $100 |
| Operating Assets |  | $700 | $900 | $200 |
| Totals |  | $900 | $1,200 |  |
| **Other** | | | | |
| 25yr Bond Due to 3rd Party Lender |  | ($200) |  | |
| E&P |  | $400 |

**Acquirer (P) is also a C corporation formed under the laws of Delaware. P is publicly traded on the New York Stock Exchange. Target has a bond outstanding with 3rd Party Lender. P wishes to acquire T.**

**For each of the questions listed below, please**

* **Analyze and determine whether the transaction(s) described constitutes a valid reorganization under section 368(a)(1).**
* **Explain the US federal income tax consequences to the parties. (A, B, C, T and P)**

**Target**

**P**

Mr. A

Merger

Ms. B

Ms. C

Public

1. **T merges into P under state law. T’s shareholders receive pro-rata $1000 FMV of P’s non-voting preferred stock.**
2. **T’s Debt to 3rd Party Lender is either $1000 or $1300 instead of $200**
3. **The merger occurs under the laws of Germany.**
4. **Same as Problem # 1 but the T shareholders receive a pro-rata portion of the following consideration from P:**

**$200 FMV of P two-year notes**

**$400 FMV of P 25 year bonds**

**$400 FMV of P voting common stock**

1. **T merges into P solely for P voting stock; B dissents and is cashed out with T’s non-operating assets (FMV=$300).**
2. **T merges into P solely for P voting stock; B dissents and is cashed out with the T non-operating assets; A dissents and is cashed out with an amount of the operating assets equal to $500.**