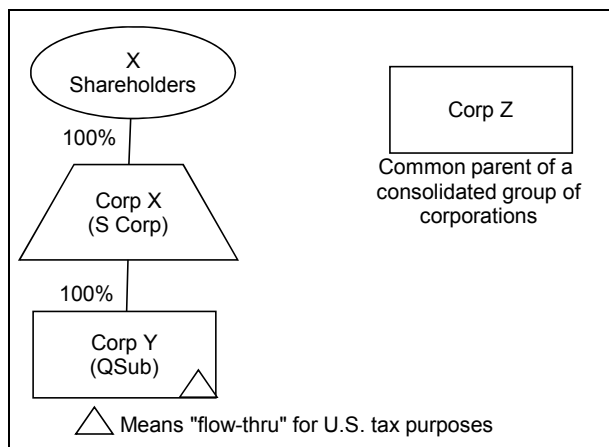
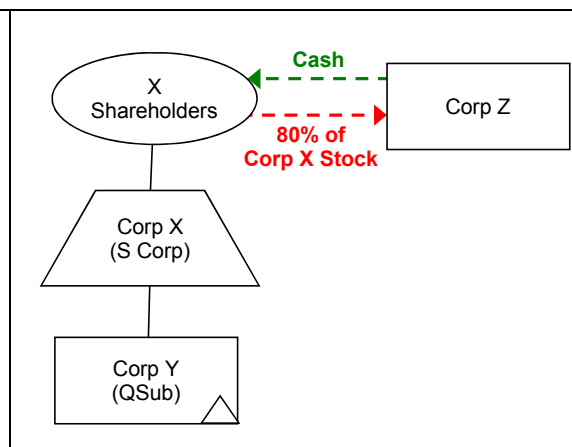


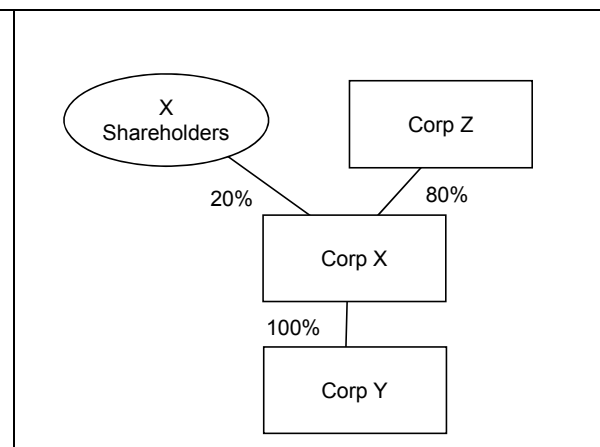
Initial Structure



Acquisition of S Parent



Ending Point



Corp X, an S corporation, owns 100 percent of Corp Y, a corporation for which a QSub election is in effect. Corp Z, the common parent of a consolidated group of corporations, acquires 80 percent of the stock of Corp X on June 1, 2002. Corp Z does not make an election under section 338(g) with respect to the purchase of Corp X stock. Corp X's "S" election terminates as of the close of the preceding day, May 31, 2002. Corp Y's QSub election also terminates at the close of May 31, 2002. Under Section 1.1502-76(b)(1)(ii)(A)(2) and paragraph (a)(3) of this section, Corp X and Corp Y become members of Corp Z's consolidated group of corporations as of the beginning of the day June 1, 2002.