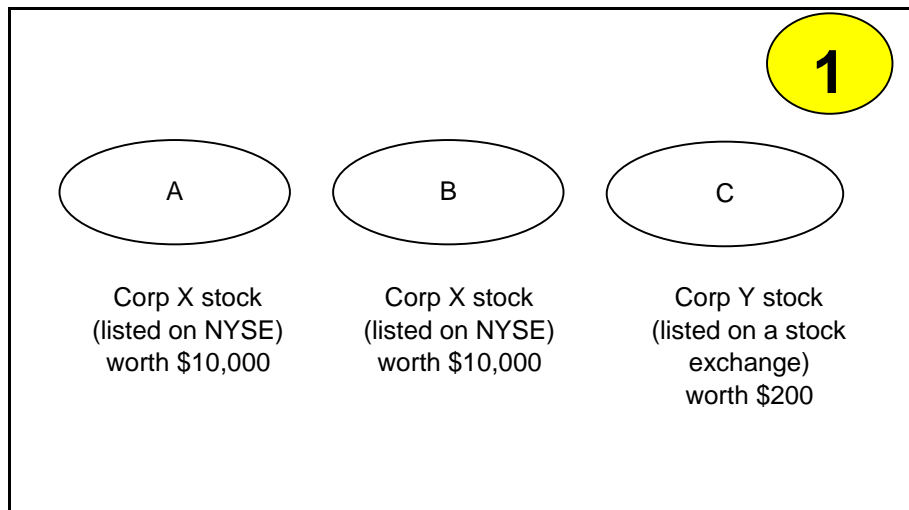


# Reg. 1.351-1(c)(7), Example 1

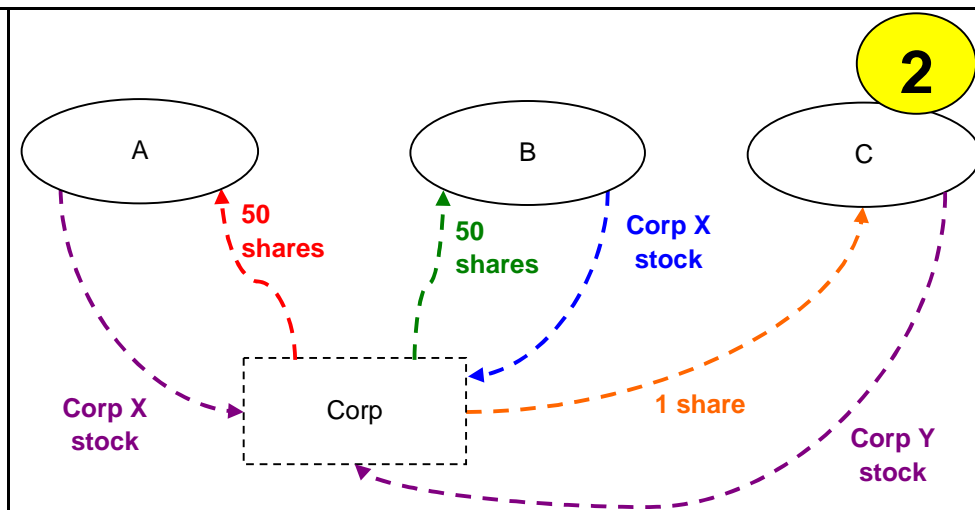
## No Investment Company Under Section 351(e)(1) -- De Minimis Diversification

Copyright © 2007 Andrew Mitchel LLC  
International Tax Services  
www.andrewmitchel.com

### Initial Structure



### Contribution / Incorporation



Individuals A, B, and C organize a corporation with 101 shares of common stock. A and B each transfers to it \$10,000 worth of the only class of stock of corporation X, listed on the New York Stock Exchange, in exchanges for 50 shares of stock. C transfers \$200 worth of readily marketable securities in corporation Y for one share of stock. In determining whether or not diversification has occurred, C's participation in the transaction will be disregarded. There is, therefore, no diversification, and gain or loss will not be recognized.

### Ending Point

