

Reg. 1.351-1(c)(7), Example 2

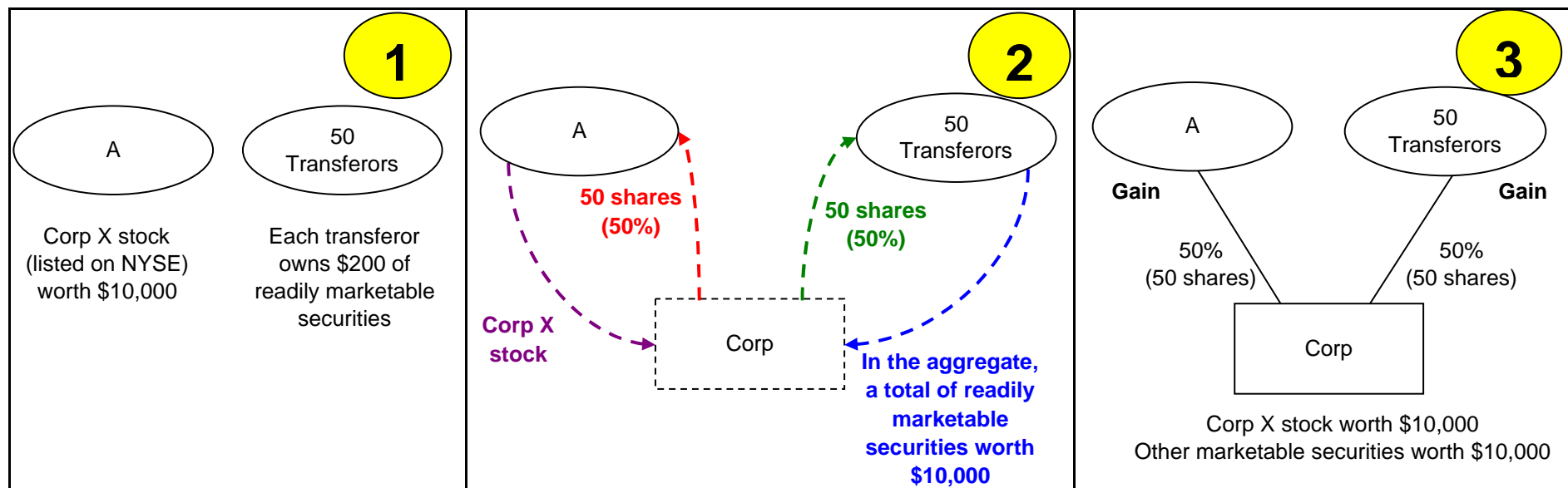
Investment Co. Under Section 351(e)(1) Due to Diversification

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Initial Structure

Contribution / Incorporation

Ending Point



A, together with 50 other transferors, organizes a corporation with 100 shares of stock. A transfers \$10,000 worth of stock in corporation X, listed on the New York Stock Exchange, in exchange for 50 shares of stock. Each of the other 50 transferors transfers \$200 worth of readily marketable securities in corporations other than X in exchange for one share of stock. In determining whether or not diversification has occurred, all transfers will be taken into account. Therefore, diversification is present, and gain or loss will be recognized.

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