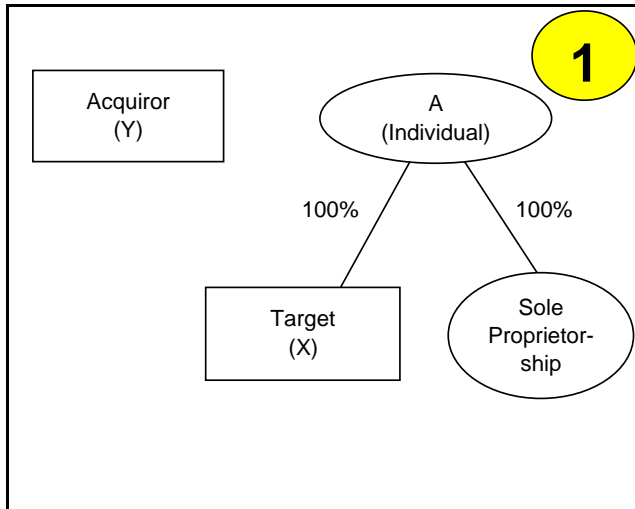
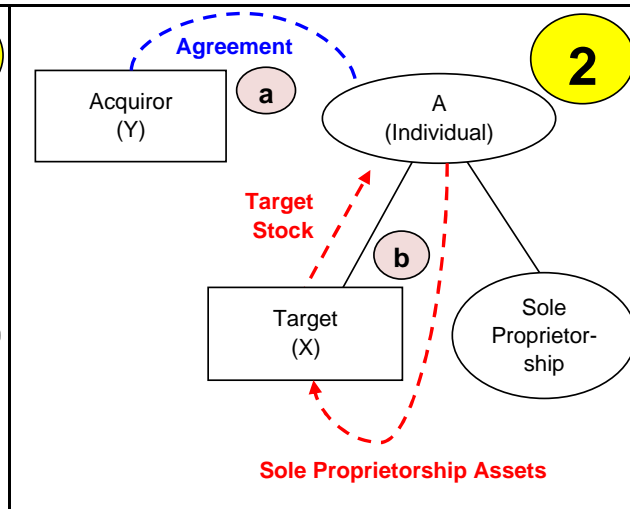


**Purported 351 Exchange  
Followed by B Reorganization**

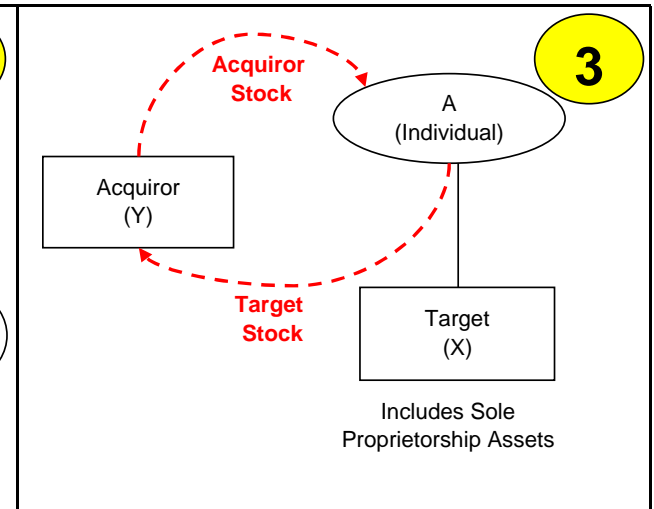
Initial Structure



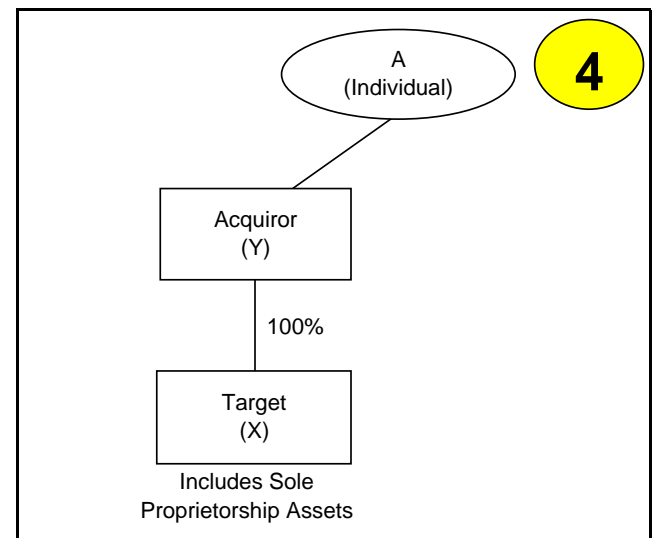
Purported 351 Exchange



B Reorganization



Ending Point



The two steps in boxes 2 & 3 were part of a prearranged integrated plan. The receipt by A of the additional stock of X is transitory and without substance. Section 351 is not applicable to the transfer inasmuch as A was not in control of Y immediately after the transfer.

The transfer of the sole proprietorship assets to X is treated as a sale by A of the assets to Y followed by a transfer of these assets by Y to the capital of X. The exchange by A of the X stock solely for voting common stock of Y, other than the Y stock received in payment for the sole proprietorship assets, is a tax free B reorganization.