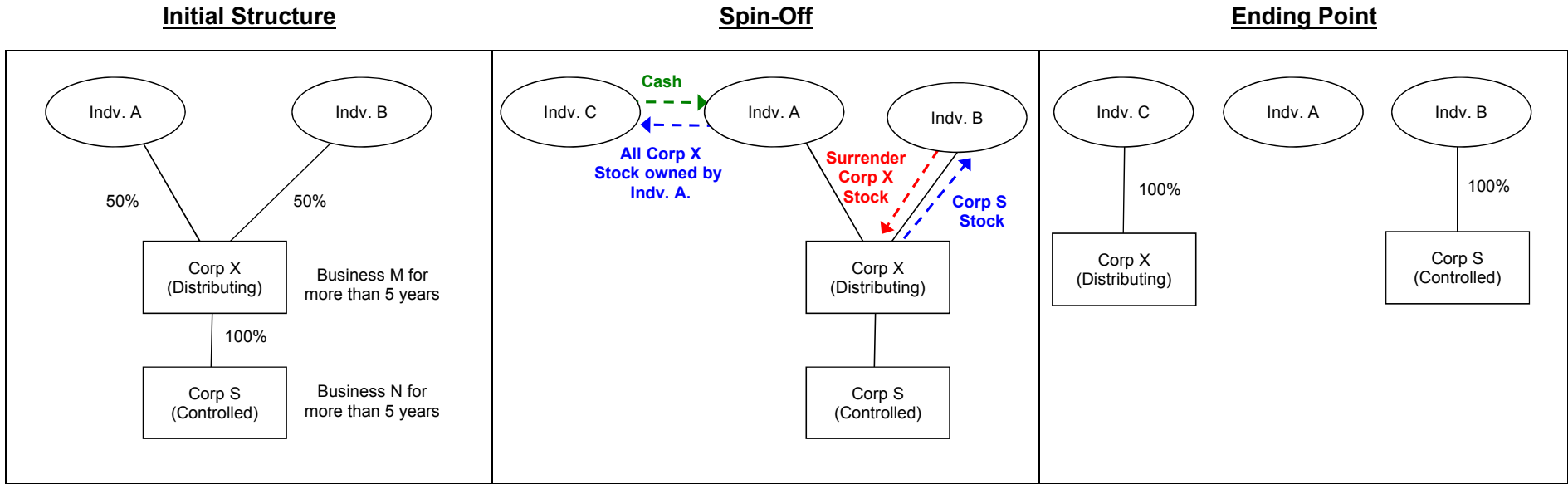


**§355 Spin-Off: Continuity of Interest -
Pre-Spin Sale of Shares (100%)**



For more than five years, Corp X has been engaged directly in one business, and indirectly in a different business through its wholly owned subsidiary, Corp S. The businesses are equal in value. At all times, the outstanding stock of Corp X has been owned equally by unrelated individuals A and B. Pursuant to a plan to acquire a stock interest in Corp X without acquiring, directly or indirectly, an interest in Corp S, C purchased all of the Corp X stock owned by A and immediately thereafter Corp X distributed all of the Corp S stock to B in exchange for all of B's stock in Corp X. After the transactions, neither A nor B own any of the stock of X, and B owns all the stock of S.

The continuity of interest requirement is not met because the owners of Corp X prior to the distribution (A and B) do not, in the aggregate, own an amount of stock establishing a continuity of interest in each of Corps X and S after the distribution, i.e., although A and B collectively have retained 50% of their equity interest in the former combined enterprise, they have failed to continue to own the minimum stock interest in the distributing corporation, Corp X, that would be required in order to meet the continuity of interest requirement.