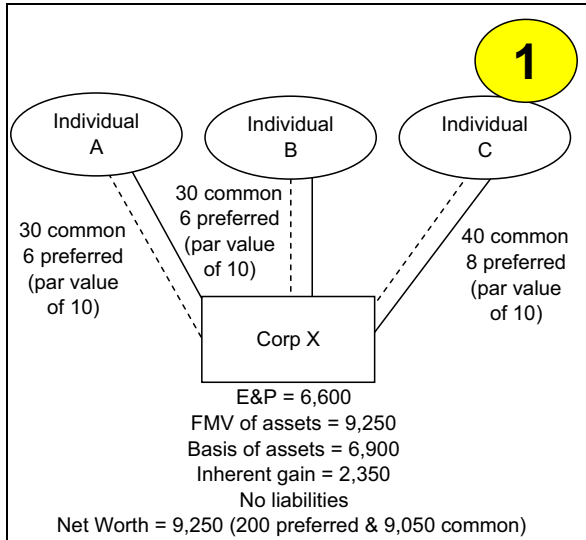
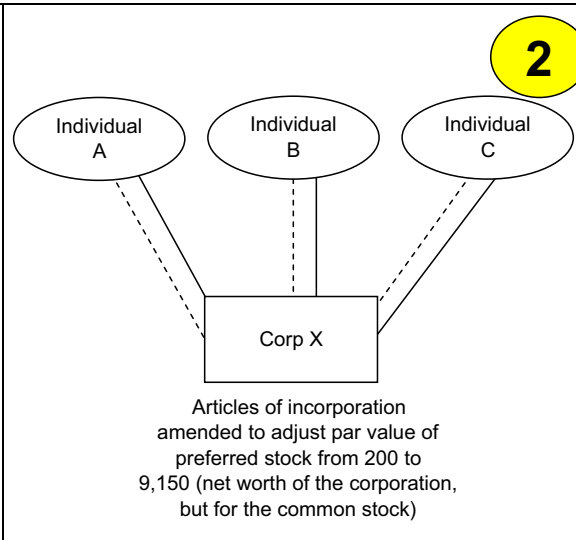


**Corporate Charter Amendment
Deemed a Recapitalization**

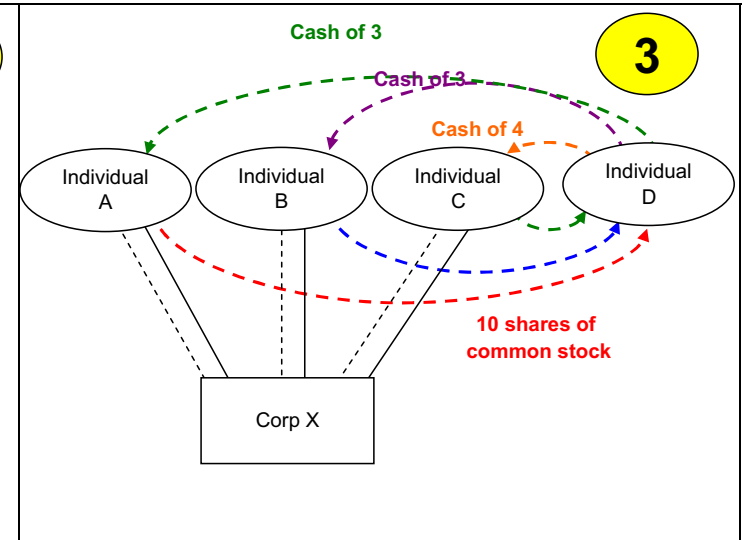
Initial Structure (12/31/56)



Recapitalization (1/1/57)



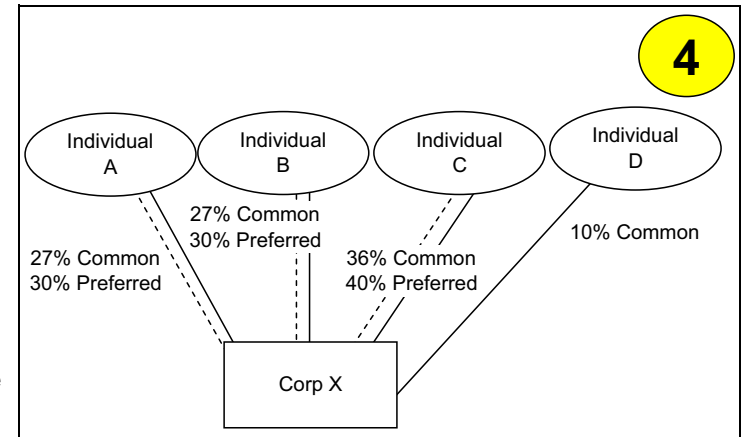
Sale Common Stock



Corp X had outstanding 20 shares of \$10 par value preferred stock and 100 shares of \$1 par value common stock. The outstanding stock was owned by three individuals, each shareholder's proportionate ownership of the preferred shares being equal to his proportionate ownership of the common shares. As of a specified date a few months preceding the charter amendment, the accumulated earnings and profits of the corporation amounted to approximately 6,600 dollars, and the excess of the value of the corporation's properties over the adjusted basis of such properties was about 2,350 dollars.

In order to reduce the value of its common stock to a figure approximating its par value, the corporation amended its articles of incorporation to provide that, in the event of the redemption of the preferred stock or upon liquidation, the amount per share which the holders of the preferred stock would be entitled to receive would be an amount which, in the aggregate, would equal the net worth of the corporation (including the appreciation in the value of the assets) as of the specified date referred to above. No additional shares were issued in connection with the amendment. The change in the provisions of the preferred stock was made in order that a ten percent interest in the common stock could be sold by the shareholders to one of the corporation's officers at a price he could afford to pay. The change also eliminated any possibility of the new shareholder participating in the accumulated profits of the business or the appreciation in the value of the corporation's assets prior to the time he became a stockholder.

Ending Point



Under the circumstances here presented, the change in the outstanding stock is so substantial as to constitute, in substance, an exchange of the preferred stock and a portion of the common stock for new preferred stock in a recapitalization of the corporation. The portion of the common stock deemed to be exchanged is considered to be based on the relative values of the common stock before and after the transaction. The charter amendment is deemed as effective to accomplish this recapitalization as the actual issuance of new certificates in exchange for the outstanding certificates. The recapitalization constitutes a reorganization under section 368(a)(1)(E). No gain or loss is recognized to the shareholders on the exchange under section 354(a)(1).