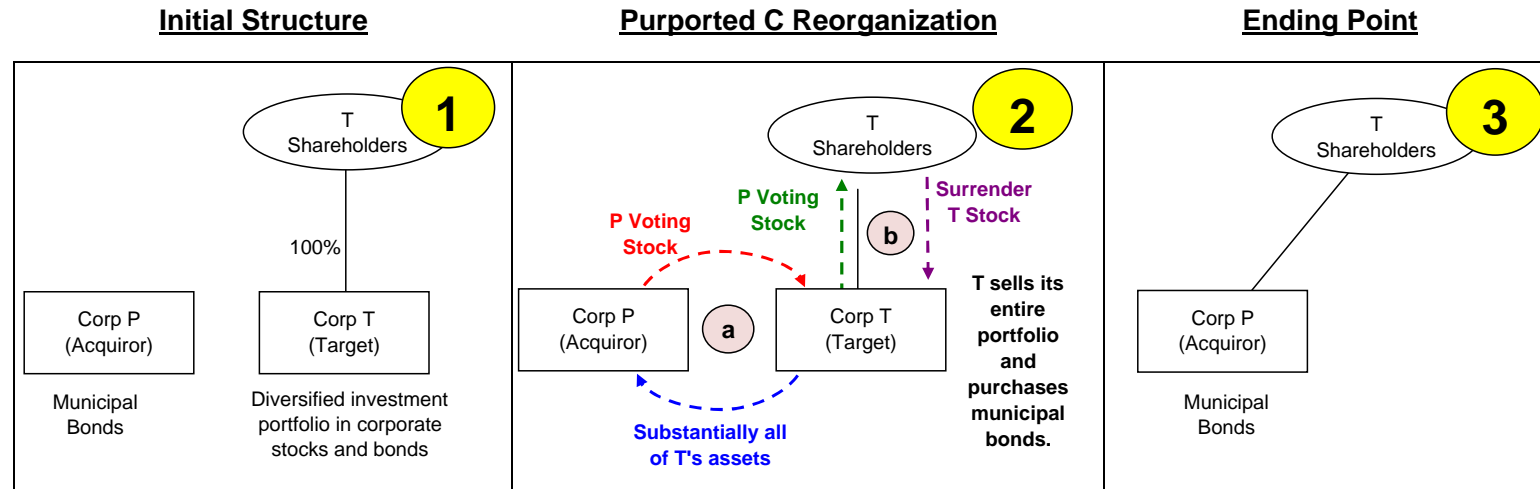


**COBE for an Investment Company**



T is a corporation engaged in the investment business since 1975. From its inception, T's investment practice has been to maintain approximately one-third of the value of its investment portfolio in diversified corporate stock purchased primarily for equity growth, one-third in corporate stock purchased with a view to maximizing current income, and the remaining one-third in general corporate bonds purchased with a view to producing steady, predictable returns of income. T has no other significant assets, tangible or intangible. P is a diversified open-end management investment company whose investment policy since it was organized in 1978 has been to attract investors who wish to participate in a managed portfolio consisting exclusively of high grade municipal bonds, the income from which is exempt from federal income tax.

In 1982, P acquired substantially all of T's assets in exchange solely for shares of P voting common stock in a transaction intended to qualify as a reorganization described in section 368(a)(1)(C). Pursuant to the plan of reorganization, T was required, prior to the reorganization, to sell its entire portfolio of corporate stock and bonds, and reinvest the proceeds there from in municipal bonds that were subject to P's approval. For more than 3 years prior to the proposed transaction, both P and T have been "investment companies" as defined in section 368(a)(2)(F), and at no time following the transaction will P fail to meet the diversification requirements of section 368(a)(2)(F)(iii).

Reg. 1.368-1(d) provides, in general, that the continuity of business enterprise requirement is satisfied if the acquiring corporation in a corporate reorganization either (i) continues the acquired corporation's historic business or (ii) uses a significant portion of the acquired corporation's historic business assets in a business. Reg. 1.368-1(d) is applicable to a transaction intended to qualify as a tax free reorganization under section 368(a)(1)(C). See Reg. 1.368-1(b).

In the present situation, the transaction did not meet the asset continuity test since all of T's historic assets, the portfolio of corporate stocks and bonds, were, as part of the plan of reorganization, sold before the transaction was consummated, and the proceeds were reinvested in municipal bonds. Consequently, the issue was whether P will continue T's historic business. Reg. 1.368-1(b)(3)(i) of the regulations provides that the fact that the acquiring corporation is in the same line of business as the acquired corporation tends to establish the requisite continuity, but is not alone sufficient. Although P and T were both in the business of making investments, T's historic business of investing in corporate stocks and bonds is not the same line of business as investing in municipal bonds. Moreover, as provided in Reg. 1.368-1(d)(3)(iii), a corporation's historic business is not one the corporation enters into as part of a plan of reorganization. The business that P will continue after the reorganization is consummated is not the same as the historic business T was engaged in prior to the reorganization.