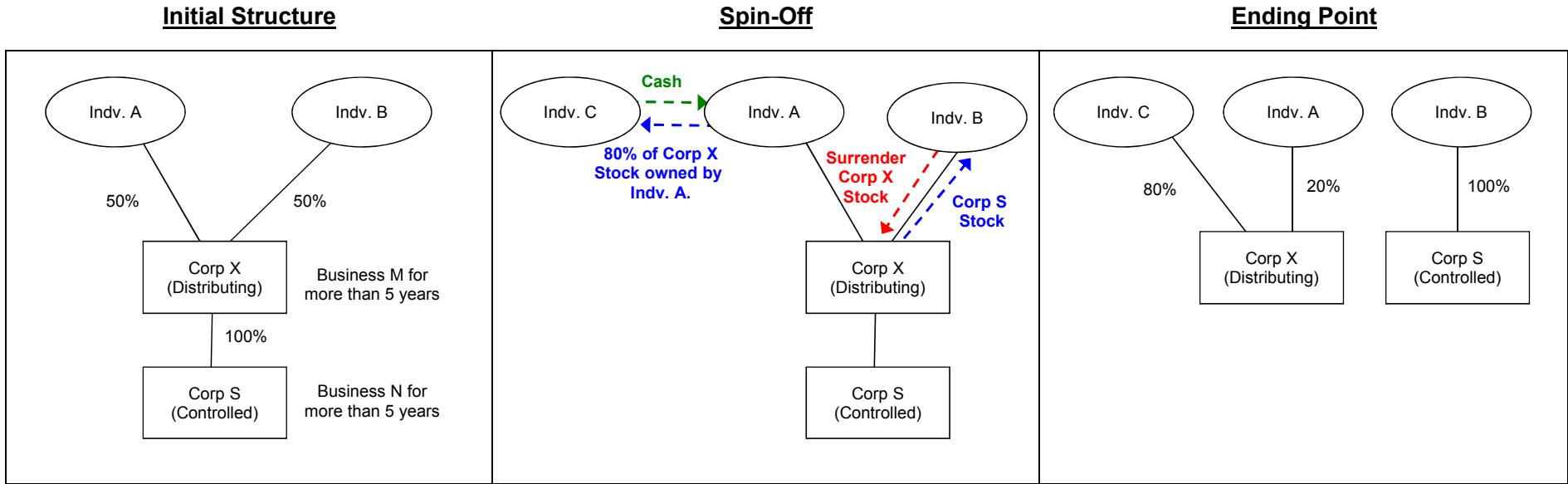


**§355 Spin-Off: Continuity of Interest -
Pre-Spin Sale of Shares (80%)**



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 80% 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, A owns 20 percent of the stock of Corp X, B owns no Corp X stock, and B owns 100 percent of the Corp S stock.

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, have a continuity of interest in each of Corps X and S after the distribution, i.e., although A and B collectively have retained 60% of their equity interest in the former combined enterprise, the 20% interest of A in Corp X is less than the minimum equity interest in the distributing corporation, Corp X, that would be required in order to meet the continuity of interest requirement.