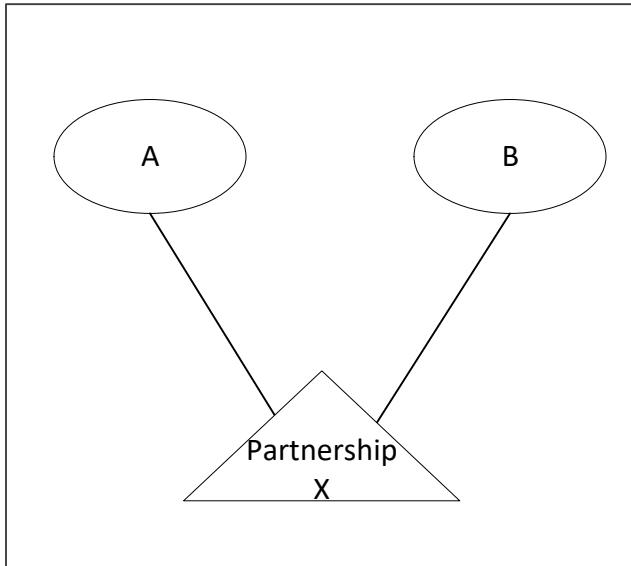
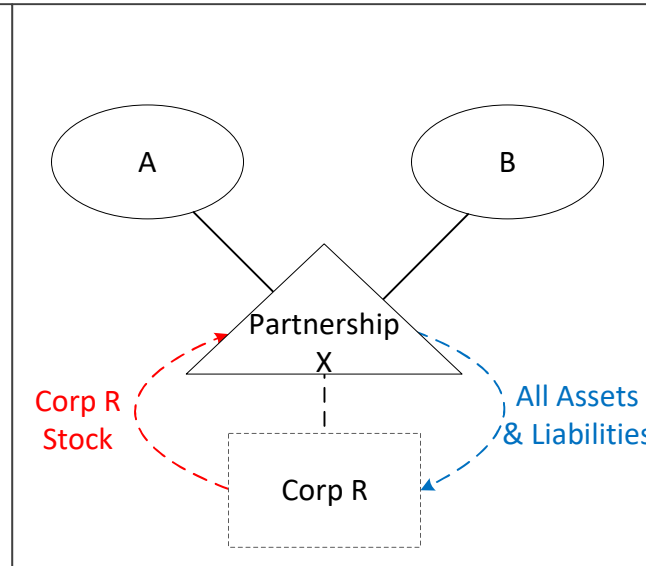


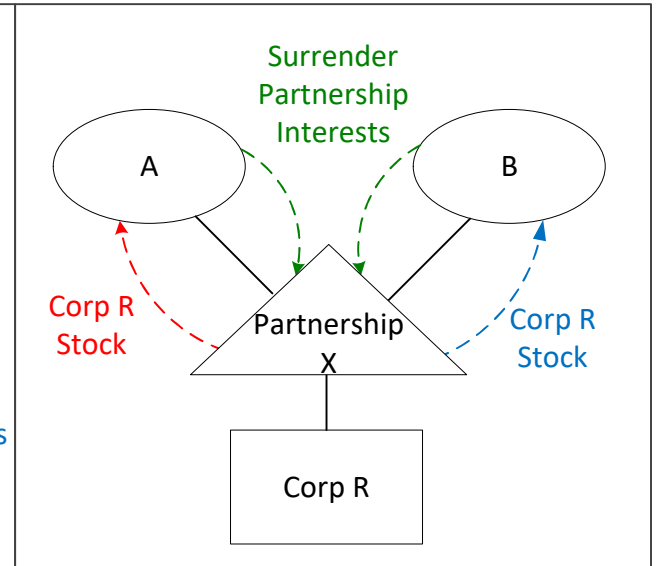
**1 Initial Structure**



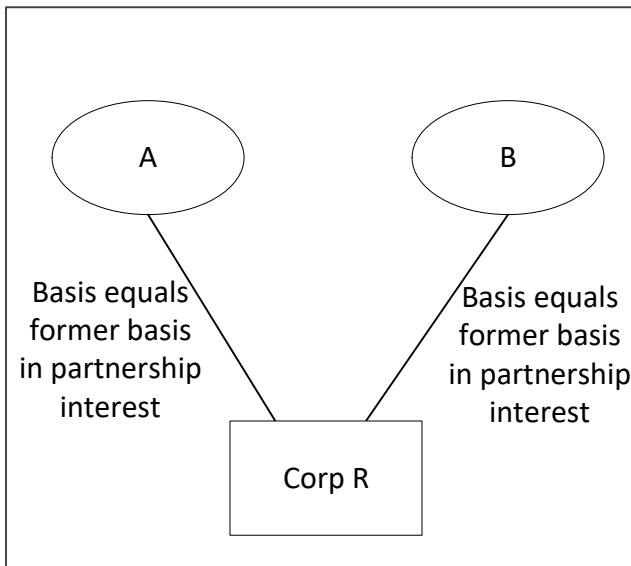
**2 Asset Contribution**



**3 Stock Distribution**



**4 Ending Point**



Partnership X transferred all of its assets to newly-formed corporation R in exchange for all the outstanding stock of R and the assumption by R of X's liabilities. X then terminated by distributing all the stock of R to X's partners in proportion to their partnership interests.

Under IRC §351, gain or loss is not recognized by X on the transfer by X of all of its assets to R in exchange for R's stock and the assumption by R of X's liabilities.

Under IRC §362(a), R's basis in the assets received from X equals their basis to X immediately before their transfer to R. Under IRC §358(a), the basis to X of the stock received from R is the same as the basis to X of the assets transferred to R, reduced by the liabilities assumed by R, which assumption is treated as a payment of money to X under IRC §358(d). In addition, the assumption by R of X's liabilities decreased each partner's share of the partnership liabilities, thus, decreasing the basis of each partner's partnership interest pursuant to IRC §§ 752 & 733.

On distribution of the stock to X's partners, X terminated under IRC §708(b)(1)(A). Pursuant to IRC §732(b), the basis of the stock distributed to the partners in liquidation of their partnership interests is, with respect to each partner, equal to the adjusted basis of the partner's interest in the partnership.

Note: If Partnership X checked-the-box to be treated as a corporation, the result would be the same. See Reg. §301.7701-3(g)(1)(i) & (iv). Also, EIN is retained. See Reg. §301.6109-1(h)(1).