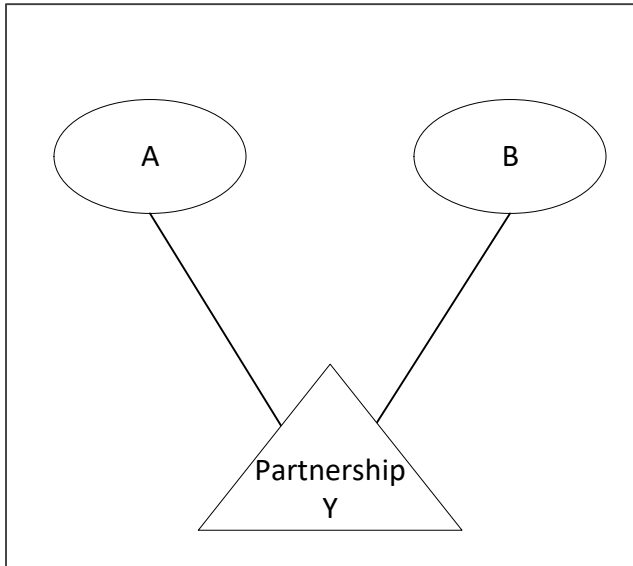
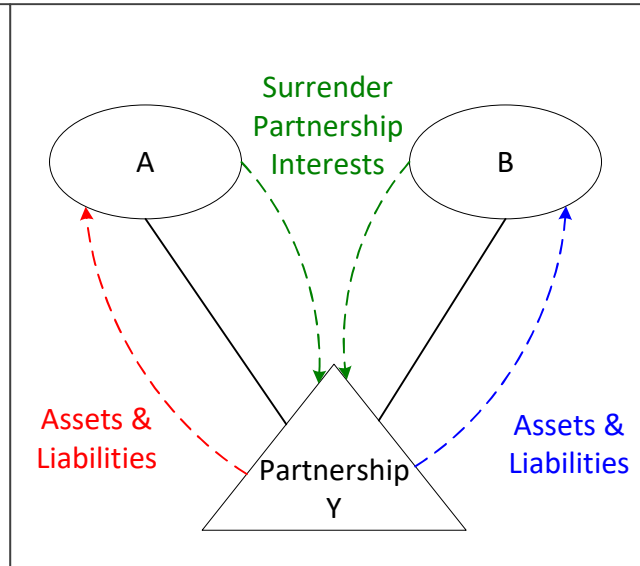


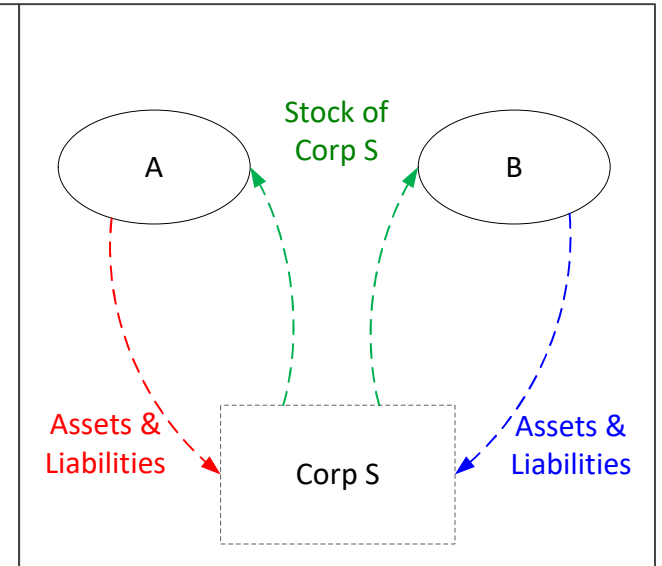
1 Initial Structure



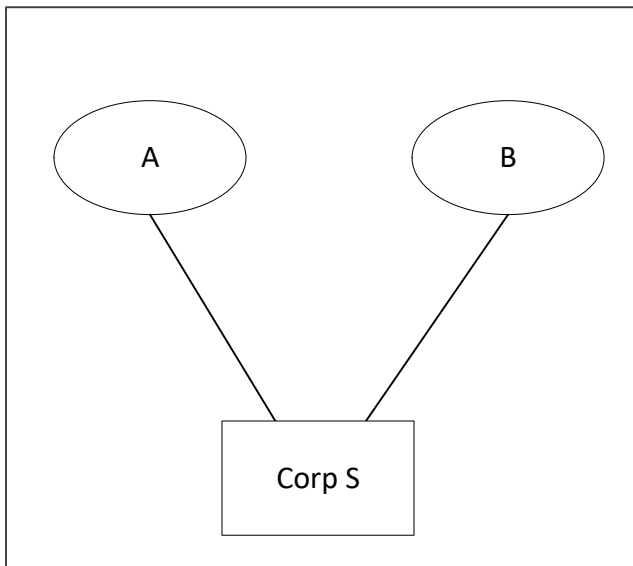
2 Assets Up



3 Assets Down



4 Ending Point



Partnership Y distributed all of its assets and liabilities to its partners in proportion to their partnership interests. The partners then transferred all assets received from Y to newly-formed corporation S in exchange for all the outstanding stock of S and the assumption by S of Y's liabilities that had been assumed by the partners.

On the transfer of all Y assets to its partners, Y terminated under IRC §708(b)(1)(A), and, pursuant to IRC §732(b), the basis of the assets (other than money) distributed to the partners in liquidation of Y was, with respect to each partner, equal to the adjusted basis of the partner's interest in Y, reduced by the money distributed. Under IRC §752, the decrease in Y's liabilities resulting from the transfer to Y's partners was offset by the partners' corresponding assumption of such liabilities so that the net effect on the basis of each partner's interest in Y, with respect to the liabilities transferred, was zero.

Under IRC §351, no gain or loss is recognized on the transfer to S in exchange for its stock and the assumption of Y's liabilities, of the assets of Y received by Y's partners in liquidation of Y. Under IRC §358(a), the basis to the former partners of Y in the stock received from S is the same as the IRC §732(b) basis to the former partners of Y in the assets received in liquidation of Y and transferred to S, reduced by the liabilities assumed by S, which assumption is treated as a payment of money to the partners under IRC §358(d). Under IRC §362(a), S's basis in the assets received from Y's former partners equals their basis to the former partners as determined under IRC §732(c) immediately before the transfer to S.