Exhibit 19.3-1
Summary Of Relevant Code Sections

CONTRIBUTIONS OF PROPERTY IN EXCHANGE FOR STOCK (Section 351)

No gain or loss shall be recognized if property is transferred to a corporation in exchange for stock of that corporation provided the transferors own at least 80% of the corporation immediately after the transfer. (§351)

The basis of the property transferred to the corporation carries over to it. (§362) The basis of the stock received by the shareholder is the same as the shareholder's basis in the property transferred to the corporation decreased by the FMV of property (boot) received back from the corporation and by the amount of liabilities on the property transferred. (§358)

If boot is received from the corporation, then the amount of gain recognized by the shareholder is the lesser of gain realized or the FMV of boot received (§351(b)). The basis of property transferred and the stock received is increased by the gain. (§362 and §358)

LIQUIDATIONS OF SUBSIDIARIES INTO A PARENT (Section 332)

No gain or loss shall be recognized by the parent from the exchange of a subsidiary's stock for its assets in a complete liquidation of the subsidiary. The parent must own at least 80% of the voting stock. And the liquidation must occur within the taxable year or within 3 years if there is a plan of liquidation. (§332)

No gain or loss shall be recognized by the subsidiary when property is distributed in the complete liquidation of the subsidiary. The parent must own at least 80% of the voting power of the liquidating subsidiary (§337). The parent inherits the tax attributes of the subsidiary including its E&P, NOL carryforwards, and water's-edge election. The parent's basis in the assets received is the same as the liquidating subsidiary's basis. (§334(b))

If the parent owns less than 80% of the outstanding stock, §331 will apply to the liquidation. Under §331, gain or loss will be recognized by both the subsidiary and parent.

THE REORGANIZATION CODE SECTIONS

The ownership and structure of corporations change over time. Sections 354 - 368 were enacted to permit certain types of changes in the ownership of a corporation or transfers of assets without gain recognition. Below are brief descriptions of some of the provisions that are referenced in this chapter.

- Section 354

  This is the section that provides for non-recognition of gain when there is an exchange of stock or securities in a reorganization described by Section 368.

- Section 355

  No gain or loss shall be recognized by the shareholders of a corporation if the corporation distributes stock of a controlled subsidiary to its shareholders. To qualify, the transaction must have business purpose, satisfy an active business requirement, and there must be a continuity of interest in the business.

- Section 356

  This section explain what occurs if boot is also transferred as part of a reorganization under Section 368 or Section 355.

- Section 361

  This is the section that provides for non-recognition of gain when there is an exchange of property for stock, securities or other property in a reorganization described by Section 368.

- Section 368

  Section 368(a)(1) contains the definitions of seven types of reorganizations that qualify for nonrecognition of gain. The names of these seven reorganizations are taken form the subsection of Section 368(a)(1) which defines them (e.g. A, B, etc).

- Type A reorganization

  A type A reorganization is one that meets the requirements of any state's merger and consolidation statutes. A type A reorganization can be merger or a consolidation. Two other variations of the Type A reorganization are the forward triangular merger (§368(a)(2)(D)) and the reverse triangular merger (§368(a)(2)(E)).

- Type B Reorganization

  A B reorganization involves the exchange of one corporation's stock for stock of a different corporation.

- Type C Reorganization

  A type C reorganization is similar to a type A merger, but the transaction does not qualify as a statutory merger or consolidation under the laws of that state.