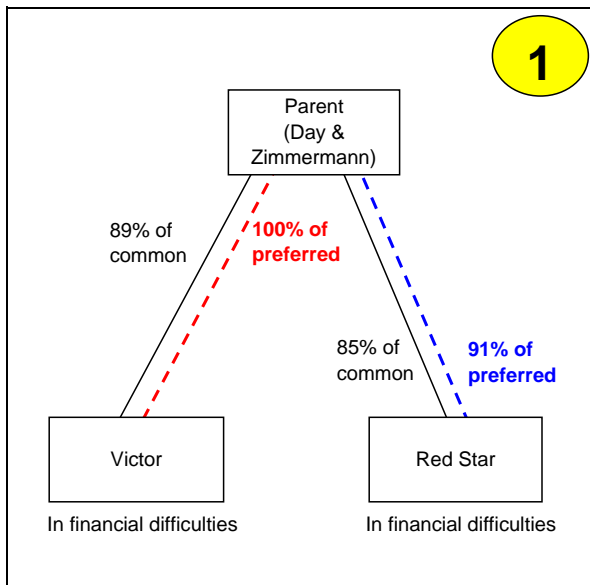
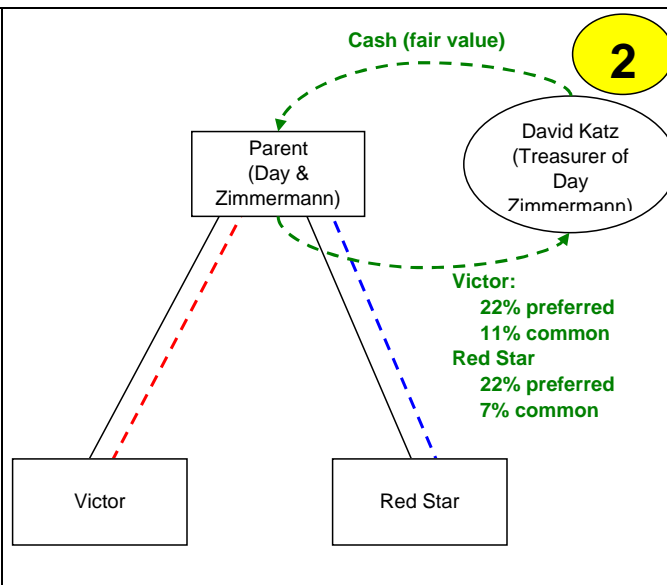


Intentionally Avoiding Section 332

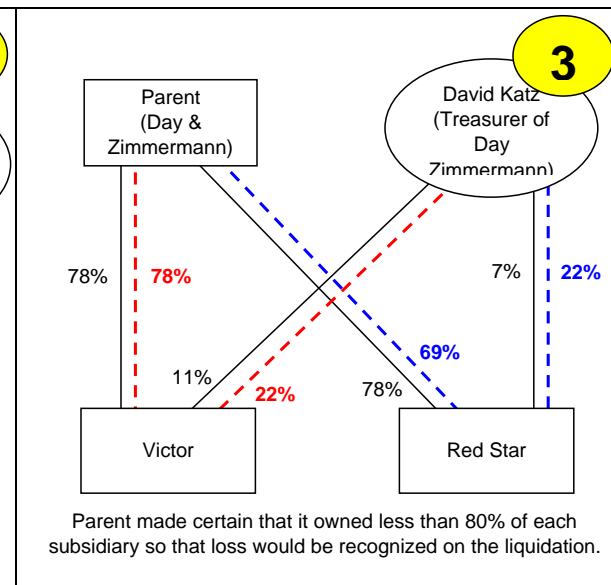
Initial Structure



Public Auction of Shares (Dec. 1939)

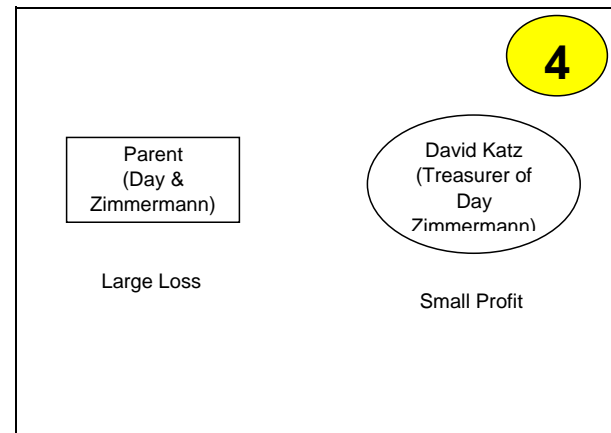


Liquidations (Oct. & Dec. 1940)



Parent, admittedly in order to avoid the nonrecognition provisions of section 112(b)(6) [now section 332], sold at public auction a sufficient number of shares of two subsidiary corporations to reduce its holdings below 80%. These shares were bought, after general bidding, by the treasurer of the taxpayer, who, after receiving liquidating cash dividends of the companies, reported his gain and paid income tax thereon. The Third Circuit held that section 112(b)(6) did not apply to the liquidation, emphasizing that the treasurer had paid a fair price for the shares, had used his own money, had not been directed by anyone to bid, and that there had been no showing of any understanding existing between him and the corporation by which the latter was to retain any sort of interest in the securities or in the proceeds therefrom. See also Granite Trust, 238 F.2d 670 (1st Cir. 1956).

Ending Point



Day & Zimmermann
Chart of Stock Ownership

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Victor

	Shares				Percentages		
	Day	Katz	Others	Total	Day	Katz	Others
<u>Pre-auction</u>							
Preferred	5,000	0	0	5,000	100.00%	0.00%	0.00%
Common	1,568	0	200	1,768	88.69%	0.00%	11.31%
Total	6,568	0	200	6,768	97.04%	0.00%	2.96%
<u>Post-auction</u>							
Preferred	3,898	1,102	0	5,000	77.96%	22.04%	0.00%
Common	1,377	191	200	1,768	77.88%	10.80%	11.31%
Total	5,275	1,293	200	6,768	77.94%	19.10%	2.96%

Red Star

	Shares				Percentages		
	Day	Katz	Others	Total	Day	Katz	Others
<u>Pre-auction</u>							
Preferred	1,000	0	100	1,100	90.91%	0.00%	9.09%
Common	1,700	0	300	2,000	85.00%	0.00%	15.00%
Total	2,700	0	400	3,100	87.10%	0.00%	12.90%
<u>Post-auction</u>							
Preferred	758	242	100	1,100	68.91%	22.00%	9.09%
Common	1,560	140	300	2,000	78.00%	7.00%	15.00%
Total	2,318	382	400	3,100	74.77%	12.32%	12.90%

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