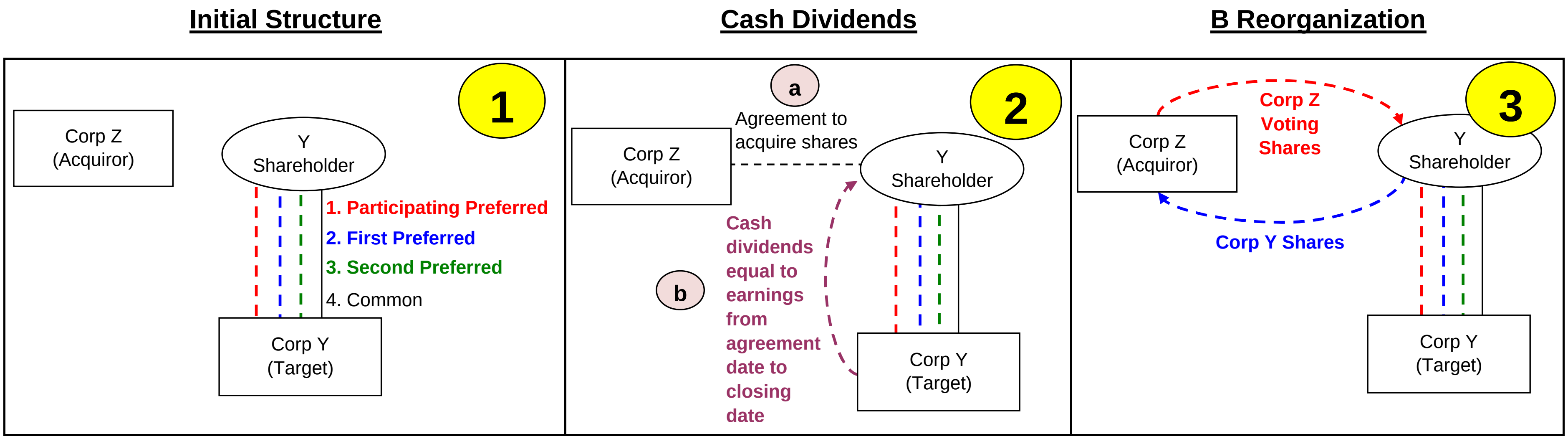
Revenue Ruling 56-184

Pre-B Reorganization Cash Dividends



Y corporation is engaged in the business of manufacturing metal products. It has outstanding special preferred participating stock, first and second preferred stock, and common stock. Only the special preferred participating stock is non-voting.

Z corporation desired to control Y corporation inasmuch as the business of the latter complemented Z's light industrial machinery business and geographically fitted its entire system. To that end, Z, pursuant to a plan of reorganization, acquired all of the outstanding stocks of Y by issuing in exchange therefor certain shares of voting common stock of Z. The number of shares of Z stock issued in the exchange was based on the value of Y's assets as of a specified date. The earnings of Y from that date to the date of closing were distributed to the share holders of Y as dividends prior to the exchange.

In the dividend transaction section 356 is not applicable because the cash distributed is not cash received in connection with an exchange of stock. If it were, section 368(a)(1)(B), would not apply because that section is applicable only if voting stock of the acquiring corporation is the sole consideration given for the stock acquired.