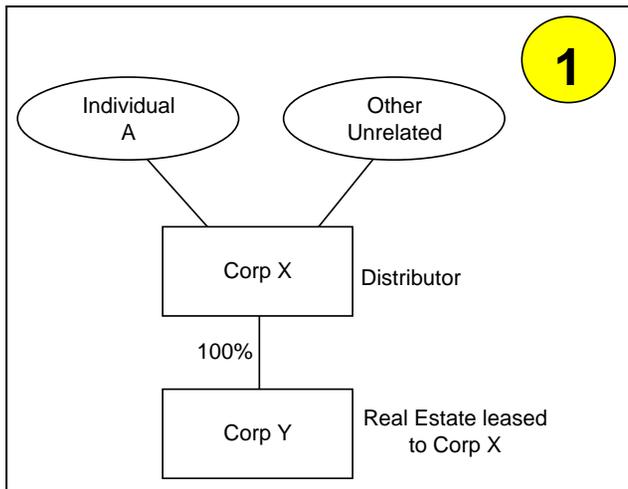
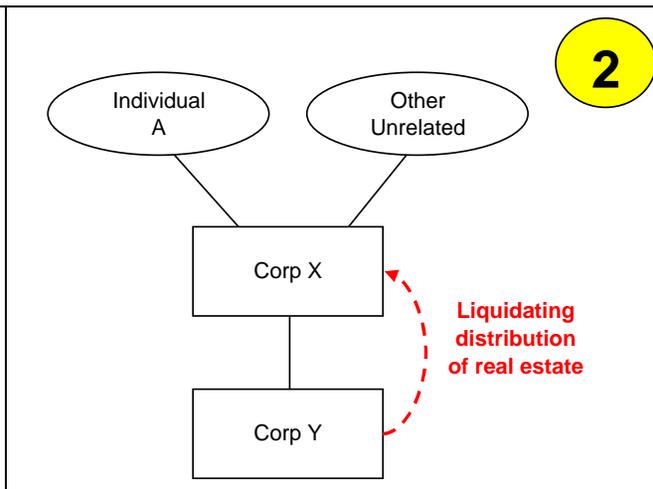


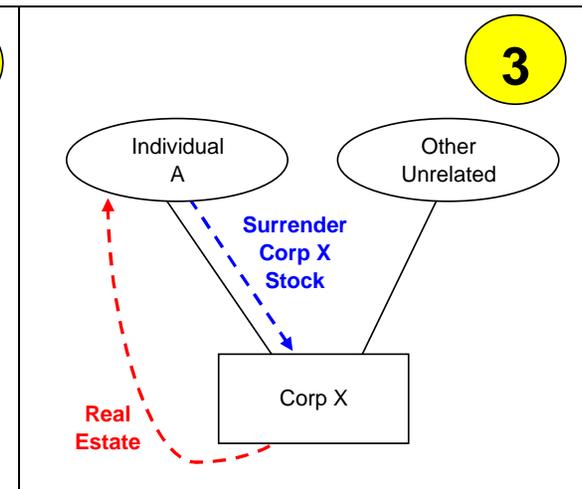
Initial Structure



Corp Y Liquidation

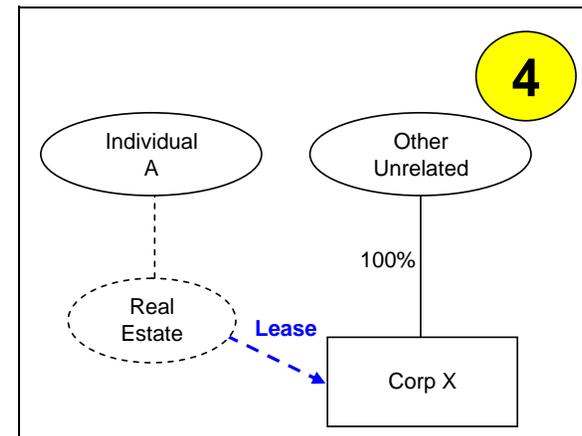


Redemption



X is a corporation operating as a distributor of machinery and parts and is owned by several unrelated individuals. X is the owner of all of the stock of Y, a subsidiary corporation whose assets consist principally of certain real estate all of which is leased to X. Pursuant to a plan, all of the real estate and other assets owned by Y were distributed to X in complete cancellation of all of Y's outstanding stock. Immediately after Y was liquidated, X distributed to A, the majority shareholder of X, the real estate formerly owned by Y, in complete redemption of all of the X stock owned by A. Thereafter, A had no interest in or connection with X directly or indirectly excepting only that A continued to lease to X, the real estate formerly owned by Y under a bona fide lease running for a five year period at a fair rental rate. The fair market value of the property being leased to X is the same as the fair market value of the X stock redeemed.

Ending Point



Section 302(b)(3) provides, in effect, that a redemption shall be treated as a distribution in part or full payment in exchange for stock under section 302(a) if the redemption completely terminates the shareholder's interest in the corporation. The relationship

between A and X after the redemption of the X stock was merely that of landlord and tenant and was not a retention of an interest by A in X as a shareholder. Accordingly, it was held that the distribution of the real estate was a distribution in full payment in exchange for A's stock under section 302(a) by reason of the application of section 302(b)(3).