A, an individual, owned all of the stock of Y corporation. X corporation entered into negotiations with A to buy for cash all of the stock of Y. In negotiating the purchase price of the Y stock, X stated that it did not want to purchase, in effect, the large amount of cash held by Y. A then offered to have Y distribute the cash to A with the understanding that X would then buy the Y stock. On November 1, 1974, Y declared and paid a cash dividend of the unwanted cash to A who surrendered no stock. At that time, X was under no legal obligation to purchase A's Y stock. Y had earnings and profits in excess of the amount of the distribution. On November 2, 1974, A and X executed an agreement for the sale of the Y stock to X for a fixed dollar amount. Pursuant to the agreement X acquired all of A's stock in Y and designated new officers and directors of Y who adopted a formal plan of complete liquidation of Y pursuant to which all of the property of Y was distributed to X in complete cancellation and redemption of the stock of Y. After the liquidation of Y, X paid A the agreed price of the Y stock with funds borrowed from an unrelated lender.

The issue was whether (a) the cash distribution to A was a distribution to which section 301 applies, or (b) the cash distribution was received by A in complete liquidation of Y so that the amounts would be treated as a full payment in exchange for Y stock under section 331(a)(1), or (c) the cash distribution was part of the purchase price paid by X to A for the Y stock and thus treated under sections 1001 and 1002 as in part payment for the Y stock.

The payment of the dividend did not reduce X's obligation to pay the agreed upon purchase price. Thus, the distribution was not considered a part of the purchase price paid by X to A for the Y stock. Moreover, since A was not the owner of any Y stock on the date of the adoption of the plan of liquidation of Y, the distribution was not considered as received by A in complete liquidation of Y. The distribution was taxable to A under section 301. Compare Waterman Steamship Corporation v. Commissioner, 430 F.2d 1185 (5th Cir. 1970), cert. denied 401 U.S. 939 (1970) and Casner v. Commissioner, 450 F.2d 379 (5th Cir. 1977).