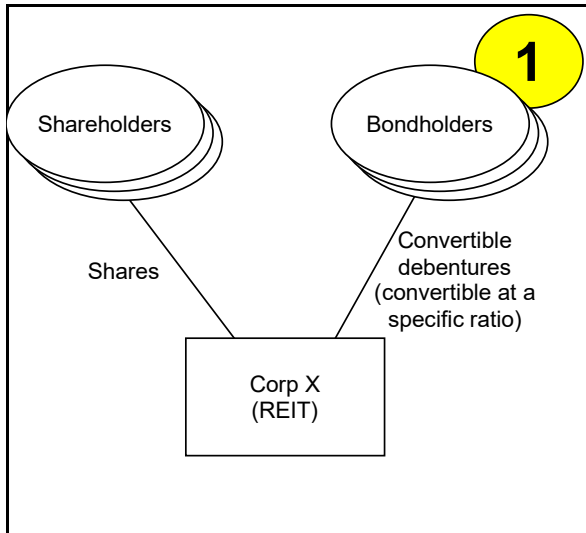
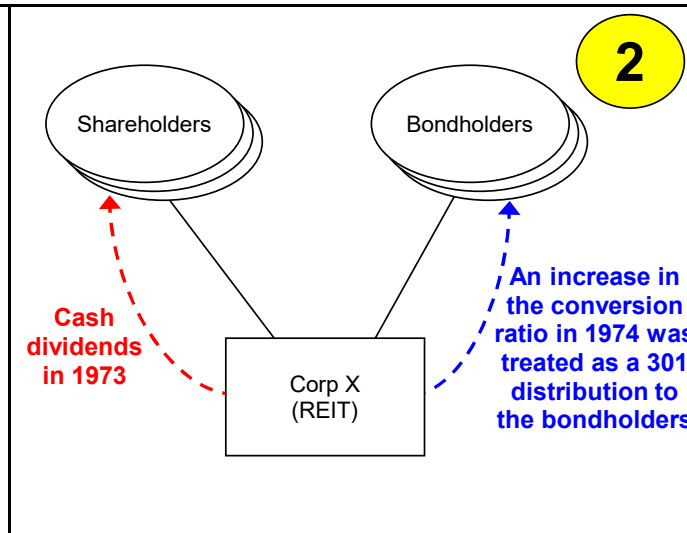


An Increase in the Conversion Ratio of Convertible Bonds Was a Deemed Dividend to the Bondholders

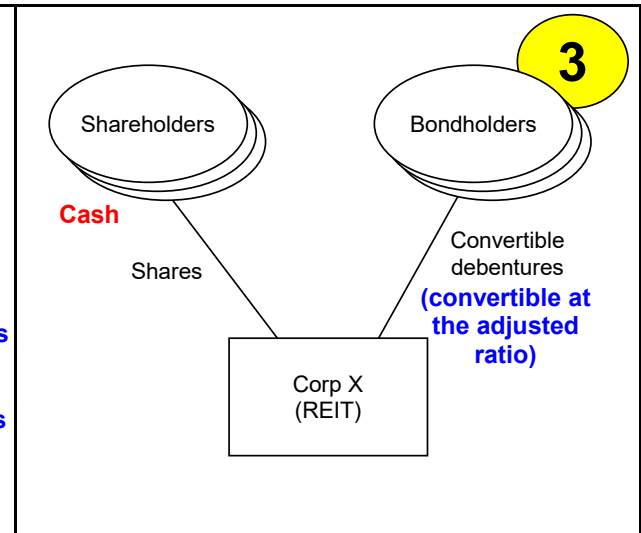
Initial Structure



Distribution & Deemed Distribution



Ending Point



X is a real estate investment trust as defined in section 856(a). X has outstanding shares of beneficial interest (shares of X) and debentures that are convertible into shares of X in accordance with a specified formula. The conversion ratio of the debentures is subject to an adjustment on January 31 of each year to reflect the differential between the interest rate of the debentures and the yield that could have been obtained by investing in shares of X on the date the debentures were issued. X paid a cash dividend to its shareholders in 1973. As a result of such payment, the conversion ratio was increased under the formula on January 31, 1974 thereby entitling the debenture holders to acquire additional shares of X upon conversion of the debentures.

Since there was a receipt of a cash dividend by the X shareholders and an increase in the proportionate interest of other shareholders (the debenture holders) in the assets or earnings and profits of X resulting from the adjustment in the conversion ratio, such adjustment on January 31, 1974 constitutes a deemed distribution of X stock to the debenture holders on that date to which section 301 applies by reason of section 305(b)(2) and (c).

