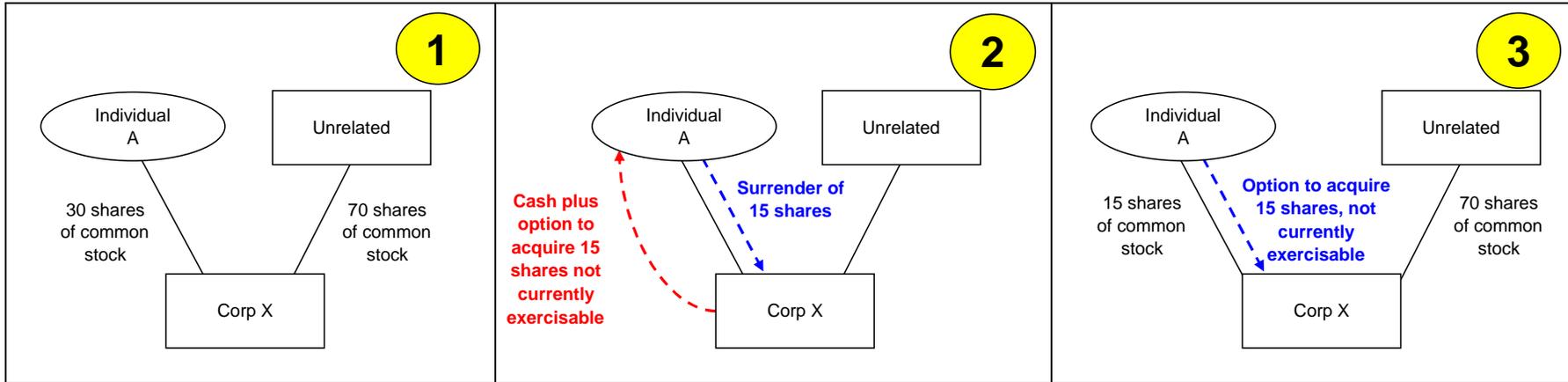


Attribution for Option Not Currently Exercisable

Initial Structure

Redemption

Ending Point



X, a domestic manufacturing corporation, had outstanding 100 shares of voting common stock. A, an officer of X, held 30 shares of this stock. A resigned from X in order to devote time and money to an unrelated endeavor, and X redeemed 15 shares of A's X stock. A received in the redemption cash plus an option to purchase 15 shares of X stock. This option was exercisable only after the lapse of a fixed period of time following the redemption. Except for the provision that the option could not be exercised until the fixed period of time had elapsed, there were no limitations on the exercise of the option.

The redemption constituted a substantially disproportionate redemption of stock within the meaning of section 302(b)(2), provided that the option received by A did not constitute an option within the meaning of section 318(a)(4). Section 318(a)(4) provides that, if a person has an option to acquire stock, this stock is considered as owned by this person. Neither section 318 nor the regulations thereunder define the term "option." Moreover, neither section 302 nor the regulations thereunder specifically address the question of how section 318(a)(4) is to be interpreted for section 302 purposes.

In the present situation, the delay does not prevent A from being viewed as having a right to receive 15 shares of X stock at A's election. In enacting section 302(b)(2), Congress intended not only that certain specific limitations be met at the time of the transaction, but also that the circumstances of the redemption offer some assurance that the redeemed shareholder will sustain the required contraction of equity with a degree of permanence. Here, the option not only meets the literal wording of section 318(a)(4) but also prevents the transaction from meeting this intent underlying section 302(b)(2). The option distributed by X to A in redemption of A's X stock constitutes an option within the meaning of section 318(a)(4); accordingly, A owned, directly and constructively, the same number of shares of X stock after the redemption that A owned before the redemption. As a result of owning the option, A is considered as owning the stock covered by the option and, thus, fails to meet the requirement of section 302(b)(2).