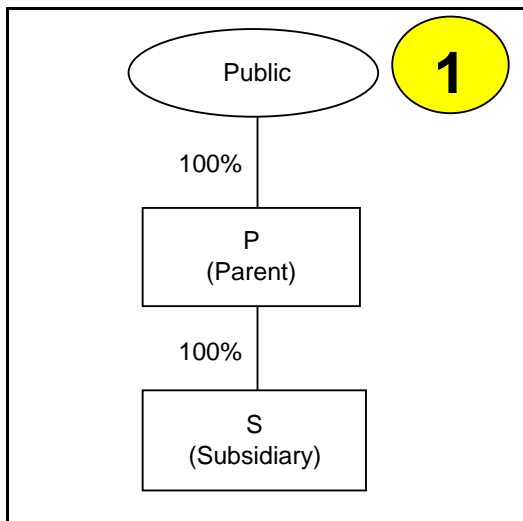
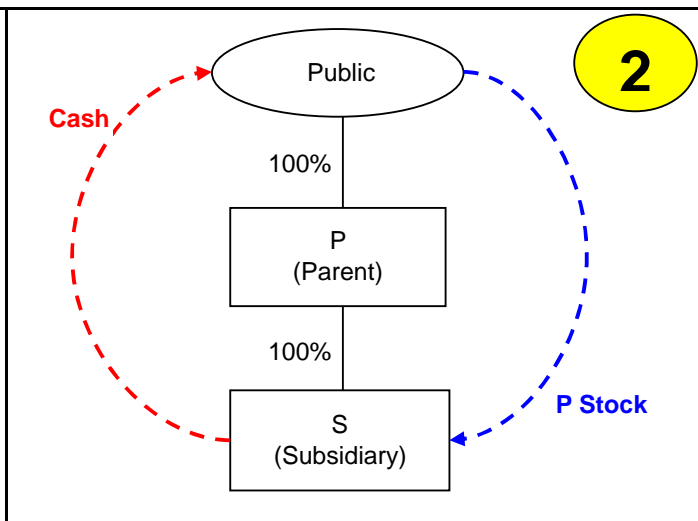


**Subsidiary Purchase & Sale of Parent Stock**

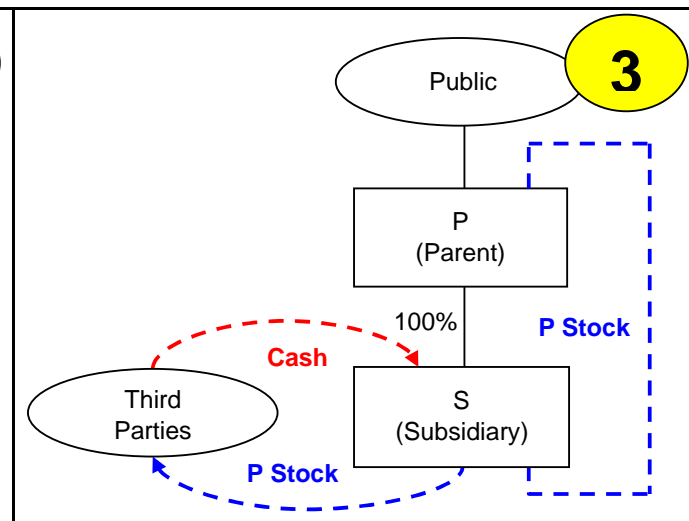
**Initial Structure**



**Purchase of Stock**



**Sale of P Stock**



*S*, a wholly owned domestic subsidiary of domestic corporation *P*, purchased shares of *P*'s stock on the open market and sold the stock to outside interests at a gain. *S* received dividends from *P* prior to the sale of the stock.

The stock of *P* held by *S* is not treasury stock and the sale of such stock is not to be treated as a sale by the corporation of its own capital stock pursuant to the provisions of section 1032. The sale of such stock to outside interests is a transaction resulting in a gain or loss. The dividends, however, will be treated as prescribed by section 243, pertaining to dividends received by corporations.

**Ending Point**

