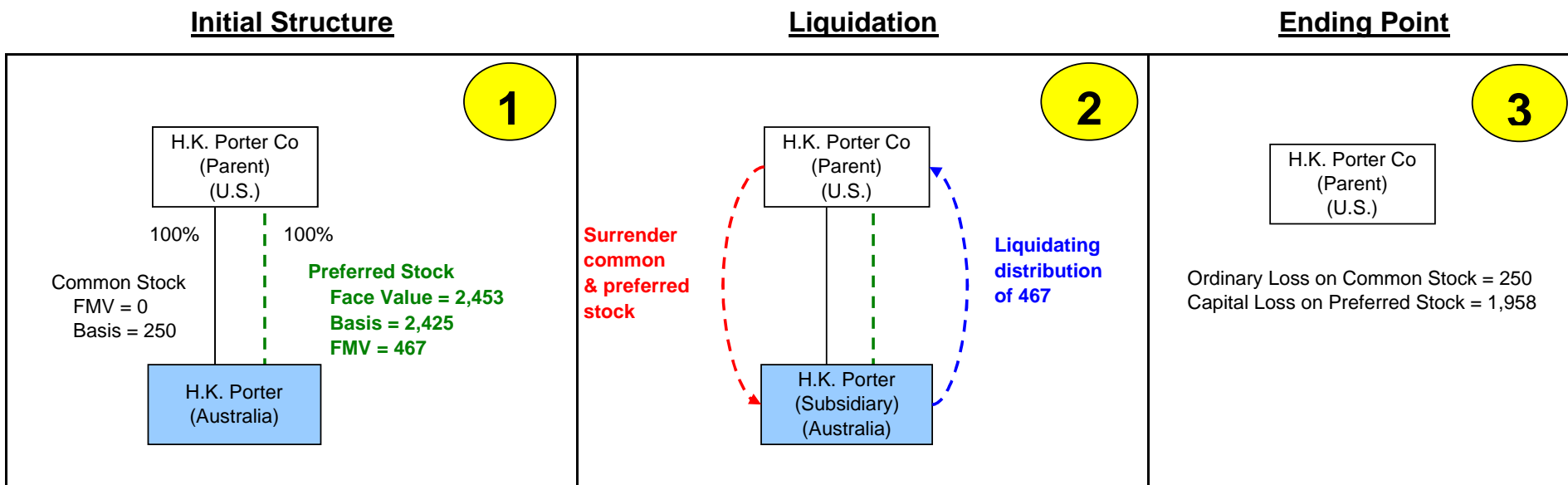


H. K. Porter Co. v. Commissioner
87 T.C. 689 (1986)

(All amounts in thousands)

**Worthless Stock Deduction:
 Liquidating Distribution Was Only
 with Respect to Preferred Stock**

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H.K. Porter Co. held two classes of stock (preferred and common) in its Australian subsidiary. The subsidiary liquidated into the parent. The value of the assets of the subsidiary was not enough to cover the parent's entire investment in the preferred shares. Since there was no value distributed with respect to the common shares, section 332 did not apply with respect to the common shares and it was entitled to a loss pursuant to section 165(g).

There can be no distribution in respect to common stock until the prior claim of the preferred stock has been satisfied. *Spaulding Bakeries, Inc. v. Commissioner*, 27 T.C. 684 (1957), affd. 252 F.2d 693 (2d Cir. 1958). The parent received no distribution in liquidation on the subsidiary's common stock; the parent merely received in liquidation payment of a part of the preferred stock. Priorities on dissolution cannot be disregarded.

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