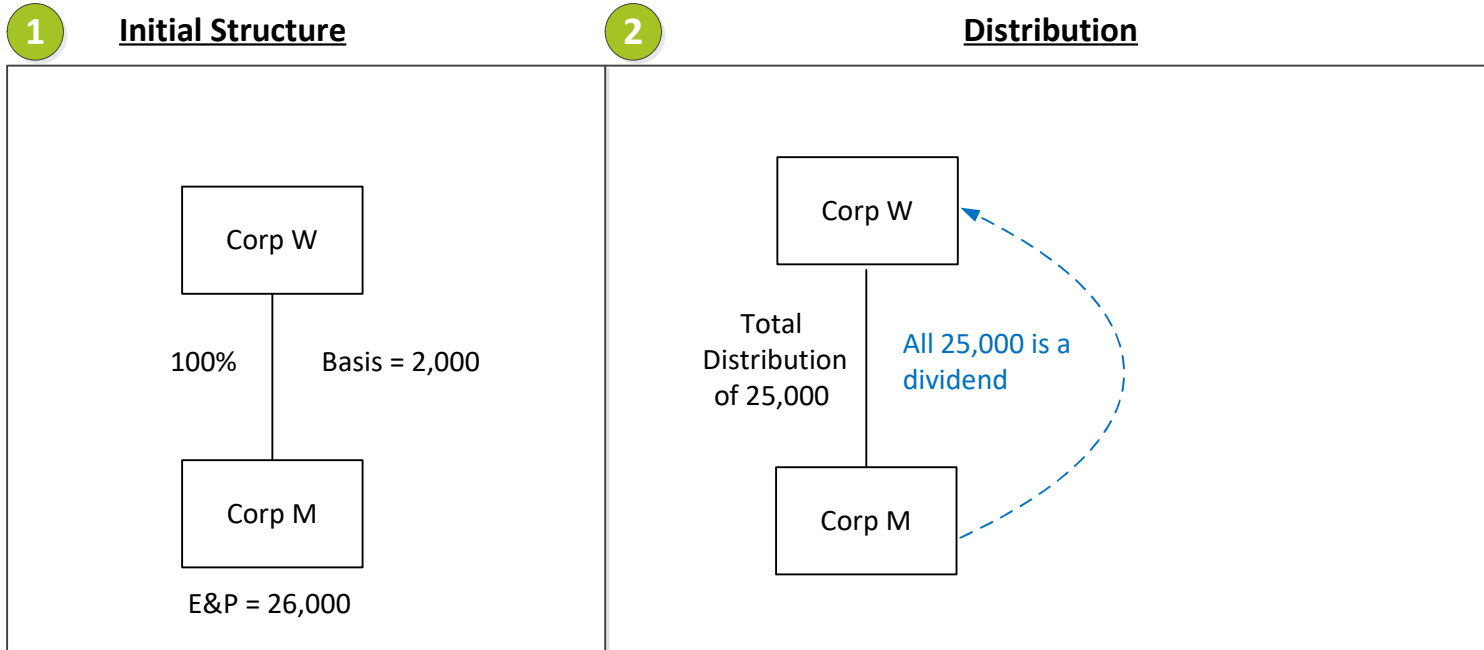


Section 301 Distribution
Less Than E&P Results in Dividend Only



The facts are the same as in Example 1 with the exceptions that the shareholder of Corporation M is Corporation W and that the securities which were distributed had an adjusted basis to Corporation M of \$15,000. The distribution, received by Corporation W totals \$25,000 consisting of \$10,000 in cash and securities with an adjusted basis of \$15,000. The total \$25,000 will be treated as a dividend to Corporation W since the earnings and profits of Corporation M (\$26,000) are in excess of the amount of the distribution.