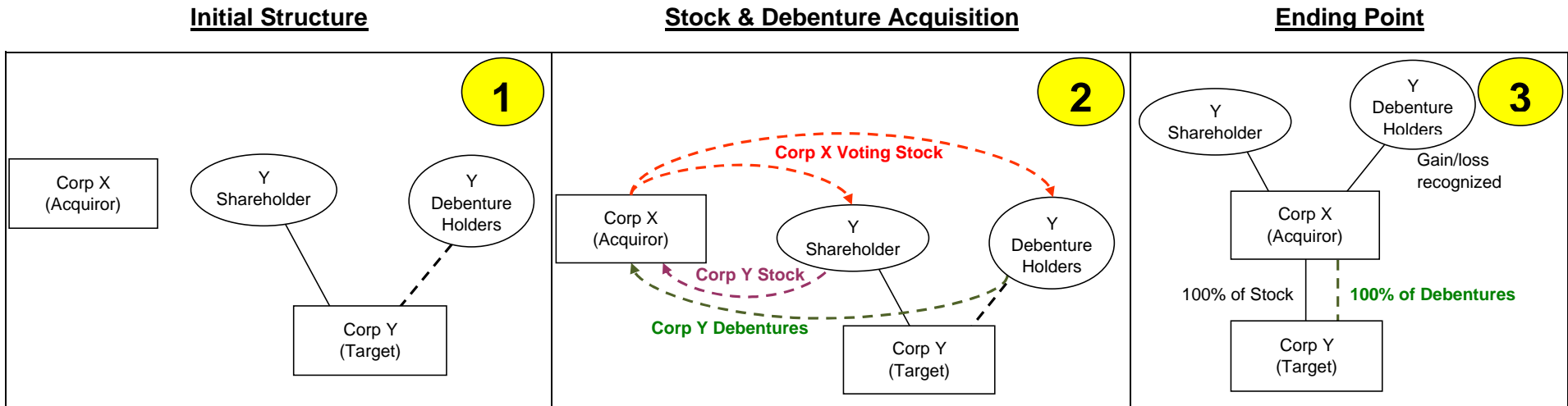


B Reorganization with Acquisition of Debentures



Corporation X acquired all of the outstanding capital stock of corporation Y in exchange for voting stock of X. As part of the same plan X also acquired all of the outstanding six percent ten-year debentures of Y in exchange for voting stock of X. Most of the debentures of Y were held by persons who were not shareholders of Y. The acquisition of the debentures of Y in exchange for stock of X was not part of the reorganization for purposes of sections 368(a)(1)(B) and 354(a)(1). Section 368(a)(1)(B) and Treas. Reg. § 1.368-2(c) in defining a reorganization refer only to an acquisition of stock of another corporation. The exchange of the debentures is governed by section 1001 and any gain or loss realized by the debenture holders of Y will be recognized as provided by section 1002.

This ruling was modified by Rev. Rul. 98-10 to hold that no gain or loss was recognized by the debenture holders.