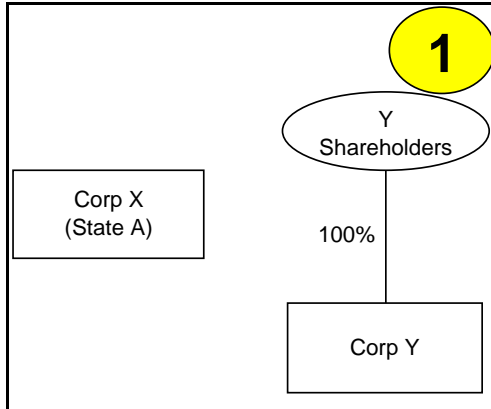
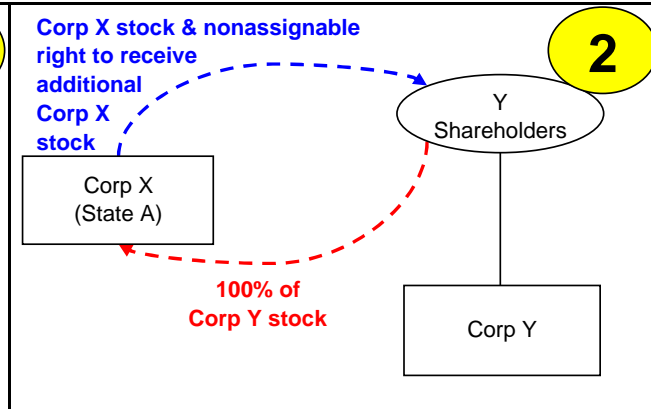


B Reorg With Contingent Consideration Followed by F Reorg

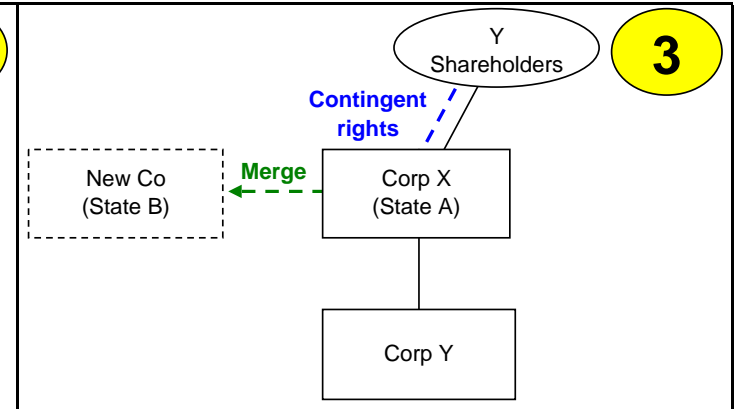
Initial Structure



Acquisition (B Reorganization)



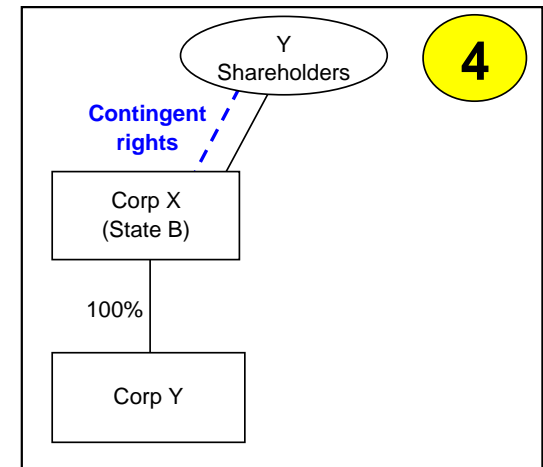
F Reorganization (2 years later)



All of the stock of Y corporation was acquired by X, solely in exchange for the voting stock of X. Because of the inability of the parties to agree on the value of Y for the exchange of the stock, the plan included an agreement that the shareholders of Y would receive additional shares of X voting common stock at the end of each of the 5 succeeding years provided the earnings of Y reached a certain level for those years. This right to receive additional stock was not assignable by the former Y shareholders. Fifty percent of the maximum number of shares to be issued in the exchange for the Y stock were issued on the effective date of the reorganization. This transaction qualified as a reorganization under section 368(a)(1)(B).

Two years after the effective date of that reorganization, X reincorporated in another state by merging into a newly-formed corporation in that state and the shareholders of X exchanged their stock in X for stock in the new corporation. The transaction qualified as a reorganization under section 368(a)(1)(F) and no gain or loss was recognized to the shareholders on the exchange of their stock in the old corporation solely for stock in the new corporation under section 354(a)(1). As part of the reorganization agreement, the new corporation undertook to carry out X's agreement for payment of additional shares of X stock to the former shareholders of Y over the remainder of the 5-year period, by the issuance of the new corporation's voting stock in lieu of X's voting stock.

Ending Point



Rev. Rul. 66-112 holds that for purposes of determining whether a transaction qualifies as a reorganization under section 368(a)(1)(B), provisions for a nonassignable contingent contractual right to receive only additional voting stock of the acquiring corporation provided for in a plan of reorganization does not violate the "solely for voting stock" requirement of section 368(a)(1)(B). Since the reincorporation of X into the new corporation involved nothing more than a change in place of organization, the stock of the new corporation received under the terms of the contingent stock agreement in the original reorganization plan is effectively the same as the stock of the acquiring corporation in that plan. Therefore, issuance of such stock does not violate "the solely for voting stock" requirement of the reorganization involving Y or X. Accordingly, the first reorganization retains its nontaxable status and the former Y shareholders will recognize no gain or loss on the receipt of stock of the new corporation under section 354(a)(1).