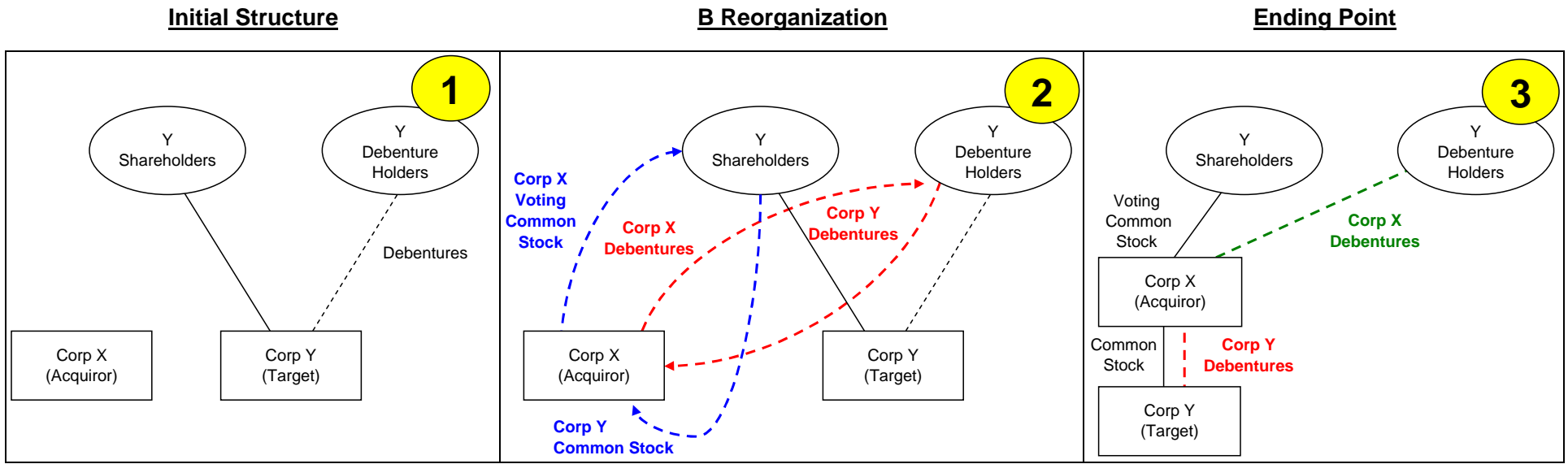


**B Reorganization Treated As Separate From Exchange of Debentures**



Corporation X acquired all of the outstanding capital stock of corporation Y in exchange for voting stock of X. Corporation Y is a solvent corporation. Prior to the exchange, Y had an issue of six percent ten-year debentures outstanding. Pursuant to the plan of reorganization X acquired all of the outstanding debentures of Y in exchange for an equal amount of new six percent ten-year debentures of X. Some of the debentures of Y were held by its shareholders, but a substantial proportion of the Y debentures was held by persons who owned no stock.

Corp X's acquisition of Corp Y stock must be solely for voting stock of Corp X for the exchange to qualify under section 368(a)(1)(B). The ruling held that the exchange of the debentures was a separate transaction and that the exchange of Corp Y stock solely for Corp X stock qualified as a B reorganization. See also Rev. Rul. 78-408 (warrants).