Individuals B and C each owned ten of the twenty shares of corporation Y’s only class of outstanding stock. Corporation X, pursuant to a plan of reorganization described in section 368(a)(1)(C), acquired all the assets of corporation Y solely in exchange for 740 shares of X voting stock having a fair market value of 10x dollars per share and the assumption by X of all but one of the liabilities of Y. Y’s basis in the shares of X was 6x dollars per share pursuant to the provisions of section 358. Pursuant to the plan Y dissolved. An outstanding indebtedness in the amount of 1,000x dollars owed by Y to A, an individual who held no stock in Y, was discharged by the transfer by Y of 100 shares of the stock of X to A.

Y discharged an indebtedness of 1,000x dollars by transferring property to its creditor, A. In this transaction Y realized income measured by the difference between its basis in the 100 shares of X stock transferred (600x dollars) and the fair market value thereof (1,000x dollars). See United States v. Thomas Crawley Davis, 370 U.S. 65 (1962), E. F. Simms, 28 B.T.A. 988, 1029 (1933), where it was held that the transfer of stock in satisfaction of an outstanding obligation is the equivalent of a sale pursuant to section 1001, and results in the realization of gain to the transferor. Thus, gain in the amount of 400x dollars was realized and recognized by Y pursuant to sections 1001 and 1002.