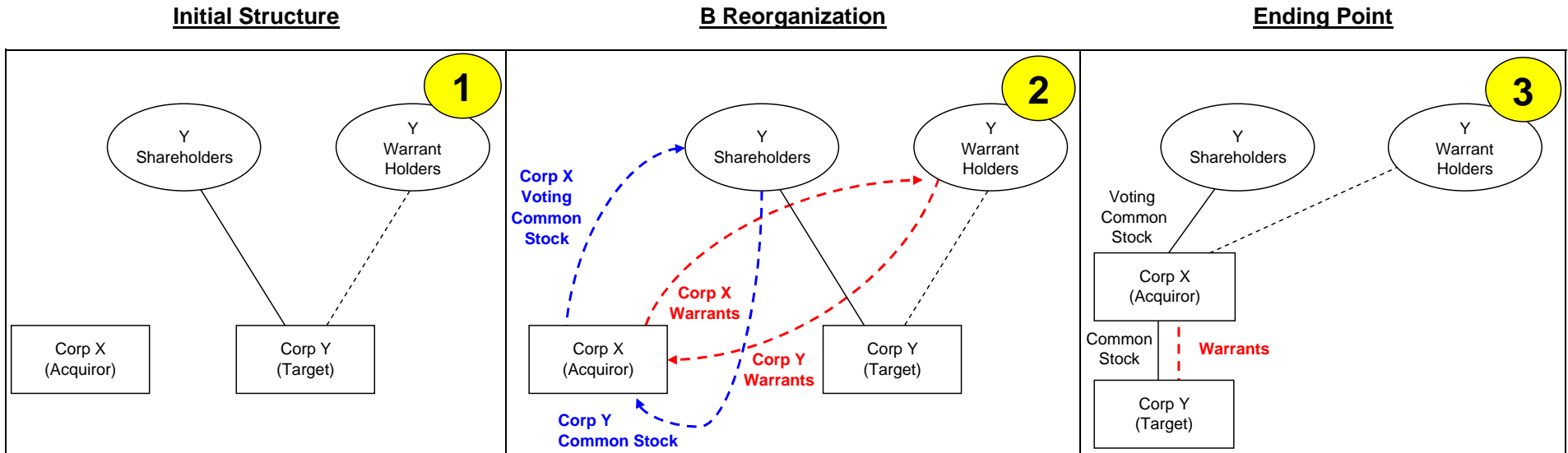


**B Reorganization Treated As Separate From Exchange of Warrants**



X corporation acquired all the outstanding voting common stock of Y corporation pursuant to a plan of reorganization. Under the plan each share of Y voting common stock was exchanged for one share of voting common stock of X. Y also had warrants outstanding for the purchase of Y voting common stock. Pursuant to the plan of reorganization, X issued a warrant for the purchase of X voting common stock in exchange for each of the Y warrants. Each X warrant was identical to the Y warrant in terms, conditions, and other respects (including number of shares and price per share) except that the warrant-holder was entitled to receive X stock rather than Y stock. Some of the warrant-holders of Y also owned stock in Y so that they received both X voting common stock and X warrants in the two exchanges.

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 warrants was a separate (taxable) transaction and that the exchange of Corp Y stock solely for Corp X stock qualified as a B reorganization. See also Rev. Rul. 69-142. Note that Reg. 1.354-1(e) now provides that securities "includes rights issued by a party to the reorganization to acquire its stock."