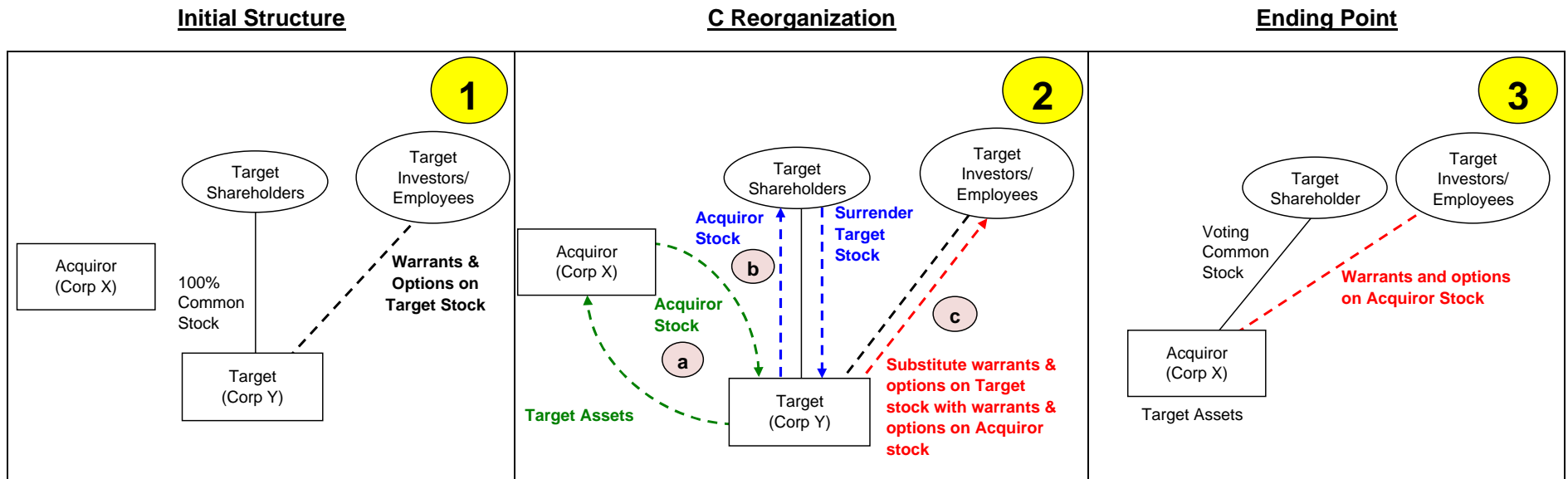


**C Reorganization:
Warrants and Options**



Pursuant to a plan of reorganization, Acquiror acquired all the assets of Target in exchange for some of Acquiror's voting stock. Prior to this transaction Target had issued stock warrants to certain investors and had granted options to certain employees to purchase shares of its stock. Pursuant to the plan of reorganization, Acquiror agreed to substitute its stock for that of Target under the terms of the stock warrants and options issued by the latter. Acquiror accordingly agreed that upon the exercise of any of the warrants or stock options outstanding as of the date of exchange, it would issue to the warrant and option holders that number of shares of Acquiror voting stock that they would have been entitled to receive had they exercised the warrants or options immediately prior to the exchange.

A reorganization as described in section 368(a)(1)(C) is the acquisition by one corporation in exchange solely for all or part of its voting stock (or in exchange solely for all or a part of the voting stock of a corporation which is in control of the acquiring corporation) of substantially all of the properties of another corporation. In determining whether the exchange is "solely" for stock, section 368(a)(1)(C) of the Code provides that the assumption by the acquiring corporation of a liability of the other, or the fact that property is acquired subject to a liability, shall be disregarded.

The arrangements under which Target was obligated to issue its stock to the holders of the warrants and options constitute a contractual liability of Target. Thus, the undertaking by Acquiror to discharge Target's obligation by substituting its own stock for that of Target was no different than the assumption of a liability under any other executory contract of Target and such assumption is to be disregarded as provided in section 368(a)(1)(C). Accordingly, the assumption of Target's outstanding warrants and outstanding employee stock options by Acquiror and the substitution of the latter corporation's stock thereunder pursuant to a transaction otherwise qualifying under section 368(a)(1)(C), does not violate the "solely for all or a part of its voting stock" requirement.