Revenue Ruling 72-522

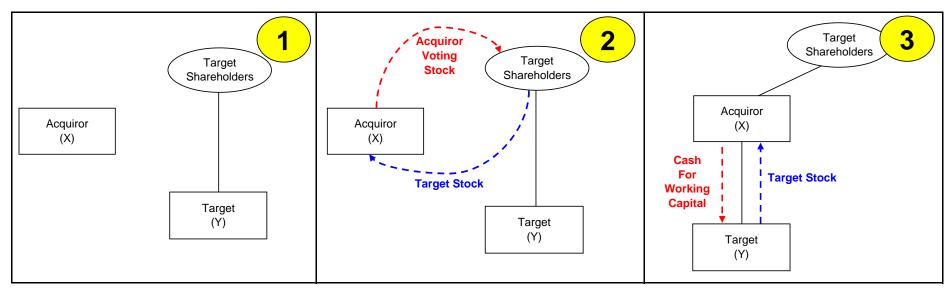
Equity Injection for Working Capital Does not Disqualify B Reorganization

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Initial Structure

Stock for Stock Exchange

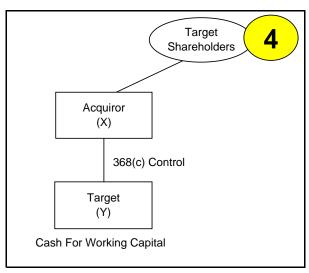
Equity Injection



Qualification as a section 368(a)(1)(B) reorganization is not affected if the Acquiror, simultaneously with the exchange of its voting stock for all the voting stock of the Target, purchases the Target's authorized but unissued stock.

The cash payment made by Acquiror to Target for unissued stock was not part of the transaction between the Acquiror and the former Target shareholders. Since the former Target shareholders did not receive any portion of the cash payment, either directly or indirectly, such payment is considered to be separate from the acquisition of their outstanding stock. Therefore, even though the purchase of the authorized but unissued stock of Target was part of the overall transaction, the transaction was not a part of the reorganization exchange for the purposes of sections 368(a)(1)(B) and 354(a)(1).

Ending Point



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