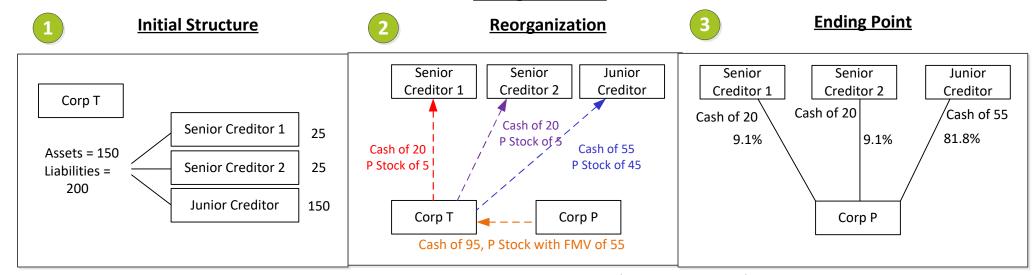
## Treas. Reg. §1.368-1(e)(8), Example 10

## Creditor COI in Insolvency Reorganization





(i)More than one class of creditor receives issuing corporation stock. T has assets with a fair market value of \$150x and liabilities of \$200x. T has two classes of creditors: two senior creditors with claims of \$25x each; and one junior creditor with a claim of \$150x. T transfers all of its assets to P in exchange for \$95x in cash and shares of P stock with a fair market value of \$55x. Each T senior creditor receives \$20x in cash and P stock with a fair market value of \$5x in exchange for his claim. The T junior creditor receives \$55x in cash and P stock with a fair market value of \$45x in exchange for his claim. The T shareholders receive no consideration in exchange for their T stock. Under paragraph (e)(6) of this section, because the amount of T's liabilities exceeds the fair market value of its assets immediately prior to the potential reorganization, the claims of the creditors of T may be proprietary interests in T.

Because the senior creditors receive proprietary interests in P in the transaction in exchange for their claims, their claims and the claim of the junior creditor and the T stock are treated as proprietary interests in T immediately prior to the transaction. Under paragraph (e)(6)(ii)(A) of this section, the value of the proprietary interest of each of the senior creditors' claims is \$5x (the fair market value of the senior creditor's claim, \$25x, multiplied by a fraction, the numerator of which is \$10x, the fair market value of the proprietary interests in the issuing corporation, P, received in the aggregate in exchange for the claims of all the creditors in the senior class, and the denominator of which is \$50x, the sum of the amount of money and the fair market value of all other consideration (including the proprietary interests in P) received in the aggregate in exchange for such claims). Accordingly, \$5x of the stock that each of the senior creditors receives is counted in measuring continuity of interest. Under paragraph (e)(6)(ii)(B) of this section, the value of the junior credito

(ii)One class of creditor receives issuing corporation stock and cash in disproportionate amounts. T has assets with a fair market value of \$80x and liabilities of \$20x. T has one class of creditor with two creditors, A and B, each having a claim of \$100x. T transfers all of its assets to P for \$60x in cash and shares of P stock with a fair market value of \$20x. A receives \$40x in cash in exchange for its claim. B receives \$20x in cash and P stock with a fair market value of \$20x in exchange for its claim. The T shareholders receive no consideration in exchange for their T stock. The P stock is not de minimis in relation to the total consideration received. Under paragraph (e)(6) of this section, because the amount of T's liabilities exceeds the fair market value of its assets immediately prior to the potential reorganization, the claims of the creditors of T may be proprietary interests in T. Because the creditors of T received proprietary interests in P in the transaction in exchange for their claims, their claims and the T stock are treated as proprietary interests in T immediately prior to the transaction. Under paragraph (e)(6)(ii)(A) of this section, the value of the proprietary interest of each of the senior creditors is \$10x (the fair market value of a senior creditor's claim, \$40x, multiplied by a fraction, the numerator of which is \$20x, the fair market value of the proprietary interests in the issuing corporation, P, received in the aggregate in exchange for the claims of all the creditors in the class, and the denominator of which is \$80x, the sum of the amount of money and the fair market value of all other consideration (including the proprietary interests in P) received in the aggregate in exchange for such claims). Accordingly, \$10x of the cash that was received by A and \$10x of the P stock that was received by B are counted in measuring continuity of interest. Thus, the value of the creditors' proprietary interests in T in exchange for P stock. Because a substantial part of the value of the pro