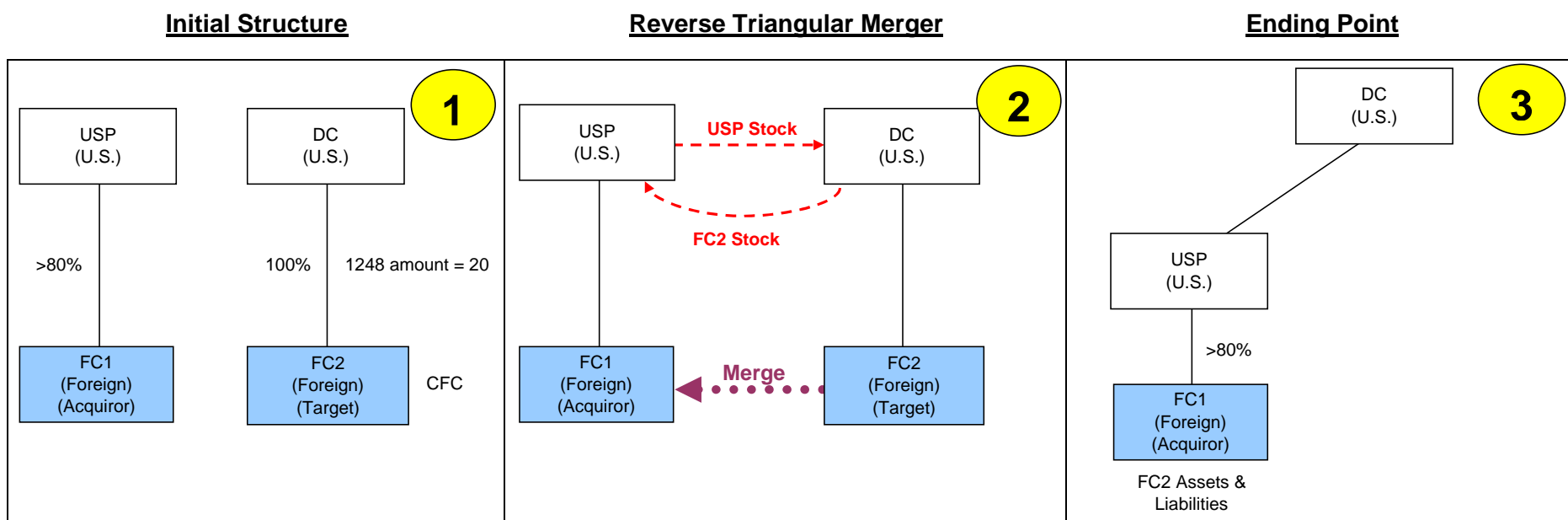


**Foreign to Foreign
 Forward Triangular Merger:
 Acquiror U.S. Controlled**



FC1 is a foreign corporation that is controlled (within the meaning of section 368(c)) by USP, a domestic corporation. DC is a domestic corporation that is unrelated to FC1. DC owns all of the outstanding stock of FC2, a foreign corporation. Thus, DC is a section 1248 shareholder with respect to FC2, and FC2 is a controlled foreign corporation. The section 1248 amount attributable to the stock of FC2 held by DC is \$20. In a forward triangular merger (described in sections 368(a)(1)(A) and 368(a)(2)(D)), FC2 merges into FC1 and DC exchanges FC2 stock for stock of USP.

Because DC receives stock of a domestic corporation, USP, in the section 354 exchange, the transfer is not an indirect stock transfer subject to section 367(a). Accordingly, the exchange will be subject only to the provisions of section 367(b) and the regulations thereunder. Because the stock received is stock of a domestic corporation (USP) and, immediately after the exchange, USP is a section 1248 shareholder of FC1 (the surviving corporation) and FC1 is a controlled foreign corporation, DC is not required to include in income the section 1248 amount attributable to the FC2 stock that was exchanged. USP's adjusted basis and holding period in the stock of FC1 after the transaction will reflect the basis and holding period that DC had in its FC2 stock.