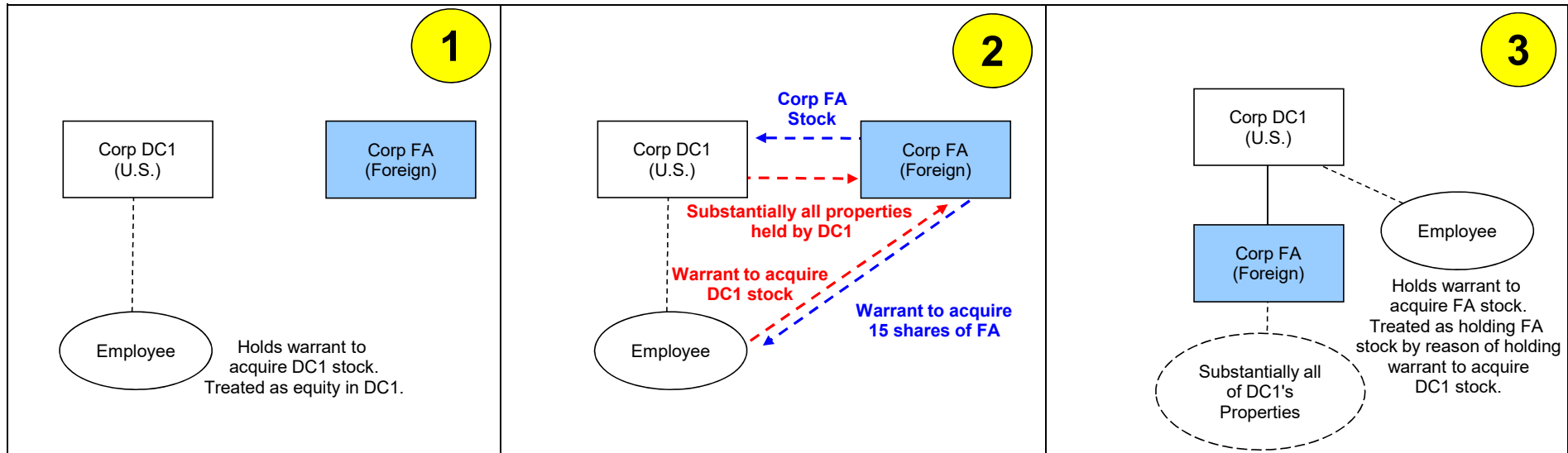


Initial Structure

Asset Sale

Ending Point



DC1 is a domestic corporation. FA is a foreign corporation. A DC1 employee holds a warrant to acquire DC1 stock from DC1. In connection with the domestic entity acquisition by FA of substantially all of the properties held by DC1, the DC1 employee receives a warrant from FA to acquire 15 shares of FA stock in exchange for the warrant to acquire DC1 stock.

Under Treas. Reg. §1.7874-2(h)(1), for purposes of Code §7874, the warrant held by the DC1 employee is treated as DC1 stock with a value equal to the employee's claim on the equity of DC1 immediately before the domestic entity acquisition. Further, for purposes of Code §7874, the DC1 employee is treated as holding FA stock with a value equal to the employee's claim on the equity of FA after the domestic entity acquisition by reason of holding the warrant to acquire DC1 stock (treated as DC1 stock for this purpose). The option held by the DC1 employee is not taken into account for purposes of determining the voting power of FA under Code §7874.

(Although not specified in the example in the regulations, this chart shows the acquisition of DC1's assets as having been in exchange for FA stock.)