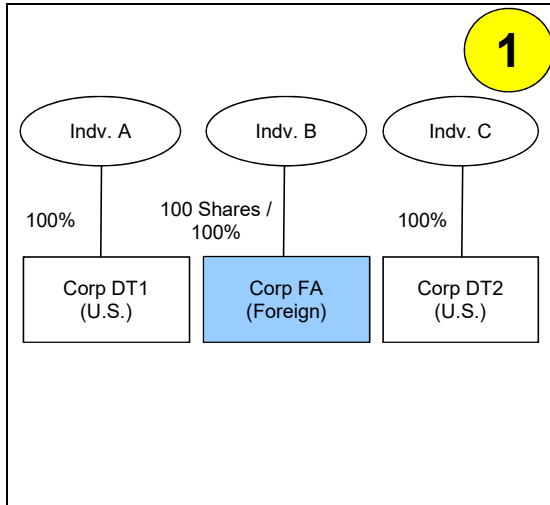
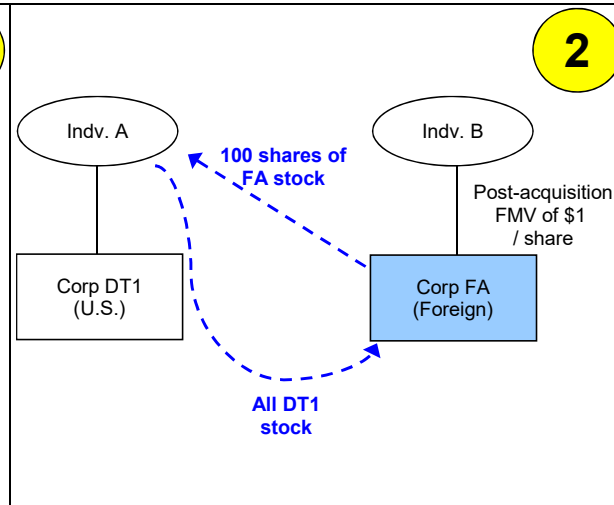


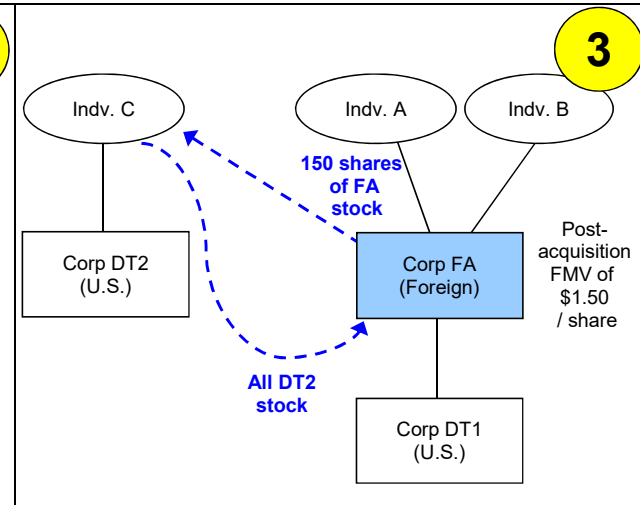
Initial Structure



Year 1 - DT1 Acquisition



Year 3 - DT2 Acquisition



Individual A wholly owns DT1, a domestic corporation. Individual B owns all 100 shares of the sole class of stock of FA, a foreign corporation. In Year 1, FA acquires all the stock of DT1 solely in exchange for 100 shares of newly issued FA stock (DT1 acquisition). On the completion date with respect to the DT1 acquisition, the fair market value of each share of FA stock is \$ 1x. In Year 3, FA enters into a binding contract to acquire all the stock of DT2, a domestic corporation wholly owned by Individual C. Thereafter, FA acquires all the stock of DT2 solely in exchange for 150 shares of newly issued FA stock (DT2 acquisition). On the completion date with respect to the DT2 acquisition, the fair market value of each share of FA stock is \$1.50x. FA did not complete the DT1 acquisition and DT2 acquisition pursuant to a plan (or series of related transactions) for purposes of applying Treas. Reg. §1.7874-2(e). In addition, there have been no redemptions of FA stock subsequent to the DT1 acquisition.

The DT1 acquisition is a prior domestic entity acquisition with respect to the DT2 acquisition (the relevant domestic entity acquisition) because the DT1 acquisition occurred within the 36-month period ending on the signing date with respect to the DT2 acquisition. Accordingly, Treas. Reg. §1.7874-8T(b) applies to the DT2 acquisition. As a result, and because there were no redemptions of FA stock, the excluded amount is \$150x (calculated as 100, the total number of prior acquisition shares, multiplied by \$1.50x, the fair market value of a single share of FA stock on the completion date with respect to the DT2 acquisition). Accordingly, the numerator of the ownership fraction by value is \$ 225x (the fair market value of the stock of FA that, with respect to the DT2 acquisition, is described in Code §7874(a)(2)(B)(ii)). In addition, the denominator of the ownership fraction is \$375x (calculated as \$525x, the fair market value of all shares of FA stock as of the completion date with respect to the DT2 acquisition, less \$150x, the excluded amount). Therefore, the ownership percentage by value is 60.

Ending Point

