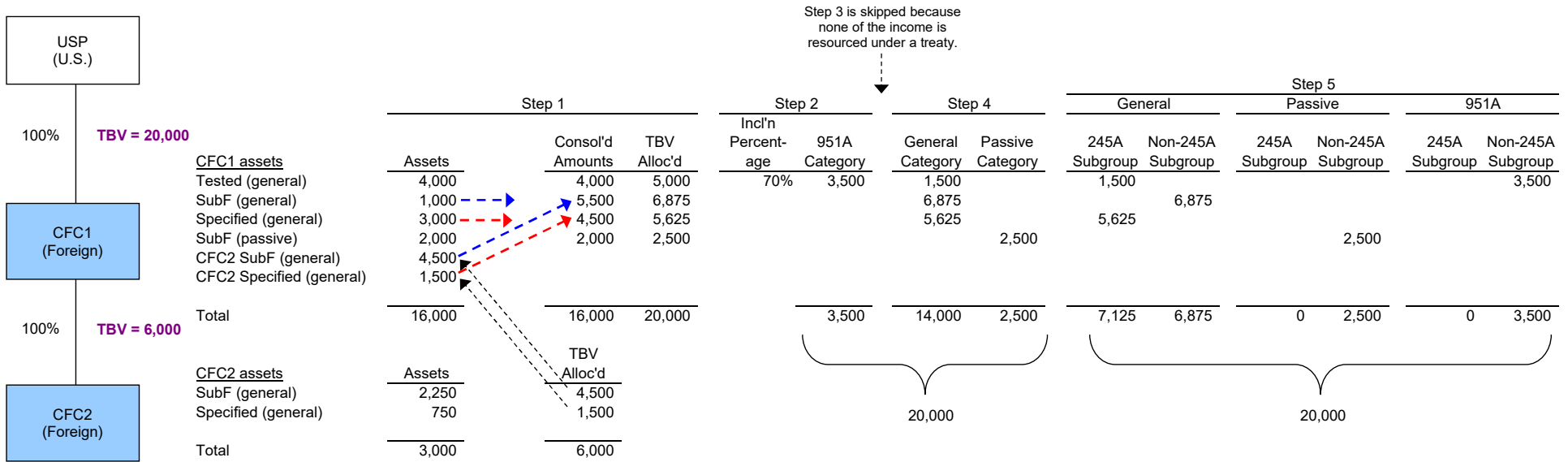


**Characterization of CFC Stock:
Asset Method With Two CFCs**



USP, a domestic corporation, directly owns all of the stock of a controlled foreign corporation, CFC1. The tax book value of CFC1's stock is \$20,000x. USP uses the asset method described in Reg. 1.861-12T(c)(3)(ii) to characterize the stock of CFC1. USP's inclusion percentage is 70%.

CFC1 owns the following assets with the following values as determined under Reg. 1.861-9(g)(2) and Reg. 1.861-9T(g)(3): Assets that generate income described in the foreign source gross tested income statutory grouping within the general category (\$4,000x), assets that generate income described in the foreign source gross subpart F income statutory grouping within the general category (\$1,000x), assets that generate specified foreign source general category gross income (\$3,000x), and assets that generate income described in the foreign source gross subpart F income statutory grouping within the passive category (\$2,000x).

CFC1 also owns all of the stock of CFC2, a controlled foreign corporation. The tax book value of CFC1's stock in CFC2 is \$6,000x. CFC2 owns the following assets with the following values as determined under Reg. 1.861-9(g)(2) and Reg. 1.861-9T(g)(3): Assets that generate income described in the foreign source gross subpart F income statutory grouping within the general category (\$2,250x) and assets that generate specified foreign source general category gross income (\$750x).