Reg. 1.987-2(c)(10), Ex. 10

Section 987: Contribution of Assets to Corporation

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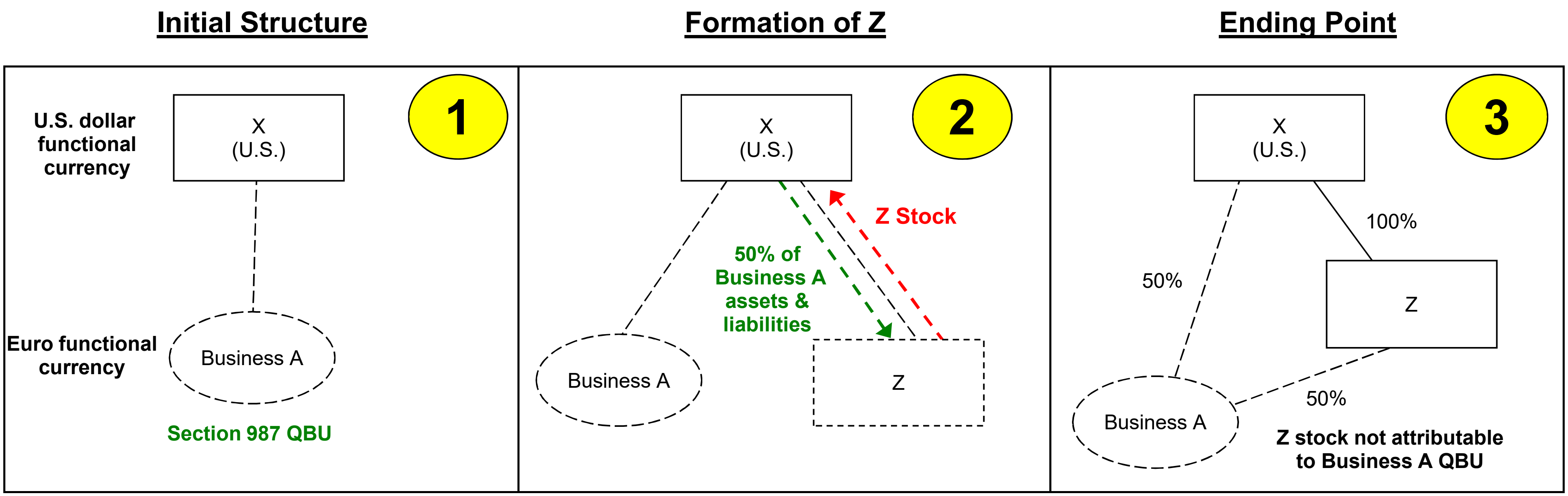

X is a domestic corporation, has the U.S. dollar as its functional currency, and uses the calendar year as its taxable year. X owns Business A. Business A is an eligible QBU that has the euro as its functional currency. X forms Z, a domestic corporation, contributing 50 percent of its Business A assets and liabilities to Z in exchange for all of the stock of Z. X and Z do not file a consolidated tax return.

Pursuant to Treas. Reg. §1.987-2(b)(2), the Z stock received in exchange for 50 percent of Business A's assets and liabilities is not reflected on the books and records of, and therefore is not attributable to, Business A for purposes of section 987 immediately after the exchange. As a result, pursuant to Treas. Reg. §§1.987-2(c)(2)(i) and (ii), 50 percent of the assets and liabilities of Business A are treated as transferred from Business A to X in a disregarded transaction immediately before the exchange. The result would be the same even if X and Z filed a consolidated return.