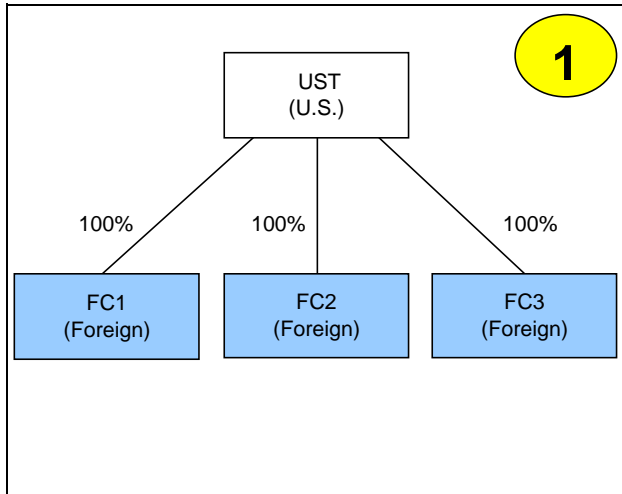
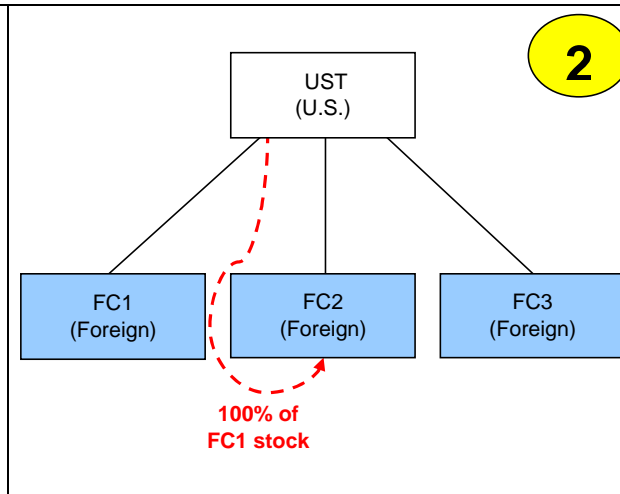


**Outbound 351 Followed by  
Acquisitive D Reorganization**

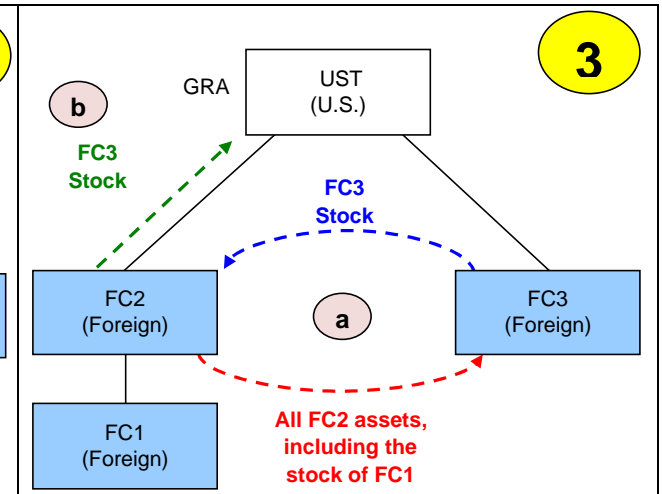
**Initial Structure**



**Outbound 351 Exchange (Year 1)**



**Acquisitive D Reorganization (Year 4)**



UST, a domestic corporation, owns 100% of the stock of three foreign corporations, FC1, FC2 and FC3. In year 1, USP transfers 100% of the stock of FC1 to FC2 in an exchange to which section 351 applies. The transaction is subject to both sections 367(a) and (b). All of the requirements of §1.367(a)-3(b)(1) are satisfied, and UST enters into a gain recognition agreement. UST also complies with the notice requirement under §1.367(b)-1(c). In year 4, in a reorganization described in section 368(a)(1)(D), FC2 transfers all of its assets, including the stock of FC1, to FC3 in exchange for FC3 stock. FC2 transfers the FC3 stock to UST in exchange for FC2 stock held by UST, and the FC2 stock is canceled.

The transfer of FC1 stock to FC3 and the exchange of FC2 stock for FC3 stock by UST pursuant to the reorganization described in section 368(a)(1)(D) are triggering events. If, however, UST complies with the requirements contained in Treas. Reg. §1.367(a)-8T(e)(3)(ii), the transfers will not be triggering events.

**Ending Point**

