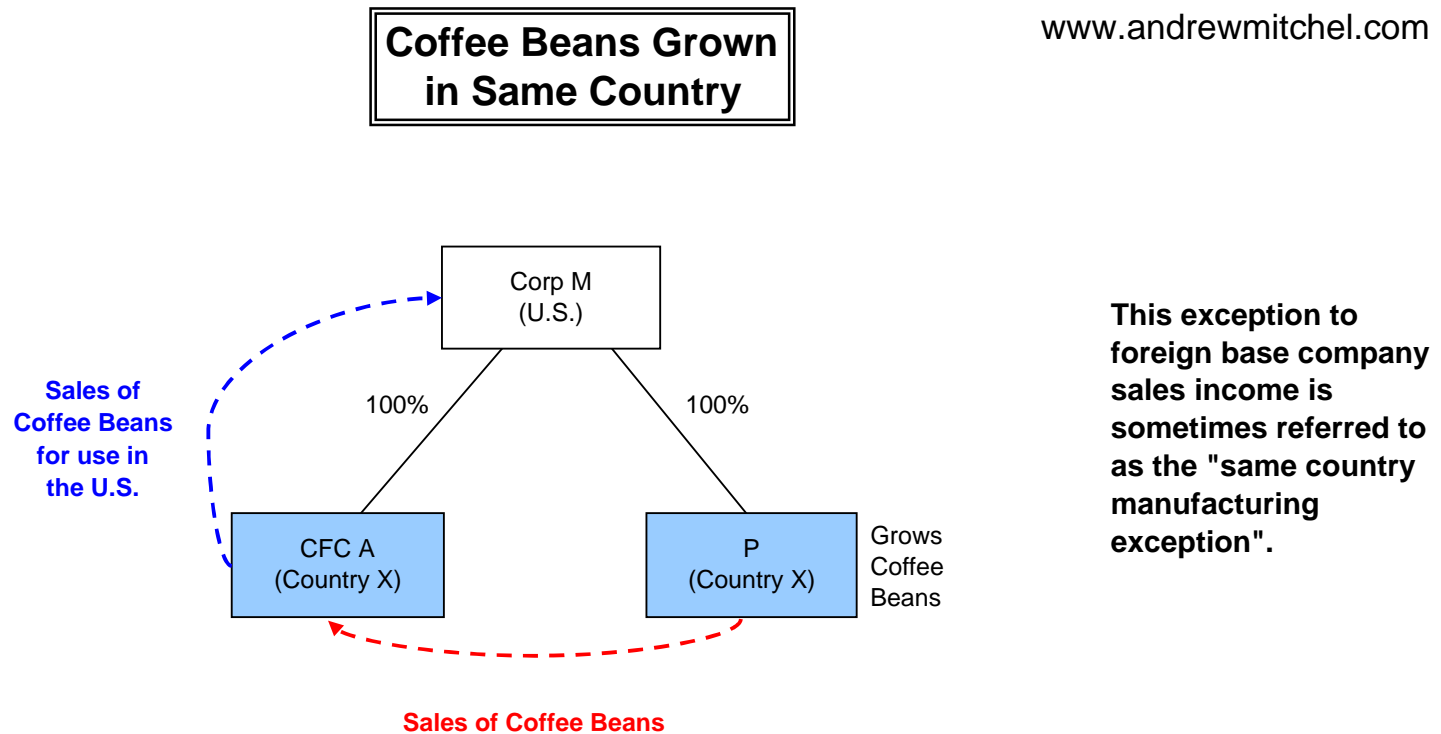


Reg. 1.954-3(a)(2), Example 1

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Controlled foreign corporation A, incorporated under the laws of foreign country X, is a wholly owned subsidiary of domestic corporation M. Corporation A purchases coffee beans grown in country X from foreign corporation P, a related person, and sells the beans to M Corporation, a related person, for use in the United States. **Income from the purchase and sale** of the coffee beans by A Corporation **is not foreign base company sales income** since the beans were grown in country X.

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