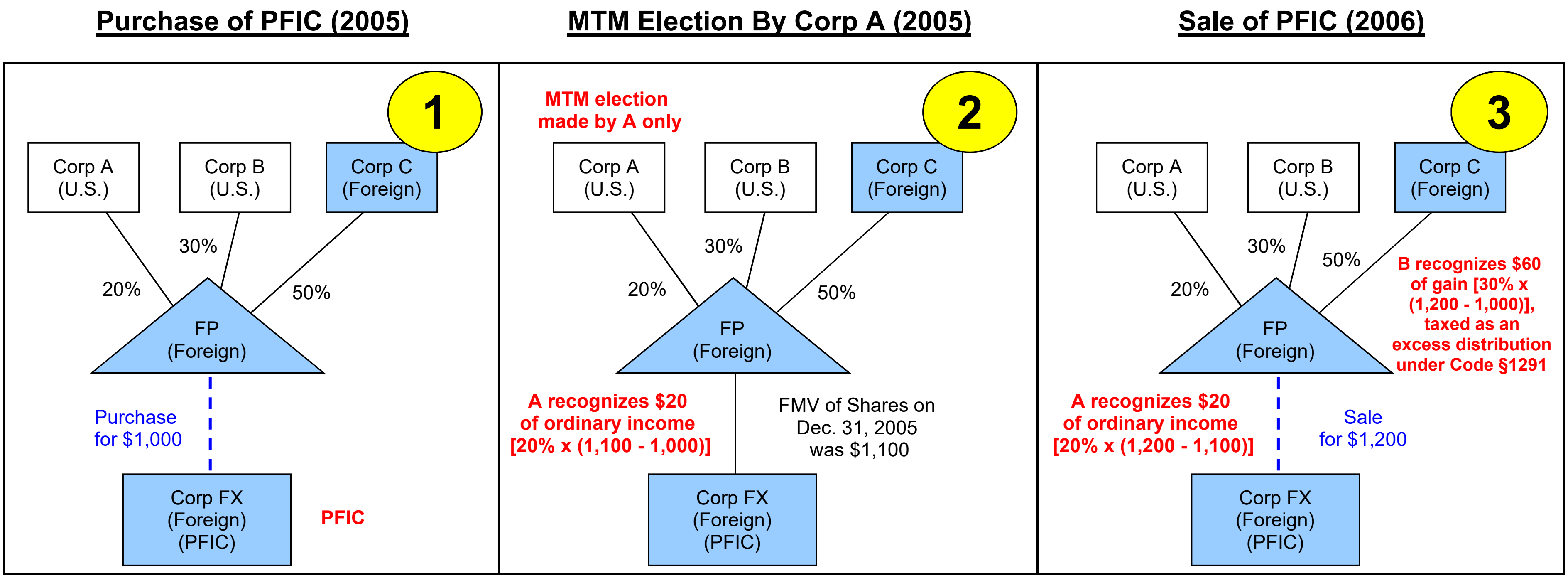
Reg. 1.1296-1(d)(2)(ii), Ex.

U.S. Partner Makes MTM Election Owning PFIC Thru Foreign P'ship



FP is a foreign partnership. Corp A, a domestic corporation, owns a 20% interest in FP. Corp B, a domestic corporation, owns a 30% interest in FP. Corp C, a foreign corporation, with no direct or indirect shareholders that are U.S. persons, owns a 50% interest in FP. Corp A, Corp B, and FP all use a calendar year for their taxable year. In 2005, FP purchases stock in FX, a foreign corporation and a PFIC, for $1,000. Corp A makes a timely Code §1296 election for taxable year 2005. On December 31, 2005, the fair market value of the PFIC stock is $1,100. Corp A includes $20 of ordinary income in taxable year 2005 under Treas. Reg. §1.1296-1(c)(1) and (2). Corp A increases its basis in its FP partnership interest by $20. FP increases its basis in the FX stock to $1,020 solely for purposes of determining the subsequent treatment of Corp A, under chapter 1 of the Internal Revenue Code, with respect to such stock. In 2006, FP sells the FX stock for $1,200. For purposes of determining the amount of gain of Corp A, FP will be treated as having $180 in gain of which $20 is allocated to Corp A. Corp A's $20 of gain will be treated as ordinary income under Treas. Reg. §1.1296-1(c)(2). For purposes of determining the amount of gain attributable to Corp B, FP will be treated as having $200 gain, $60 of which will be allocated to Corp B.