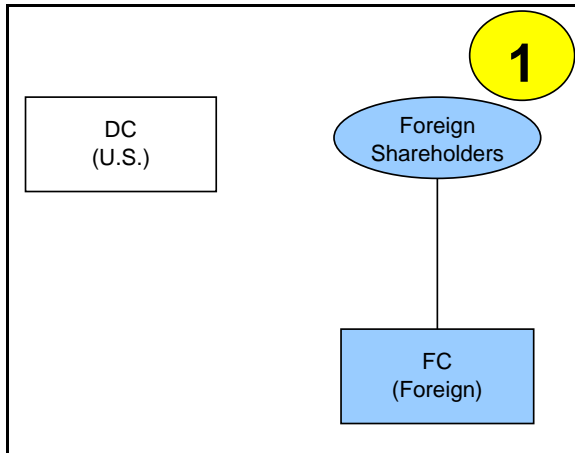


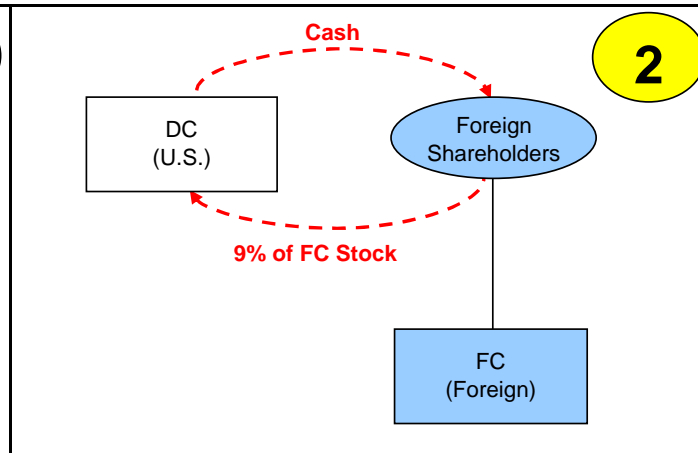
**Reg. 1.367(b)-2(d)(3)(i)(A)(2), Example**

**All E&P Amount Defined**

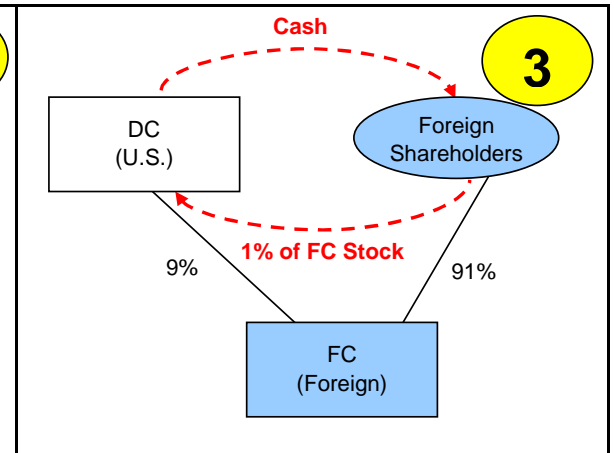
**Initial Structure  
(December 31, 2000)**



**First Stock Purchase  
(January 1, 2001)**



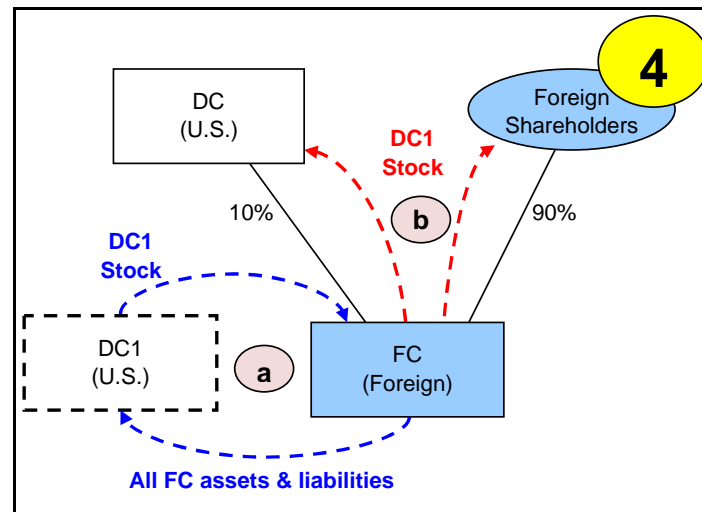
**Second Stock Purchase  
(January 1, 2002)**



On January 1, 2001, DC, a domestic corporation, purchases 9 percent of the outstanding stock of FC, a foreign corporation. On January 1, 2002, DC purchases an additional 1 percent of FC stock. On January 1, 2003, DC exchanges its stock in FC in a section 367(b) exchange in which DC is required to include the all earnings and profits amount in income. FC was not a controlled foreign corporation during the entire period DC held its FC stock.

The all earnings and profits amount with respect to DC's stock in FC is computed by reference to 9 percent of FC's earnings and profits from January 1, 2001, through December 31, 2001, and by reference to 10 percent of FC's earnings and profits from January 1, 2002, through January 1, 2003.

**Inbound Asset Reorganization  
(January 1, 2003)**



**Ending Point**

