



DC1 is a domestic corporation wholly owned by Individual A. DC1 has a \$200x value. FA is a foreign corporation wholly owned by Individual B. The value of B's FA stock is \$400x. Individual C holds an option to acquire FA stock from individual B at an exercise price of \$20x.

Individual A transfers all of its DC1 stock to FA in exchange solely for FA stock with a value of \$200x. At the time of the domestic entity acquisition, the FA stock that individual C can acquire pursuant to the option has a \$70x value.

Under Treas. Reg. §1.7874-2(h)(6), for purposes of Code §7874, individual C is not treated as owning FA stock by reason of holding the option because treating the option as FA stock would have the effect of partially duplicating individual B's claim on the equity of FA at the time of the acquisition by reason of holding FA stock. However, all of the FA stock owned by individual B will be taken into account for purposes of Code §7874. C's option is not taken into account for purposes of determining voting power of FA under Code §7874.