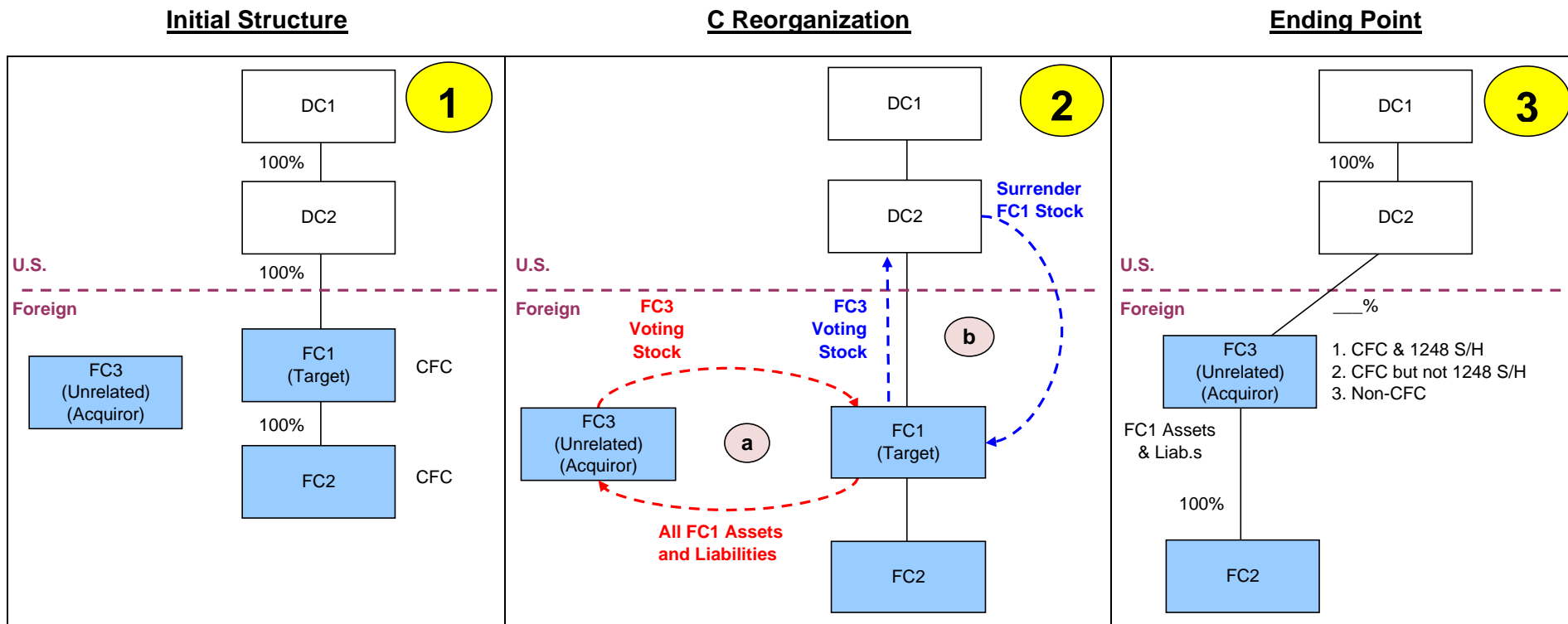


# Foreign-to-Foreign C Reorganization - First Tier Target

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This exchange is not a section 367(a) exchange, even though DC2 exchanged stock of FC1 for stock of FC3 in a section 354 exchange. The exchanges are subject to section 367(b) because they are described in sections 354 (DC2) and 361 (FC1), and the status of foreign corporations (FC1 & FC3) as corporations are relevant in determining tax attributes. The general rule of section 367(b) is that a foreign corporation is considered to be a corporation except to the extent provided in the regulations.

If, after the reorganization, FC3 is a CFC and DC2 is a section 1248 shareholder of FC3 (DC2 owns >10% of the stock of FC3), then there are no exceptions to corporate treatment and no income inclusion is required under section 367(b). If, however, FC3 is not a CFC or DC2 is not a section 1248 shareholder with respect to FC3, then DC2 must include in income as a deemed dividend the section 1248 amount attributable to the F1 & FC2 stock.