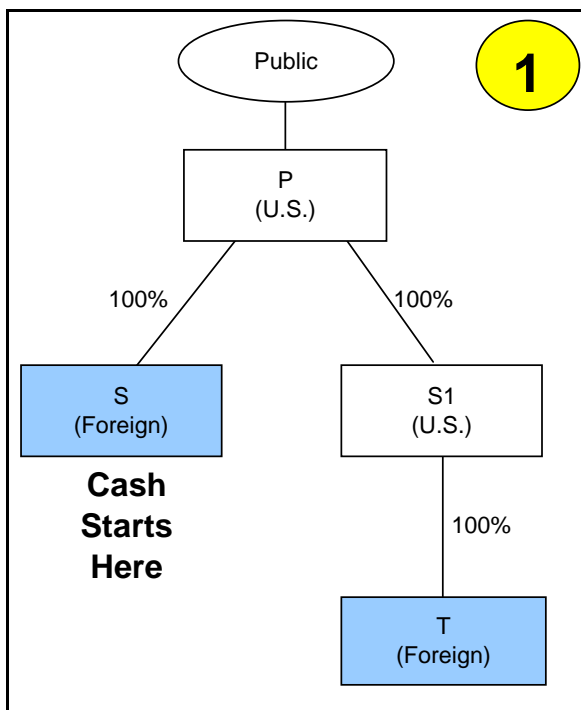
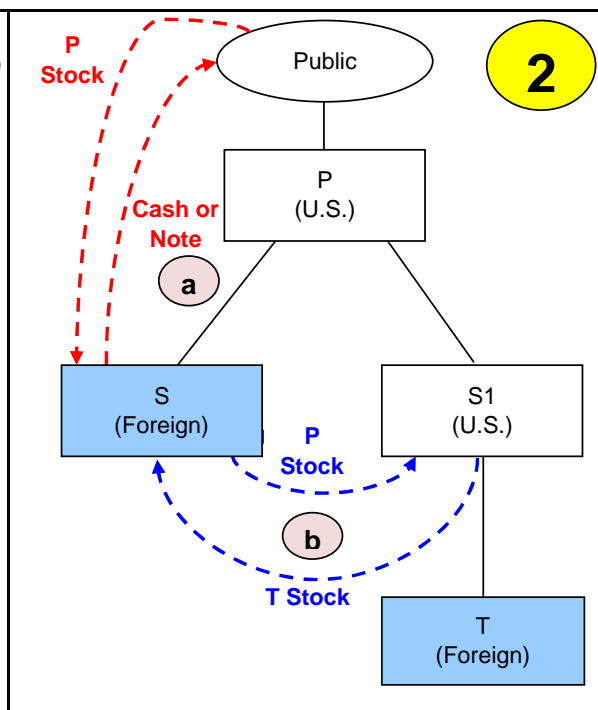


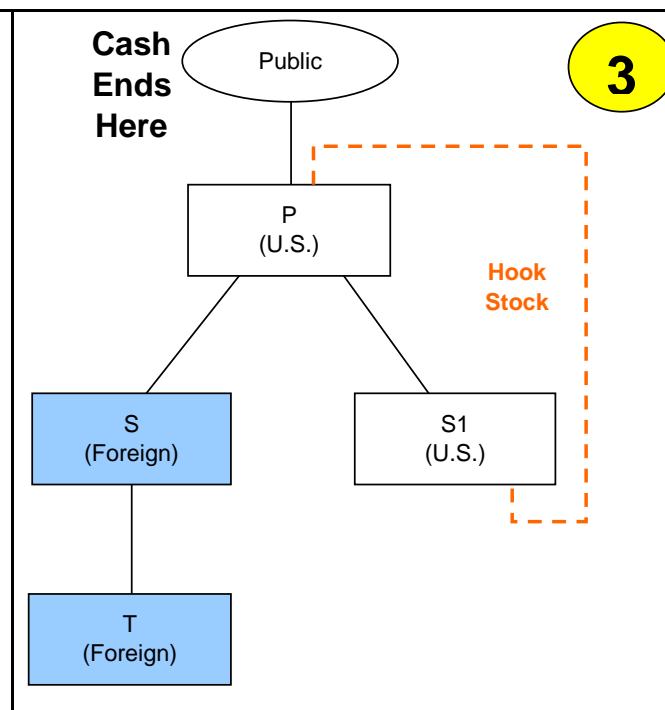
**Initial Structure**



**Triangular B Reorganization**



**Ending Point**



This notice amplifies Notice 2006-85. In step 2a P recognizes no gain or loss because it's not a party to the transactions and S takes a cost basis in the P shares under section 1012. In step 2b S recognizes no gain upon the transfer of the P shares because the basis and FMV of the shares are equal and S1 avoids gain recognition because the exchange is part of a section 368(a)(1)(B) reorganization. The above transaction, in effect, repatriates foreign earnings of S to P without the corresponding dividend to P that would be subject to U.S. tax. P has in essence entered into a share buy back program with the use of its foreign subsidiary's cash. The notice provides that regulations will be issued make adjustments with respect to P and S that will have the effect of a distribution of property from S to the P under section 301(c).