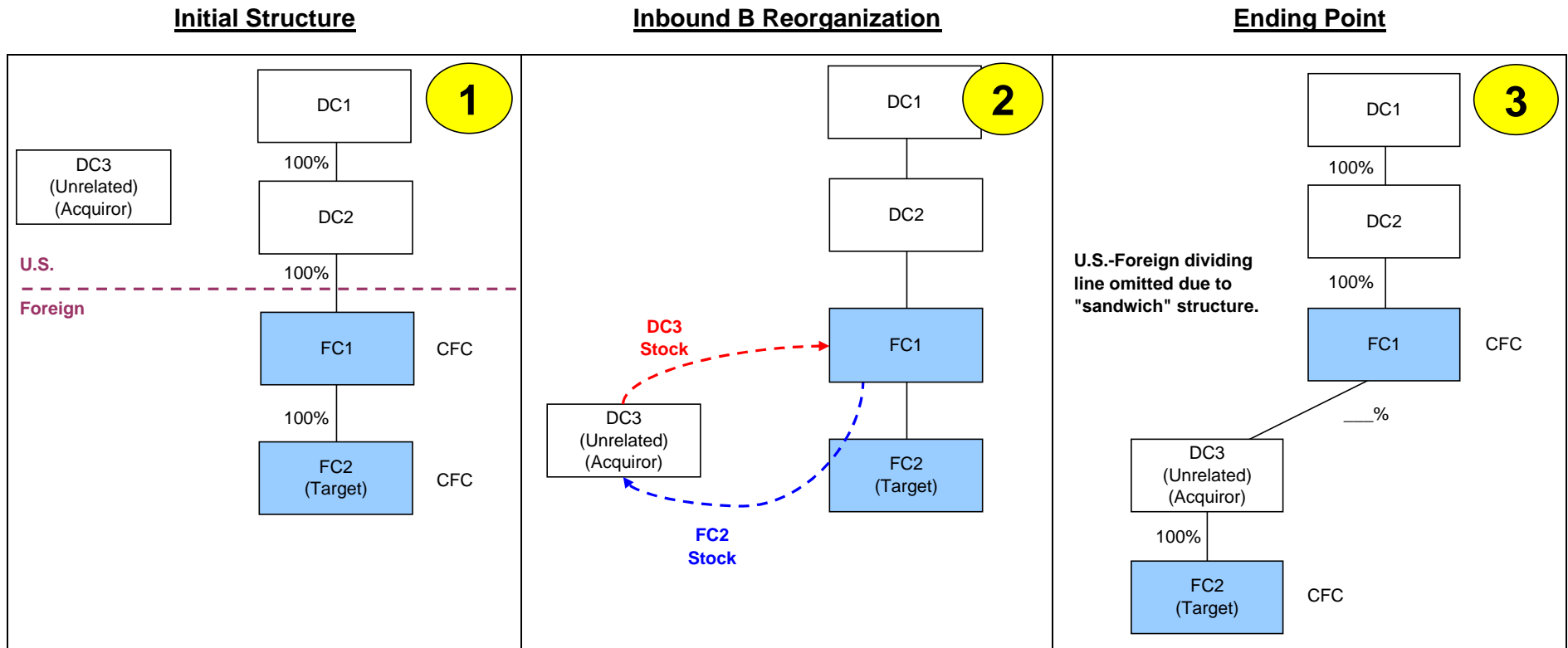


Inbound B Reorganization - Lower Tier Target

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There were no U.S. transferors. Therefore, the exchange is not subject to section 367(a). The exchange is subject to section 367(b) because it is described in section 354 and the status of a foreign corporation (FC2) as a corporation is 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.

Reg. 1.367(b)-3(a) provides that special rules apply "to an acquisition by a domestic corporation . . . of the assets of a foreign corporation . . ." In the above exchange, DC3 acquired the STOCK of FC2 and not its ASSETS. Therefore, Reg. 1.367(b)-3 does not apply. Reg. 1.367(b)-4(a) provides that special rules apply "to an acquisition by a foreign corporation . . ." In the above exchange, DC3 is the acquiring corporation and DC3 is not a foreign corporation. Therefore, Reg. 1.367(b)-4 does not apply.

The regulations do not provide any exceptions to corporate treatment for the above B reorganization. Therefore, no income inclusions are required under section 367(b).