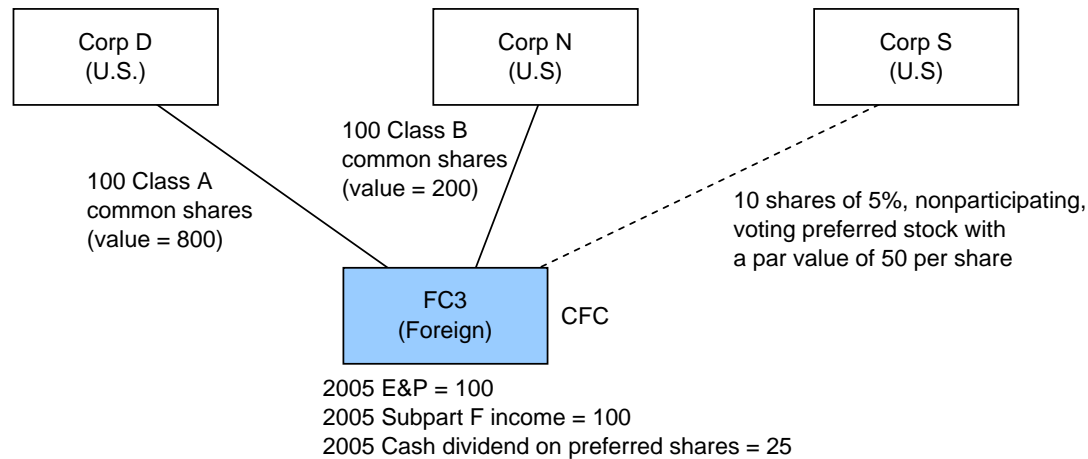


**Pro Rata Share - Two Classes of Common & One Class of Preferred**



FC3, a CFC, has outstanding 100 shares of Class A common stock, 100 shares of Class B common stock and 10 shares of 5-percent nonparticipating, voting preferred stock with a par value of \$50x per share. The value of the Class A shares on the last day of FC3's 2005 taxable year is \$800x. The value of the Class B shares on that date is \$200x. The Class A and Class B shareholders each are entitled to dividends when declared by the board of directors of FC3, and the board of directors of FC3 may declare dividends with respect to one class of stock without declaring dividends with respect to the other class of stock. Corp D, a domestic corporation and a United States shareholder of FC3, owns all of the Class A shares. Corp N, a domestic corporation and a United States shareholder of FC3, owns all of the Class B shares. Corp S, a domestic corporation and a United States shareholder of FC3, owns all of the preferred shares. Corp D, Corp N, and Corp S are shareholders of FC3 for all of 2005. For 2005, FC3 has \$100x of earnings and profits, and subpart F income of \$100x. In 2005, FC3 distributes as a dividend \$25x to Corp S with respect to the preferred shares. The board of directors of FC3 determines that FC3 will make no other distributions during that year.

If the total \$100x of earnings were distributed on December 31, 2005, \$25x would be distributed with respect to Corp S's preferred shares and the remainder, \$75x would be distributed with respect to Corp D's Class A shares and Corp N's Class B shares. The allocation of that \$75x between its Class A and Class B shares depends solely on the exercise of discretion by the board of directors of FC3. The value of the Class A shares (\$8x/share) and the value of the Class B shares (\$2x/share) are not substantially the same on the last day of FC3's taxable year 2005. Therefore for FC3's taxable year 2005, the earnings and profits of FC3 are allocated \$60x ( $\$800/\$1,000 \times \$75x$ ) to the Class A shares and \$15x ( $\$200/\$1,000 \times \$75x$ ) to the Class B shares. For the 2005 taxable year, Corp D's pro rata share of FC3's subpart F income will be \$60x, Corp N's pro rata share of FC3's subpart F income will be \$15x and Corp S's pro rata share of FC3's subpart F income will be \$25x.