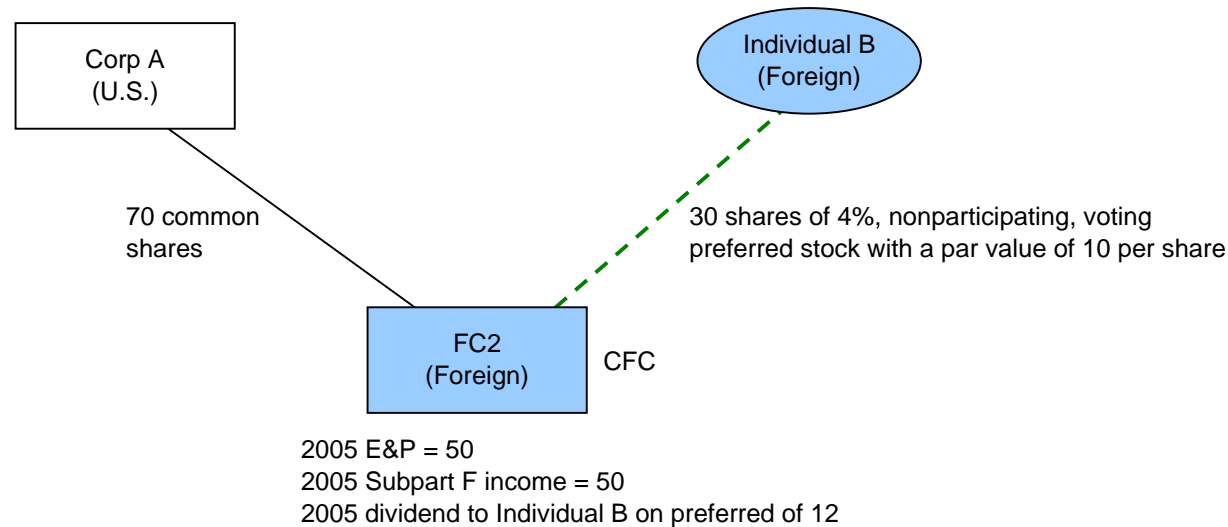


Pro Rata Share - Common and Preferred



FC2, a CFC, has outstanding 70 shares of common stock and 30 shares of 4-percent, nonparticipating, voting, preferred stock with a par value of \$10x per share. The common shareholders are entitled to dividends when declared by the board of directors of FC2. Corp A, a domestic corporation and a United States shareholder of FC2, owns all of the common shares. Individual B, a foreign individual, owns all of the preferred shares. Corp A and Individual B are shareholders of FC2 for its entire 2005 taxable year. For 2005, FC2 has \$50x of earnings and profits, and subpart F income of \$50x. In 2005, FC2 distributes as a dividend \$12x to Individual B with respect to Individual B's preferred shares. FC2 makes no other distributions during that year.

FC2 has two classes of stock. If the total \$50x of earnings were distributed on December 31, 2005, \$12x would be distributed with respect to Individual B's preferred shares and the remainder, \$38x, would be distributed with respect to Corp A's common shares. Accordingly, Corp A's pro rata share of FC1's subpart F income is \$38x for taxable year 2005.