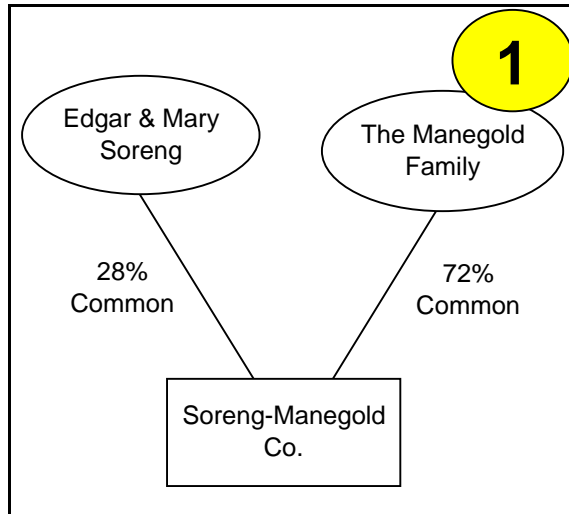
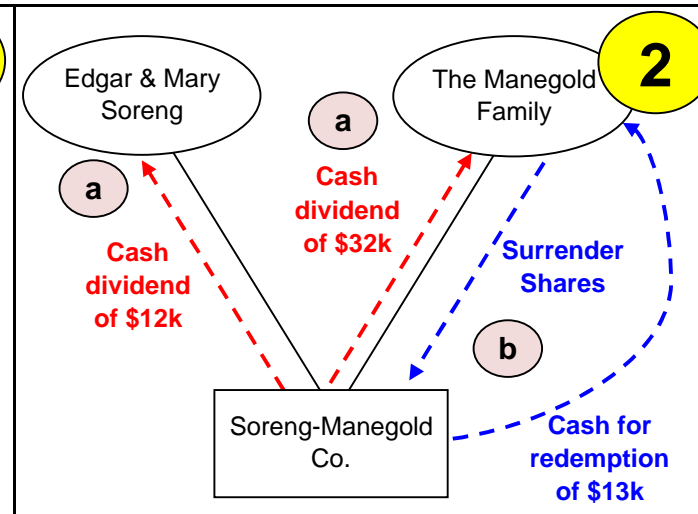


**Disproportionate Circular Flow
of Cash Not Disregarded**

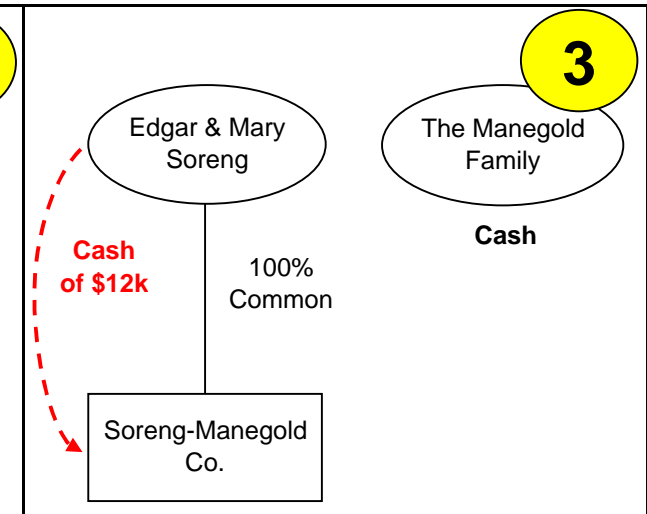
Initial Structure



Liquidating Dividend & Redemption



Re-Contribution of Cash



The corporation 1) paid a "liquidating" dividend in cash of \$5.35 per share on all common stock of the corporation; and 2) acquired the shares of common stock held by The Manegold Family. The Sorengs then recontributed the cash they received back to the company, which was now wholly owned by them.

Although the circular flow of cash is often disregarded for U.S. tax purposes, the circular flow of cash from the company to the Sorengs and from the Sorengs back to the corporation was not disregarded. An important factor in the analysis was that the Sorengs only owned 28% of the stock when the cash was distributed to them, but they owned 100% of the company when the cash was returned to the company.