

Internal Revenue Service

Department of the Treasury
Washington, DC 20224

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Person To Contact:
, ID No.
Telephone Number:

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Date:
November 07, 2012

Legend

Foreign Parent =

US Parent =

Intermediate Parent =

Sub =

Proxy Sub =

Acquiring =

Agency =

Department =

Country X =

State A =

State B =

State C =

Business A =

Date 1 =

Date 2 =

Dear :

This letter responds to your request for rulings, dated May 8, 2012, submitted by your authorized representatives on behalf of US Parent and its affiliates. The information provided in that letter and in later correspondence on October 18, 2012 is summarized below.

The rulings contained in this letter are based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

Summary of Facts

On Date 1, Foreign Parent acquired all of the outstanding stock in Intermediate Parent from third parties. Intermediate Parent wholly owns Sub, which wholly owns Proxy Sub. On Date 2, Foreign Parent contributed its stock in Intermediate Parent to US Parent for no consideration. After the transaction, Proxy Sub was an indirect subsidiary of Foreign Parent. Prior to, and following, its acquisition by Foreign Parent and US Parent, Proxy Sub engaged in Business A and has provided services to the Department and various other U.S. Government departments and agencies. In order to perform certain services, Proxy Sub is required to have security clearances granted by the Department pursuant to a plan that is overseen by the Agency. Because of the foreign indirect ownership of

stock in Proxy Sub, the Department requires that Proxy Sub be effectively insulated from foreign ownership, control, or influence ("FOCI") in order to maintain those clearances.

In order to create a security measure designed to insulate Proxy Sub from any foreign control or influence that might arise from Foreign Parent's indirect ownership for stock in Proxy Sub, Foreign Parent, US Parent, Intermediate Parent, Sub, Proxy Sub, and the Department have entered into a Proxy Agreement.

Proxy Agreement:

Foreign Parent, US Parent, Intermediate Parent, Sub, Proxy Sub, and the Department have executed the Proxy Agreement. Pursuant to the Proxy Agreement, Sub selected all of the initial proxy holders (the "Proxy Holders"), who are individuals required to 1) be resident U.S. citizens; 2) have no prior contractual, financial, or employment relationships with Foreign Parent or entities controlled by Foreign Parent; 3) certify their willingness to accept their security responsibilities; 4) be eligible for the requisite security clearance; and 5) be approved by the Agency. Sub's interest in Proxy Sub was deposited with the Proxy Holders in order to enforce the terms of the Proxy Agreement; however the Proxy Holders will not own an economic interest in Proxy Sub.

Pursuant to the Proxy Agreement, the Proxy Holders became directors of Proxy Sub. They are the only parties with the right to vote with respect to the management of Proxy Sub. In their role as directors, the Proxy Holders are specifically authorized to take certain actions such as the appointing or removing of non-Proxy Holder directors at their sole discretion.

The Proxy Holders are not authorized to undertake certain actions without the express written approval of Sub (or a successor to Sub, together "Shareholder"). Such actions include: 1) the sale or disposal, in any manner, of capital assets or business of Proxy Sub, including without limitation the issuance of any securities of Proxy Sub; 2) pledging, mortgaging, or encumbering Proxy Sub's assets for purposes other than obtaining working capital or funds for capital improvements; 3) the merger, consolidation, reorganization, or dissolution of Proxy Sub; 4) selling, transferring, pledging, or otherwise encumbering Proxy Sub's stock and; 5) the filing or making any petition under the federal bankruptcy laws or any similar law or statute of any state or foreign country. Furthermore, at Shareholder's written request, the Proxy Holders must take such action as necessary to recommend, authorize, approve, or disapprove of these actions.

The Proxy Holders are required to act in good faith as reasonably prudent business persons to protect Sub's legitimate economic interests in Proxy Sub as an ongoing business concern. The Proxy Holders are required to act in the national interest, but

where it is not inconsistent with the national interest, the Proxy Holders must act in the best interests of Proxy Sub in accordance with the corporate law of State A.

A Proxy Holder holds a limited term in that position. However, once appointed, a Proxy Holder may be removed by Shareholder before the end of his or her term only 1) for acts of gross negligence or willful misconduct; or 2) acts in violation of the Proxy Agreement, including his or her inability to protect the legitimate economic interests of Proxy Sub, if Agency approves the removal. In the event of the end of term, resignation, removal, death, or the inability to act of any Proxy Holder, Shareholder will nominate a successor Proxy Holder, which must be approved by the remaining Proxy Holders and the Agency.

The Proxy Agreement is for a term of 5 years. If the Proxy Agreement is not terminated within five years, it will continue in successive 30 day periods until the agreement is revised, restated or an alternate agreement is reached. The Proxy Agreement may only be terminated by Department and only in the following cases: 1) the sale of all of the business or stock of Proxy Sub to an entity not under FOCI; 2) when the existence of the Proxy Agreement is no longer necessary to maintain a facility security clearance for Proxy Sub; 3) when Proxy Sub is no longer required to maintain facility security clearance; 4) if there is a breach of the Proxy Agreement that requires the agreement to be terminated, or the Department determines that termination is in the national interest; 5) for any reason starting 5 years from the effective date of the Proxy Agreement; and 6) when Proxy Sub and Shareholder, for any reason, at any time, petition the Agency and the Agency agrees. The Department may refuse to terminate the Proxy Agreement if its continuance is in the national interest and security.

The Proxy Agreement applies to and is binding upon all current and future subsidiaries of Proxy Sub. However, the Proxy Agreement does not apply to any subsidiary of Proxy Sub that is wholly or partially sold or transferred such that Proxy Sub no longer controls that subsidiary.

Proposed Transaction:

Sub plans to transfer its stock in Proxy Sub to another member of the US Parent's affiliated group ("Acquiring"). After the transaction, Proxy Sub will be wholly owned by Acquiring. US Parent has not yet determined which member of US Parent's affiliated group will receive the Proxy Sub stock that Sub currently holds.

Representations

1. Sub and Acquiring are each members of the US Parent's affiliated group.
2. The Proxy Agreement is the only agreement affecting the legal or beneficial ownership of Proxy Sub.
3. After the proposed transaction, Acquiring will be subject to the Proxy Agreement to the same extent as Sub prior to the proposed transaction, and Acquiring will have the same rights with respect to the stock of Proxy Sub as those Sub had prior to the proposed transaction.
4. Proxy Sub is an includible corporation as defined by Section 1504(b).
5. Any extension or revision of the Proxy Agreement ("Successor Agreement") will contain terms similar to and not materially different from the initial Proxy Agreement.

Rulings

Based solely upon the information and representations set forth above and in your submission, we rule as follows:

- (1) During the period in which the Proxy Agreement or Successor Agreement is in place, Sub's ownership of the stock of Proxy Sub constitutes beneficial, and therefore, direct ownership for purposes of Section 1504(a).
- (2) Following the proposed transaction, Acquiring's ownership of the stock of Proxy Sub will constitute beneficial, and therefore, direct ownership for purposes of Section 1504(a).
- (3) While Sub continues its ownership of Proxy Sub, Proxy Sub will be a member of US Parent's affiliated group and will be permitted to join in the filing of a consolidated federal income tax return (within the meaning of Sections 1501 and 1502 of the Code and regulations thereunder) with US Parent's affiliated group

- (4) Following the proposed transaction, Proxy Sub will be a member of US Parent's affiliated group and will be permitted to join in the filing of a consolidated federal income tax return (within the meaning of Sections 1501 and 1502 of the Code and regulations thereunder) with US Parent's affiliated group.

Procedural Statements

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

Sincerely,

Gerald B. Fleming
Senior Technician Reviewer, Branch 2
Office of Associate Chief Counsel
(Corporate)