

Internal Revenue Service

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Department of the Treasury

Washington, DC 20224

Third Party Communication: None

Date of Communication: Not Applicable

Person To Contact:

, ID No.

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Date:

October 15, 2010

LEGEND

Foreign Parent =

US Parent =

Subsidiary =

Subsidiary 1 =

Department =

Security
Agreement =

Business A =

State X =

State Y =

Country Z =

Year A =

Year B =

Dear :

This letter responds to your request for rulings, dated April 21, 2010, submitted by your authorized representatives on behalf of US Parent. The information submitted for consideration 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

US Parent, a State X corporation, is the common parent of an affiliated group of corporations that join in filing a consolidated return (the "US Parent Group"). US Parent is a wholly owned subsidiary of Foreign Parent, a publicly traded Country Z entity. US Parent owns all of the issued and outstanding stock of Subsidiary (voting common stock), a State X corporation. Subsidiary purchased all of the outstanding stock of Subsidiary 1 (voting common stock), a State Y corporation, in Year A. US Parent and its direct and indirect subsidiaries, including Subsidiary, filed consolidated returns prior to the acquisition of Subsidiary 1. Subsidiary 1 was included in the US Parent Group's consolidated return for Year A as well as for Year B.

Subsidiary 1 is engaged in Business A. In order to perform certain contracts, Subsidiary 1 requires facility security clearance(s) granted by the Department. Because of the indirect foreign ownership of stock in Subsidiary 1, the Department requires that Subsidiary 1 be effectively insulated from foreign ownership, control, or influence in order to maintain those clearances.

To create a security measure designed to insulate Subsidiary 1 from any foreign control or influence that might arise from Foreign Parent's indirect ownership of stock in

Subsidiary 1, Foreign Parent, US Parent, Subsidiary, Subsidiary 1 and the Department have entered into the Security Agreement. Pursuant to the Security Agreement, Subsidiary appoints the board of directors (the "Board") of Subsidiary 1 subject to limited approval rights held by the Department. The Board must be composed of: (1) at least two members without prior relationships with Subsidiary 1, or any entities Subsidiary 1 either controls or is controlled by, except as otherwise allowed by the Department (the "Outside Directors"); (2) at least one officer of Subsidiary 1 (the "Officer/Director(s)"); and (3) at least one representative of Subsidiary (the "Inside Director(s)").

The Outside Director(s) are required to: (1) be resident United States citizens; (2) have or be eligible for the requisite security clearance; and (3) be approved by the Department as satisfying the appropriate Department security requirements and the applicable provisions of the Security Agreement. In addition, Outside Director(s) may not be removed without notice to the Department. The Officer/Director(s) are required to: (1) be resident United States citizens, and (2) have or be eligible for the requisite personnel security clearance. The Inside Directors: (1) must not have personnel security clearances; (2) are required to be formally excluded from access to classified information; and (3) must be equal to or fewer in number than the sum of Outside Directors and Officer/Director(s).

Subsidiary, as the sole stockholder of Subsidiary 1, may remove any member of Subsidiary 1's Board for any reason permitted by the provisions of applicable state law or Subsidiary 1's Certificate of Incorporation or Bylaws. However, the removal of an Outside Director generally is not effective until prior notice is given, no objection is raised by the Department, and a qualified successor has been nominated by Subsidiary 1 and approved by the Department. In the event of a vacancy on the Board, Subsidiary has the right to fill the vacancy.

The Board retains all of their rights, powers and responsibilities conferred or imposed under applicable statutes and regulations, and by Subsidiary's charter and bylaws, subject to certain terms and conditions set forth in the Security Agreement (described below). With respect to actions by the Board, a majority of the members, including at least one Outside Director and at least one Inside Director, is necessary to constitute a quorum.

Pursuant to the Security Agreement, the Board is not permitted to take certain major corporate actions without Subsidiary's express written approval. These include: (1) the sale, lease or other disposition of any of the property, assets or business of Subsidiary 1, or the purchase of any property or assets by Subsidiary 1 that is other than in the ordinary course of business; (2) the merger, consolidation, reorganization, dissolution or liquidation of Subsidiary 1; (3) the filing by Subsidiary 1 of any petition under the Federal Bankruptcy Code or any applicable bankruptcy law or other acts of similar character;

and (4) the initiation of action to terminate the Security Agreement (with certain limitations).

During the period Subsidiary 1's stock is subject to the Security Agreement, Subsidiary retains all economic rights in the stock of Subsidiary 1. Nothing in the Security Agreement limits, restricts, or otherwise diminishes the economic rights of Subsidiary (or any successor shareholder) in the stock of Subsidiary 1.

Subsidiary and Subsidiary 1 have the right to petition the Department to terminate the Security Agreement at any time and for any reason. The Department may refuse to terminate the Security Agreement only when continuation is necessary in the interest of the national security of the United States. The Security Agreement is subject to termination by the Department at any time under the following circumstances: (1) in the event of a sale of the business of Subsidiary 1 or the stock of Subsidiary 1 to a company or person not under foreign ownership, control, or influence; (2) the Security Agreement is no longer needed to maintain Subsidiary 1's facility security clearance(s); (3) the continuation of the facility security clearance(s) for Subsidiary 1 are no longer necessary; or (4) there has been a breach of the Security Agreement that requires it to be terminated or the Department otherwise determines that termination is in the national interest. Unless renewed, the Security Agreement terminates automatically ten years from the date of execution.

RULINGS

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

(1) During the period in which the Security Agreement is in place, Subsidiary's ownership of the stock of Subsidiary 1 constitutes beneficial and therefore, direct ownership for purposes of section 1504(a).

(2) The Security Agreement does not prevent Subsidiary 1 from being a member of the affiliated group (within the meaning of section 1504(a)) of which US Parent is the common parent, or prevent Subsidiary 1 from filing a consolidated federal income tax return with such 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.

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.

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

Sincerely,

Richard M. Heinecke
Assistant to the Branch Chief, Branch 6
Office of Associate Chief Counsel
(Corporate)