OKLAHOMA TAX COMMISSION

TAX POLICY AND RESEARCH DIVISION
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July 3, 2006

Re: Rural Venture Capital Formation Incentive Act
Our File Number LR-06-095

Dear

This letter ruling is in response to your inquiry of June 27, 2006, submitted on behalf of and for the benefit of (Capital Co.) and (Investor). Your inquiry posed a series of ruling requests relating to the Rural Venture Capital Formation Incentive Act (68 O.S. §2357.70 et seq.). Following a restatement of the facts outlined in your letter, are the specific rulings requested and our responses thereto.

FACTS

The Investor is a limited liability company formed under the laws of the State of Oklahoma on May 16, 2006. The purpose of the Investor is to raise equity capital from an accredited investor and to aggregate such equity capital for investments in Capital Co. and

will be the sole member of the Investor, owning 40,400 shares of Common membership which shall be one hundred percent (100%) of 40,400 shares outstanding of Investor.

Capital Co. is an Oklahoma limited liability company with its principal place of business in Oklahoma. Capital Co. was organized to primarily provide direct investment in equity and near-equity securities of companies within the state of Oklahoma. Capital Co. may secondarily provide investments in companies in other geographical locations. Capital Co. was organized on June 27, 2006. Investor will be the sole member of Capital Co. and own one hundred percent (100%) of all of Capital Co.'s outstanding shares. The "capitalization," as defined in the Act, of Capital Co. is $27,200,000 and currently consists of Investor's subscription amount for 27,200 shares which will be funded in cash upon closing the proposed transaction described herein.

Capital Co. will invest $20,400,000 in a fixed percentage of the assets in single or multiple portfolios managed by registered investment advisors as provided in Capital Co's Articles of Organization and Operating Agreement. A copy of such provision is attached hereto as Exhibit A. All remaining percentage of ownership of the securities in the portfolio(s) will be owned by Measured at the time of the investment in , Capital Co. will not have more than 25% of its "capitalization," as defined in the Act, invested in anyone company.

Because owns 100% of Investor and Investor in turn owns 100% of Capital Co., both Investor and Capital Co. will be deemed to be "disregarded entities" for income tax purposes. As disregarded entities, all the assets and related items of income, deductions and credits of Investor and Capital Co. for income tax purposes will be reported in personal individual income tax returns, both the United States federal return and the Oklahoma return. Thus, notwithstanding that both Investor and Capital Co. are separate legal entities owning separate and distinct but similar assets and that both Investor and Capital Co. will maintain segregated transaction accounts and separate books of accounts for reporting purposes, there will be no gain or loss to to be reported for income tax purposes on the formation or liquidation of the membership interests in Investor or Capital Co or the acquisition from or sale to of the fixed percentage interest in the securities in the managed portfolio(s).

was recently formed to acquire a site in Oklahoma, and to establish and operate up to a 60 employee world-wide-web based Data Processing Services and Telemarketing Call Center in the site. SIC Codes for those services are and will provide services for enrollment of employees of multiple employers in employee benefit packages for health, accident, disability and other benefits such as §125 and 401 (k) programs. will utilize an inter-active internet platform for the enrollment service whereby the enrolling employee would call a employee in the Call Center and the enrolling employee would make internet elections for enrollments with the patent-pending co-browsing feature and verbal assistance of personnel. will purchase the software codes, patent-pending rights and exclusive license rights to provide such services with the proceeds of the financing.

is owned by of Oklahoma as the majority owner of the ninety-nine percent (99%) Common limited partner interest in one per cent (1 %) general partner i an Oklahoma limited liability company which is also majority owned by is a licensed insurance agent. will become a licensed insurance agency under Oklahoma law and will receive insurance commissions from the insured products purchased from its affiliated insurers through enrollment process. However, will not share in any insurance commissions and will only be paid enrollment servicing fees based upon s costs plus 11.11 percent of costs as a gross profit margin for

will purchase from the Viper Remote Electronic Enrollment System (VREES) for pursuant to an Assignment of Interest in the Viper Remote Electronic Enrollment System in the form attached hereto as Exhibit B. Associated exclusive servicing rights for all employee enrollment contracts

in the United States of America for twenty (20) years will also be granted to The form for the and Servicing Agreement is attached as Exhibit C.

needs financial capital assistance in order to commence its business which is the provision of employee enrollment services. This capital will be raised by the Investor and invested in as provided in the Act. The amount of total capital to be raised by the Investor for investment in is $20,000,000.

Six Million Eight Hundred Thousand Dollars ($6.800,000) of Investor's investment in Capital Co. will in turn be invested by Capital Co. in Simultaneously with Capital Co., Investor will make an additional "in conjunction with" investment into the of $13,200,000. These investments will aggregate $20,000,000 new capital for Investor's aggregate $20,000,000 of qualified investments intc will earn a thirty percent (30%) rural small business capital formation credit of $6,000,000 for Oklahoma income tax purposes.

Capital Co. and Investor, in proportionate amounts, will loan $18,500,000 in subordinated debt to and will invest $1,500,000 in preferred limited partnership equity capital. Capital Co. will make 34% of the investment in and Investor will provide 66% of the investment in UBT through "in conjunction with" investments pursuant to 68 O.S. §2357.74. The entire debt will be subordinate to all other debt of issued or to be issued to a financial lending institution as required by 68 O.S. §2357.72(9). The debt will be "near-equity" as defined in 68 O.S. §2357.72(3) and as required by 68 O.S. §2357.74(B)(2) by being convertible dollar for dollar ($1 for $1) into Preferred limited partnership interest upon the consent of the sole member of Investor or Capital Co. with respect to the debt held by each. The details of these investments are provided in the Flow Chart and Term Sheet attached hereto as Exhibits D and E respectively.

After the investment, will have 100% of its employees and assets located in a non-metropolitan area of Oklahoma. will conduct activities resulting in at least seventy-five percent (75%) of its respective gross annual revenues from its principal place of business in , Oklahoma. Attached as Exhibit F is pro forma Balance Sheet immediately following closing and its pro forma Income Statements for its first three years of operation.

The Investor believes that will qualify as a small business as defined by the federal Small Business Administration. The Small Business Administration defines a "small business concern" as a business entity organized for profit, with a place of business located in the United States, which operates primarily within the United States and meets the size standard applicable for the NAICS code in which the business entity operates. The NAICS code for the is with a size standard of $23.0 million dollars in annual revenues. Whether or not a business entity meets the size standards described above is determined by reference to an entity's "annual receipts," which is defined as gross or total income, including cost of goods sold, of a company as reported on the company's Federal income tax return and averaged over the latest three completed fiscal years. As a start-up company, will not have any historical annual receipts and will not have annual receipts at the time of the investment in excess of the applicable size standards listed above. In addition, in the first year after opening, is projected to have gross revenues of approximately

$9.0 million dollars. is an entity organized for profit with a business location in the United States and will operate primarily in the United States. Therefore, the Investor believes that will qualify as a "small business," as defined by the Small Business Administration.

RULINGS REQUESTED

1. meets the definition of an "Oklahoma rural small business venture" within the meaning of 68 O.S. §2357.72(6).

It is the ruling of the Tax Policy Division that meets the definition of an "Oklahoma rural small business venture" within the meaning of §2357.72(6) based on the following representations:

a. will have 100% of its employees located within Oklahoma;
b. needs financial assistance in order to commence its business to provide services;
c. At least seventy-five percent (75%) of gross annual revenues will be a result of activities conducted in Oklahoma and the principal place of business of will be in has a population less than one hundred thousand persons according to the most recent Federal Decennial Census;
d. is engaged in a lawful business activity under Division I of the Standard Industrial Classification Manual;
e. meets the definition of a small business by the federal Small Business Administration; and
f. will expend more than fifty percent (50%) of the proceeds of the qualified investment for the acquisition of intangible assets. Please note that §2357.72(6)(f) requires that the expenditure take place within eighteen (18) months of the date of the qualified investment.

2. Capital Co. meets the definition of a "qualified rural small business capital company" within the meaning of 68 O.S. §2357.72(8).

It is the ruling of the Tax Policy Division that Capital Co. meets the definition of a "qualified rural small business capital company" within the meaning of 68 O.S. §2357.72(8) based on the following representations:

a. Capital Co. is organized primarily to provide direct investments of equity, near-equity and debt securities and instruments of companies located in Oklahoma;
b. The principal place of business of Capital Co. is in Oklahoma;
c. The capitalization of Capital Co. is in excess of Five Hundred Thousand Dollars ($500,000); and
d. At the time of the investment, Capital Co. will not have investment of more than twenty-five percent (25%) of its capitalization in any one company. Please note that §2357.72(8)(d) prohibits a capital company from having investment of not more than twenty-five percent (25%) of its capitalization in any one company "at any time during the calendar year of the corporation, limited liability company, or partnership".

3. The investments by both Investor and Capital Co. in will meet the definition of a "qualified investment" within the meanings of 68 O.S. §2357.72(7), 2357.73(B) and 2357.74(B).

It is the ruling of the Tax Policy Division that the investments by both Investor and Capital Co. in will meet the definition of a "qualified investment" within the meanings of 68 O.S. § 2357.72(7), 2357.73(B) and 2357.74(B) based, in part, on the following representations:

a. *The qualified investment is in the form of equity and near-equity securities. The investment in the form of subordinated debt has a maturity date and a repayment schedule of not less than five (5) years;*
b. *The funds will be used by in pursuit of a legitimate business purpose consistent with its organizational instrument. It is the ruling of the Tax Policy Division that the proposed use of the funds are for a legitimate business purpose; and*
c. *The "in conjunction with" investment by Investor into does not exceed 200% of the investment by Capital Co. into*

Please note that the provisions of Section 2357.74A of Title 68 require:

a. *to issue its securities and subordinated debt instruments within thirty (30) days of the date as of which the investment occurs; and*
b. *Capital Co. and Investor must reflect the documented qualified investment in 'as an asset in its accounting systems.*

This response applies only to the circumstances set out in your request of June 27, 2006. Pursuant to Commission Rule 710:1-3-73(e), this Letter Ruling may be generally relied upon only by (Capital Co.), (Investor), and their investors, assuming that all pertinent facts have been accurately and completely stated, and that there has been no change in applicable law.

Please be advised that the issuance of this ruling does not preclude the Oklahoma Tax Commission from conducting an audit or examination under Sections 206 or 2357.74B of Title 68 of any report or return claiming a credit for the transactions outlined in this letter ruling. The Commission reserves the right to issue any assessment, correction, or adjustment authorized under 68 O.S. §221.

Sincerely,

OKLAHOMA TAX COMMISSION

Tony Mastin, Director
Tax Policy & Research Division