

OKLAHOMA TAX COMMISSION

TAX POLICY DIVISION
DAWN CASH, DIRECTOR

PHONE (405) 521-3133
FACSIMILE (405) 522-0063



December 15, 2008

Re: Our File No. LR-08-144

Dear

This letter ruling is in response to your letter ruling request dated October 20, 2008 wherein you posed a series of ruling requests relating to the Small Business Capital Formation Incentive Act (68 O.S. §2357.60 et seq.) and the Rural Venture Capital Formation Incentive Act (68 O.S. §2357.70 et seq.). Following a verbatim restatement of the facts as outlined in your letter, are the specific rulings requested and our responses thereto.

The Oklahoma Tax Commission issued letter rulings on March 29, 2007, July 20, 2007, March 19, 2008 and September 15, 2008 under Oklahoma Tax Commission File No. LR 07-07 (collectively, the "Original Ruling") in favor of FUND (the "Fund"), CAPITAL COMPANY (the "Capital Company"), one or more Series (each, a "Series") established by the Fund pursuant to Section 2054.4 of the Oklahoma Limited Liability Company Act, and others (together with the Fund, the Capital Company and the Series, the "Ruling Recipients"), which Original Ruling is incorporated herein by reference. The purpose of this letter is to request on behalf of the Ruling Recipients a supplemental ruling to the Original Ruling relating to the Oklahoma Rural Venture Capital Formation Incentive Act, 68 Okla. Stat. § 2357.71, et. seq (the "Rural Act") and the Small Business Capital Formation Incentive Act, 68 Okla. Stat. § 2357.60, et. seq (the "Small Business Act"). Capitalized terms not otherwise defined herein will have the meanings set forth in the Original Ruling.

The Capital Company made investments in December 2007 (the "2007 Investments") in businesses which the Capital Company believed to be "Oklahoma rural small business ventures" as defined in the Rural Act ("Rural Ventures") and in other businesses which the Capital Company believed to be "Oklahoma small business ventures" under the Small Business Act ("Small Business Ventures"). The Capital Company currently intends to make investments during the 2008 calendar year only in companies which qualify as Rural Ventures. However, the Capital Company continues to hold the 2007 Investments and expects to hold those investments throughout 2008.

In order to be a "Qualified rural small business capital company" under the Rural Act (a "Rural Capital Company"), a company must meet the requirements set forth in Section 2357.72(8) of the Rural Act, including a requirement that the "corporation, limited liability company or partnership has 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." We refer to this requirement as the "Rural Diversification Requirement." Section 2357.61(7) of the Small Business Act contains a similar requirement in the definition of a "Qualified small business capital company" (a "Small Business Capital Company") but uses a twenty percent (20%) threshold (the "Small Business Diversification Requirement").

We respectfully request your advice that, for purposes of determining whether investments made in 2008 (or in a subsequent calendar year) qualify for the Oklahoma tax credits provided for by the Rural Act or the Small Business Act:

1. The Rural Diversification Requirement will apply in determining whether the Capital Company is a Rural Capital Company if, on the date of the investment, the Capital Company has made investments during 2008, or the applicable subsequent calendar year, only in Rural Ventures; and

Yes, the Rural Diversification requirement will be met if during that calendar year no more than 25% of the Rural Capital Company's capitalization is in any one Rural Venture.

2. If investments are made in a calendar year solely in Rural Ventures (the "First Investments") and, in the same calendar year, a subsequent investment is made in a Small Business Venture (a "Subsequent SB Investment"), then (a) the Rural Diversification Requirement will apply in determining whether the Capital Company is a Rural Capital Company on the date of the First Investments, (b) the Small Business Diversification Requirement will apply in determining whether the Capital Company is a Small Business Capital Company on the date of the Subsequent SB Investment, and (c) any failure by the Capital Company to satisfy the Small Business Diversification Requirement on the date of the First Investments will not constitute a "recapture event," as defined in the Rural Act, with respect to the First Investments and will not cause the Capital Company to fail to qualify as a Rural Capital Company on the date of the First Investments.

At the time the rural investments are made by the Capital Company, the Rural Diversification Requirement will apply in determining whether the Capital Company is a Rural Capital Company. Subsequent small business investments, made in the same calendar year, will not constitute a recapture event with respect to the first rural investments and will not cause the Capital Company to fail to qualify as a Rural Capital Company on the date of the First Investments. The Small Business Diversification

Requirement will apply in determining whether the Capital Company is a Small Business Capital Company on the date of the subsequent small business investment.

We also request your advice that, in the event the Capital Company makes investments during a particular calendar year (whether 2008 or a subsequent calendar year) solely in one or more Rural Ventures, any failure of the Capital Company to satisfy the Small Business Diversification Requirement in that calendar year will not constitute a Recapture Event with respect to investments made in prior calendar years and will not prohibit the Capital Company from qualifying as a Small Business Capital Company in a subsequent calendar year.

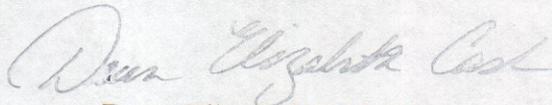
The Small Business Diversification Requirement will be deemed to have been met if not more than 20% of its capitalization is in any one company at any time during the calendar year of the Capital Company. The Rural Diversification Requirements will be deemed to have been met if not more than 25% of its capitalization is in any one company at any time during the calendar year of the Capital Company. The failure of the Capital Company to satisfy the Small Business Diversification Requirement during a calendar year when only Rural Investments are made, will not constitute a Recapture Event with respect to Small Business Investments made in prior calendar years and will not prohibit the Capital Company from qualifying as a Small Business Capital Company in a subsequent calendar year.

This response applies only to the circumstances set out in your request dated October 20, 2008. Pursuant to Commission Rule 710:1-3-73(e), this Letter Ruling may be generally relied upon only by the entity to whom it is issued and its 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 68 Okla. Stat. §206 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 Okla. Stat. §221.

Sincerely,

Oklahoma Tax Commission



Dawn Elizabeth Cash, Director
Tax Policy & Research Division