

Qualified Small Business Stock Confirmations

The purpose of these confirmations are to assist stockholders in identifying which of their investments may qualify as qualified small business stock under Internal Revenue Code Sec. 1202 (QSBS).

Company Name	
Stockholder Name	
Stock Issuance Date	
Stock Held immediate after Issuance	

Confirmations

Explanatory Notes

1. At least 80% of the assets of the Company (by value) have been used in the active conduct of a qualified trade or business since the Stock Issuance Date. A, B, C
2. Since the Stock Issuance Date, 10% or more of the total value of the Company's assets has never been made up (i) securities or (ii) real estate not used in the active conduct of a qualified trade or businesses. A, B, D, E
3. The company has never repurchased stock from its stockholders (excluding stock repurchases from employees and service providers in connection with the termination of their services.) F, G
4. The adjusted tax basis of the total gross assets of the Company (or any predecessor) was less than or equal to \$50 million immediately following the Stock Issuance Date. B

Explanatory Notes:

Note A

A qualified trade or business means any trade or business *except* the following:

- Services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees.
 - Any banking, insurance, financing, leasing, investigating, or similar business.
 - Any farming business (including the business of raising or harvesting trees).
 - Any business involving the production or extraction of products of a character with respect to which a deduction is allowable under Code Sec. 613 or 613A (mining and natural resource extraction).
 - Any business of operating a hotel, motel, restaurant, or similar business.
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Note B

For the purposes of the question, a parent corporation is deemed to own its ratable share of a subsidiary's assets and to conduct its ratable share of the subsidiary's activities. A corporation is considered a subsidiary for this question if the parent owns more than 50% in value of its outstanding stock.

Note C

For the purposes of this question, any assets that are held (i) as part of the reasonably required working capital needs of a qualified trade or business of the corporation, or (ii) are held for investment and are reasonably expected to be used within two years to finance research and experimentation in a qualified trade or business or increases in the working capital needs of a qualified trade or business shall be treated as used in the active conduct of a qualified trade or business. However, after the corporation has been in existence for at least two years, no more than 50% of the corporation's assets can qualify as used in the active conduct of a qualified trade or business by reason of the language or the preceding sentence.

Note D

The ownership of, dealing in, or renting of real property is not treated as the active conduct of a qualified trade or business.

Note E

Stock or securities does not include working capital or investment in subsidiaries. For this purpose, working capital consists of (i) the reasonably required working capital needs of a qualified trade or business of the corporation, or (ii) assets held for investment which are reasonably expected to be used within two years to finance research and experimentation in a qualified trade or business or increases in the working capital needs of a qualified trade or business. However, after the corporation has been in existence for at least two years, no more than 50% of the corporation's assets can qualify as used in the active conduct of a qualified trade or business by reason of the language of the preceding sentence.

Note F

The stock may still qualify if the Company has repurchased (i) less than \$10k of stock; and (ii) if the stock was repurchased during the period 1 year before to 1 year after the Stock Issuance Date, the repurchase amount was less than 5% of the fair market value of all of the Company stock at the beginning of such period.

Any transaction that is entered into by the issuing corporation that is treated as a distribution in redemption of stock under Code Sec. 304(a) within the two-year period beginning one year prior to the issuance shall be treated as a redemption for purposes of question 4. Code Sec. 304(a) treats as a distribution in redemption of stock:

- A subsidiary acquiring a parent corporation's stock from a parent shareholder.
- A brother-sister corporation acquiring stock of a related corporation from a controlling shareholder.

Note G

Certain transfers or purchases of stock are not considered redemptions for purposes of question 4: A stock purchase is not considered a redemption if:

- The stock was acquired by the seller for the performance of services as an employee or director and the stock is purchased from the seller incident to the seller's retirement or other termination of services; or
- The stock is purchased within three years and nine months from the date of the decedent's death from the decedent's estate, beneficiary, heir, surviving joint tenant, or surviving spouse or from a trust established by the decedent or decedent's spouse; or
- The stock is purchased incident to the divorce of the selling shareholder. A transfer of stock by a shareholder to an employee or independent contractor is not treated as purchase of the stock by the issuing corporation even if the stock is treated as having first been transferred to the corporation.