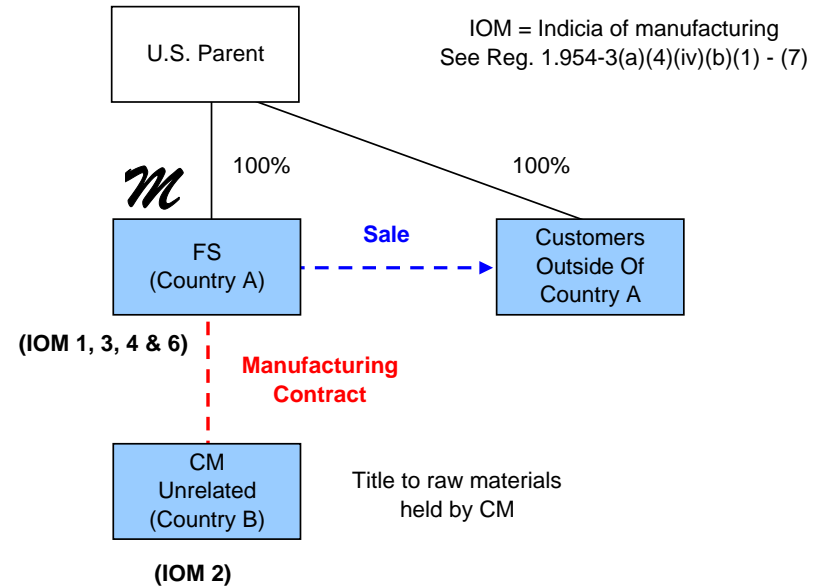


**SC With Raw Materials Owned
By CM (IOM 1, 3, 4, & 6)**

FS activities thru its own employees ("Indicia of Manufacturing")

1. Oversee and direct manufacturing activities or process.	Yes
2. Physically transform product.	No
3. Select materials, select vendors, or control raw materials, work-in-process, or finished goods.	Yes
4. Manage manufacturing costs or capacities (risk of loss, demand planning, production scheduling, hedging, etc.).	Yes
5. Control manufacturing related logistics.	Unstated
6. Control quality.	Yes
7. Develop, or direct the use or development of, product design and other intellectual property related to manufacturing of the product.	Unstated



FS, a controlled foreign corporation, enters into a contract with CM to manufacture Product X. CM physically performs the substantial transformation, assembly, or conversion required to manufacture Product X outside of FS's country of organization. Product X is sold by FS to a related person for use outside of FS's country of organization. Employees of FS select the materials that will be used to manufacture Product X. FS does not own the materials or work-in-process during the manufacturing process. FS, through its employees, exercises oversight and direction of the manufacturing process and provides quality control. FS manages the manufacturing costs and capacities with respect to Product X by managing the risk of loss and engaging in demand planning and production scheduling. If the manufacturing activities undertaken with respect to Product X prior to sale had been undertaken by FS through the activities of its employees, FS would have satisfied the manufacturing exception contained in Reg. 1.954-3(a)(4)(ii) or (a)(4)(iii) with respect to Product X. Therefore, Reg. 1.954-3(a)(4)(iv) applies. Under the facts and circumstances of the business, FS satisfies the test under Reg. 1.954-3(a)(4)(iv) because it makes a substantial contribution through the activities of its employees to the manufacture of Product X. Therefore, FS is considered to have manufactured Product X under Reg. 1.954-3(a)(4)(i).