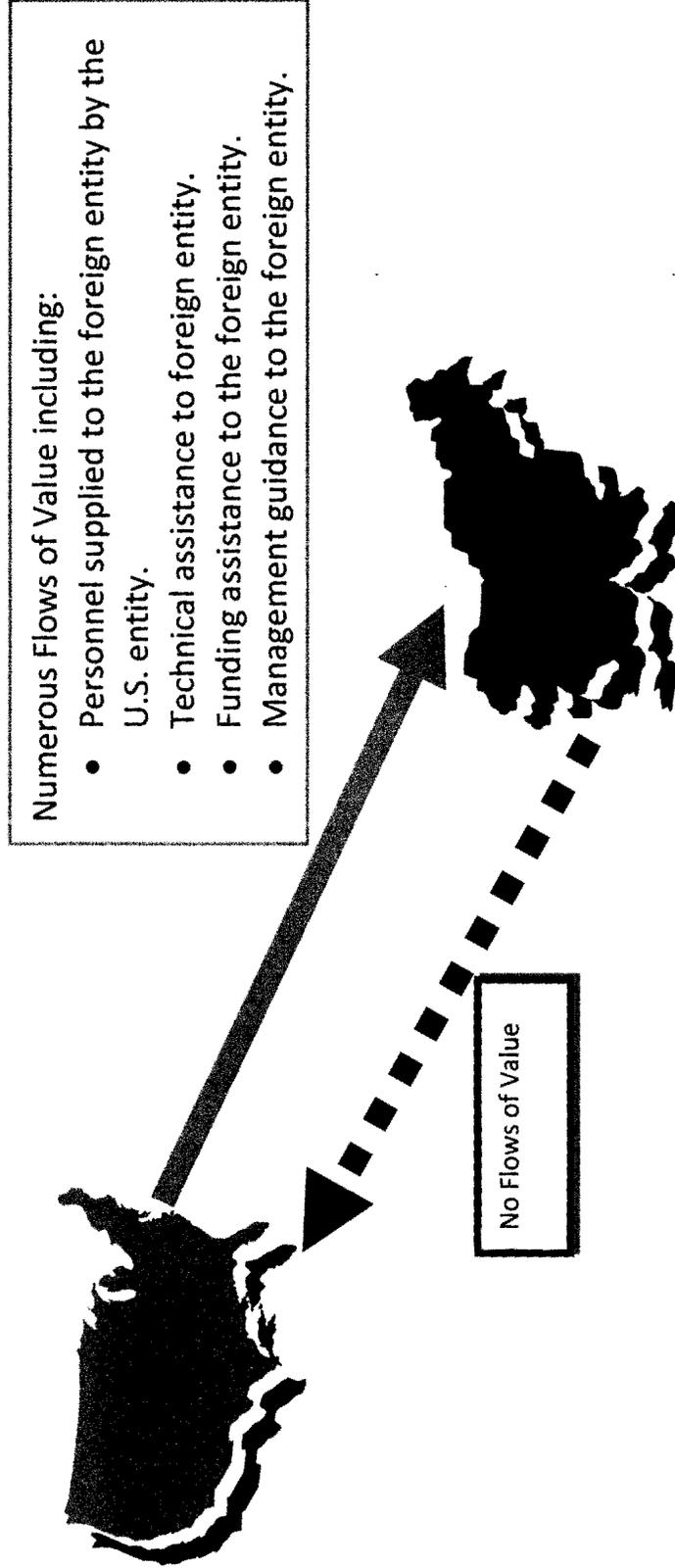


Flows of Value

A "one-way" flow of value does not prevent a determination that an integral relationship exists.

Case Facts: Container Corp. vs FTB, US Supreme Court (1983)



Holding: UNITARY BUSINESS. The Court stated "[i]n each of these respects this case differs from ASARCO and *F.W. Woolworth* and clearly comes closer than those cases did to presenting a 'functionally integrated enterprise' which the State is entitled to tax as a single entity."



State of California

Franchise Tax Board

Legal Division MS A260
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chair **John Chiang** | member **Jerome E. Horton** | member **Ana J. Matosantos**

Date: 09.20.2011

Case: 5460198483027180

Case Unit: 5460227949595070

In reply refer to 410:KA

TO: CHIEF, BOARD PROCEEDINGS DIVISION
STATE BOARD OF EQUALIZATION
450 N STREET, MIC: 81
SACRAMENTO, CA 95814

FROM: KATHLEEN A. ANDLEMAN

RE: Appeal of Pacific Bell Telephone Company and Affiliates
Appeal Case ID No. 521312

MEMORANDUM

Respondent's presentation in the above-referenced appeal will include two large exhibits. Nine (9) letter-sized copies of these exhibits are hereby provided for distribution to the Board members, Appellant, and staff.

Thank you.

Tax Counsel IV

FOREIGN ACTIVITIES ARE AN OPERATIONAL PART OF APPELLANT'S BUSINESS

- ✓ These foreign investment opportunities coincided with SBC's surplus of financial and human capital, and limited domestic growth opportunities in the United States due to regulatory restraints. Declaration of Rick Moore, Appellant's Exhibit 30.
- ✓ Most of the foreign companies in which SBC invested had been poorly managed under government ownership or had limited wireless technology. Thus, SBC could generate substantial stock value by advising its foreign investments. Appellant's Opening Brief, page 24.
- ✓ Foreign investments by U.S. telecommunications companies make it easier for U.S. companies to reach their foreign facilities, as well as their customers and suppliers in these countries. "Description of the Transaction, Public Interest Showing and Related Demonstrations" filed with the FCC, page 27.
- ✓ Ameritech and SBC have demonstrated their commitment to providing investment capital, personnel and expertise in foreign markets. They have helped build out the public networks in Hungary, Mexico and South Africa, which has resulted in improvement in the quality of life in those countries. "Description of the Transaction, Public Interest Showing and Related Demonstrations," filed with the FCC, page 33.
- ✓ The resulting consolidation will free up additional SBC and Ameritech employees with marketing, technical, customer service, systems, and business process knowledge who can improve the operations and offerings of our affiliates and can jump start the competitive international activities. Experience demonstrates that such benefits are real and substantial. Affidavit of Robert Jason Weller, page 8.
- ✓ The proposed merger will combine Ameritech's existing international operations in Belgium, Denmark, Norway, and Hungary which it undertakes directly (a complete description is available at www.ameritech.com/corporate/international) or indirectly through TeleDanmark (described more fully in Attachment B) with SBC's current international operations in France, Switzerland, Asia, South Africa and Mexico. Affidavit of James S. Kahan, page 25.

STATE BOARD OF EQUALIZATION



Appeal Name: PACIFIC BELL TELEPHONE AND AFFILIATES

Case ID: _____ ITEM #. B1

Date: SEPTEMBER 20, 2011 Exhibit No: _____

TP **FTB** DEPT PUBLIC COMMENT