We agree with your approach.

Hello,

I have a question regarding how to report revenues in Item 5(a) under the following scenario: The acquired person (Company B) has a subsidiary ("OpCo") that engages in a distinct line of business. Company B intends to reorganize OpCo so as to transfer certain non-revenue producing, back-office assets of OpCo into a new LLC (Newco). OpCo will then enter into a long-term contract with Newco under which Newco will provide management and administrative services to Opco in return for a fee. Company B will then sell 100% of the non-corporate interests of Newco to a third party, Company A, in a reportable transaction. Opco will remain in the same line of business under the ownership of Company B.

The instructions state that the acquired person should report revenues in Item 5(a), in the case of a sale of non-corporate interests, only to the unincorporated entity(s) being acquired. In this instance, Newco is being acquired but has zero revenue, as it has not yet earned any revenues under the management contract, which is its only source of revenue (since the assets contributed to Newco are non-revenue producing). Is it proper to report $0 in Item 5(a) revenues under this circumstance?

Assuming that is the case, I just check the “none” box in Item 5(a), provide an explanation and do not report a NAICS code, correct?

Sincerely,