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**Subject: Petition of Lowe's Home Centers, Inc.**  
**Date: October 16, 2004**

To Our Clients and Friends:

Attached for your information is a copy of the latest forced combination decision in New York State, Petition of Lowe's Home Centers, Inc. (Division of Tax Appeals, Administrative Law Judge Unit, September 30, 2004). The case involves a royalty company fact pattern. The ALJ held that the transfer and license back transactions lacked a valid business purpose and economic substance, and intercompany transactions were not conducted on an arm's length basis.

The decision is interesting for its detailed Section 482 analysis and the lengths that New York State went to (utilizing its own Section 482 expert) in contesting the taxpayer's numerous intercompany pricing studies. The case also builds upon and amplifies the business purpose and economic substance analysis set forth in the Sherwin-Williams decision (Division of Tax Appeals, Tax Appeals Tribunal, June 5, 2003).

If you have any questions regarding the Lowe's Home Centers decision, or any other state and local tax matters, please do not hesitate to contact me.

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