Second Notice to U.S. Shareholders of Lehman Brothers Private Equity Partners Limited

As we previously announced, an investment in Lehman Brothers Private Equity Partners Limited ("LBPE") results in a U.S. investor owning interests in passive foreign investment companies ("PFICs") for purposes of U.S. tax law. As a result, U.S. shareholders have special tax considerations that they should address in connection with their 2007 U.S. federal income tax returns. Failure to take action could result in onerous tax consequences to a U.S. shareholder.

Generally, an investment in a PFIC requires a U.S. taxpayer to make either a Qualified Electing Fund ("QEF") or Mark-to-Market ("MTM") election (collectively "tax elections") on its U.S. tax return in order to recognize certain income from the PFIC on an annual basis. Failure to make one of these elections could result in onerous tax consequences when the PFIC makes distributions or the shares in the PFIC are sold. Typically, an investment in a structure similar to LBPE would require U.S. investors to make a tax election for each direct or indirect PFIC investment held by LBPE. Given LBPE's current and expected investments, this could potentially result in as many as 40 to 50 elections each year. We have recently obtained a private letter ruling (the "PLR") (A full copy of the PLR is posted on the Tax Information section of the Investor Relations page of our Website www.lbpe.com) from the Internal Revenue Service ("IRS") in order to simplify the U.S. tax reporting obligations associated with your investment in LBPE. The PLR allows investors to make tax elections solely with respect to two entities in the LBPE structure (the listed company, LBPE, and a wholly owned subsidiary, Lehman Brothers PEP Investments Limited ("LBPEPI")). Another entity within the LBPE structure will administer the tax elections and related reporting requirements for all the PFICs indirectly held by LBPE.

Action Required for Your 2007 U.S. Tax Return

<u>For U.S. investors that purchased shares at any time during 2007 and held those shares as of December 31, 2007:</u>

We anticipate the vast majority of investors will elect to make a QEF election with respect to each of LBPE and LBPEPI. Please see the description below of the impact of the possible MTM election with respect to LBPE. Note, that even though you do not have any income to report for the 2007 tax year, **you still must do the following in order to make a valid QEF election for 2007:**

1) File a complete and accurate Form 8621 for each of LBPE and LBPEPI with your 2007 U.S. federal income tax return (See Attachments A and B). [To complete the Form 8621 to make the QEF election you will need to complete the information above Part I, Check box A in Part I, and complete lines 1a through 2c of Part II (for 2007 all of these are $0)].

2) Retain a copy of the attached annual information statements ("AIS") (See Attachments C and D) for each of LBPE and LBPEPI in your tax files.

If you fail to make a QEF or MTM election in the year in which you purchase the shares, you will not be able to make an election in subsequent years.

<u>For U.S. investors that purchased shares in 2007 and sold those shares prior to December 31, 2007:</u>

Gain or loss on the sale of the shares will be reported on your 2007 U.S. tax return in the same manner as other stock purchases and sales. **You should still make either a QEF or MTM**

election to ensure you avoid the onerous rules related to PFICs. For most investors either election will result in no U.S. income inclusion for 2007 other than the gain or loss on the sale of the shares.

For U.S. investors that purchased shares after December 31, 2007:

No action is required from you at this time. See "What to Expect for Future Years" below.

Summary of the QEF and MTM Elections

We anticipate most investors will make a QEF election for each of LBPE and LBPEPI. As a result of the relief granted in the PLR, investors in LBPE will only have to make these two elections in order to address all of the PFIC reporting required by the LBPE structure.

QEF Election

By making a QEF election an investor will recognize income from the PFICs in the taxable year of LBPE in which the income is earned. As a result of the PLR, 99.5% of all income generated within the LBPE structure will be recognized by LBPE and the remaining .5% will be recognized by LBPEPI. Income generated within the LBPE structure will retain its ordinary income or capital gains characteristics and will be reported by LBPE to the investor each year on an AIS. A QEF election could result in "phantom income" for investors, but will avoid onerous penalties and interest which would be incurred at the time the PFIC makes distributions or the shares of the PFIC are sold if no election is made. (See Attachment E for examples of the potential impact of QEF elections).

The PLR also provides U.S. shareholders making a QEF election a one-year deferral of tax on any income inclusions that would otherwise be required. The IRS allowed LBPE to change its tax year so that it ends on November 30th of each year. The impact of this change is that the tax year of LBPE's underlying investments ends one month after LBPE's tax year. As a result, income generated by LBPE's underlying investments during calendar year 2007 will not be reported for LBPE PFIC purposes until LBPE's 2008 AIS. **Thus, a U.S. shareholder reporting on a calendar year basis may still need to make a QEF election for LBPE and LBPEPI with its 2007 return; however, there should be no corresponding income inclusion from these entities until the 2008 tax year.** (See Attachment E for examples of the potential impact of QEF elections).

MTM Election

Investors have the option of making an MTM election with respect to LBPE, but no such election is possible for LBPEPI. An MTM election can be made by any U.S. shareholder that owns marketable PFIC stock. PFIC stock is considered marketable for this purpose if it is regularly traded on a qualified exchange or other market.

If a U.S. shareholder elects to make an MTM election, the shareholder must annually recognize income or loss equal to the difference between the stock's fair market value at year-end and the shareholder's adjusted tax basis in such stock. Thus, for 2007, a U.S. investor would include ordinary income on its tax return for any increase in the value of its shares of LBPE from the date of purchase to the value as of December 31, 2007, or for subsequent years, the increase in value from January 1 of the calendar year to the value on December 31. To the extent there is a decrease in the value of the shares in any calendar year the losses can only be utilized by the

investor to the extent the investor has reported gains in prior years. (See Attachment F for examples of the potential impact of MTM elections). **If an MTM election is made, no capital gains treatment should be available as the gain on the sale of the LBPE shares should generally be ordinary income.**

The U.S. taxation of PFICs is a complex area. The availability of the QEF and MTM elections may vary by shareholder and PFIC, and the effects of such elections may result in differing income inclusions for electing shareholders. Please consult your tax advisor to determine the best course of action for you. If you have any questions regarding the potential impact of the PLR in this context, please contact Investor Relations at investorrelations@lbpe.com.

What to Expect for Future Years

For U.S. investors that purchase shares, hold those shares at the end of a calendar year and make a QEF election:

1) You will receive an AIS for each of LBPE and LBPEPI by approximately February 15th of each year to notify you of any applicable income inclusion for your tax return for the prior year.
2) You will need to file a complete and accurate Form 8621 for each of LBPE and LBPEPI with your U.S. federal income tax return. The AIS will include all of the information you will need to complete the Form 8621.
3) If you make a QEF election, retain a copy of the AIS for each of LBPE and LBPEPI in your tax files.

For U.S. investors that sell shares:

1) You will receive an AIS for each of LBPE and LBPEPI which will contain a calculation to help you determine the amount of income inclusion from each of LBPE and LBPEPI that you will need to report on your tax return. The calculation will be a pro rata allocation of the income for that portion of the calendar year in which you held the shares.
2) You will need to file a complete and accurate Form 8621 for each of LBPE and LBPEPI with your U.S. federal income tax return. The AIS will include all of the information you will need to complete the Form 8621.
3) If you make a QEF election, retain a copy of the AIS for each of LBPE and LBPEPI in your tax files.
4) You will need to report the gain or loss on the sale of the shares in the normal manner.

Attachments:
A- Form 8621 for LBPE and Instructions
B- Form 8621 for LBPEPI
C- LBPE 2007 Annual Information Statement
D- LBPEPI 2007 Annual Information Statement
E- QEF Illustration
F- MTM Illustration

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Attachment A
Form 8621 for LBPE and Instructions

Form **8621**
(Rev. December 2004)
Department of the Treasury
Internal Revenue Service

Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund

► See separate instructions.

OMB No. 1545-1002

Attachment Sequence No. **69**

Name of shareholder	**Identifying number** (see page 2 of instructions)
Number, street, and room or suite no. (If a P.O. box, see page 2 of instructions.)	Shareholder tax year: calendar year 20 .... or other tax year beginning ..... , 20 ..... and ending ..... , 20 ..... .
City or town, state, and ZIP code or country	

Check type of shareholder filing the return: ☐ Individual ☐ Corporation ☐ Partnership ☐ S Corporation ☐ Nongrantor Trust ☐ Estate

Name of passive foreign investment company (PFIC) or qualified electing fund (QEF)	**Employer identification number** (if any)
Lehman Brothers Private Equity Partners Limited	**98-0541205**
Address (Enter number, street, city or town, and country.)	Tax year of company or fund: calendar year 20 ..... or other tax year beginning **June 22** , 20 **07** and ending **November 30** , 20 **07** .
325 North St. Paul Street, Suite 4900 **Dallas, TX 75201**	

Part I Elections (See instructions.)

A ☐ **Election To Treat the PFIC as a QEF.** I, a shareholder of a PFIC, elect to treat the PFIC as a QEF. *Complete lines 1a through 2c of Part II.*

B ☐ **Deemed Sale Election.** I, a shareholder on the first day of a PFIC's first tax year as a QEF, elect to recognize gain on the deemed sale of my interest in the PFIC. *Enter gain or loss on line 10f of Part IV.*

C ☐ **Deemed Dividend Election.** I, a shareholder on the first day of a PFIC's first tax year as a QEF that is a controlled foreign corporation (CFC), elect to treat an amount equal to my share of the post-1986 earnings and profits of the CFC as an excess distribution. *Enter this amount on line 10e of Part IV.*

D ☐ **Election To Extend Time For Payment of Tax.** I, a shareholder of a QEF, elect to extend the time for payment of tax on the undistributed earnings and profits of the QEF until this election is terminated. *Complete lines 3a through 4c of Part II to calculate the tax that may be deferred.*
Note: *If any portion of line 1a or line 2a of Part II is includible under section 551 or 951, you may* ***not*** *make this election. Also, see sections 1294(c) and 1294(f) and the related regulations for events that terminate this election.*

E ☐ **Election To Recognize Gain on Deemed Sale of PFIC.** I, a shareholder of a former PFIC or a PFIC to which section 1297(e) applies, elect to treat as an excess distribution the gain recognized on the deemed sale of my interest in the PFIC, or, if I qualify, my share of the PFIC's post-1986 earnings and profits deemed distributed, on the last day of its last tax year as a PFIC under section 1297(a). *Enter gain on line 10f of Part IV.*

F ☐ **Election To Mark-to-Market PFIC Stock.** I, a shareholder of a PFIC, elect to mark-to-market the PFIC stock that is marketable within the meaning of section 1296(e). *Complete Part III.*

Part II Income From a Qualified Electing Fund (QEF).

All QEF shareholders complete lines 1a through 2c. If you are making Election D, also complete lines 3a through 4c. (See page 5 of instructions.)

1a	Enter your pro rata share of the ordinary earnings of the QEF	1a	
b	Enter the portion of line 1a that is included in income under section 551 or 951 or that may be excluded under section 1293(g)	1b	
c	Subtract line 1b from line 1a. Enter this amount on your tax return as dividend income		1c
2a	Enter your pro rata share of the total net capital gain of the QEF	2a	
b	Enter the portion of line 2a that is included in income under section 551 or 951 or that may be excluded under section 1293(g)	2b	
c	Subtract line 2b from line 2a. This amount is a net long-term capital gain. Enter this amount in Part II of the Schedule D used for your income tax return. (See instructions.)		2c
3a	Add lines 1c and 2c		3a
b	Enter the total amount of cash and the fair market value of other property distributed or deemed distributed to you during the tax year of the QEF. (See instructions.)	3b	
c	Enter the portion of line 3a not already included in line 3b that is attributable to shares in the QEF that you disposed of, pledged, or otherwise transferred during the tax year	3c	
d	Add lines 3b and 3c		3d
e	Subtract line 3d from line 3a, and enter the difference (if zero or less, enter amount in brackets) **Important:** *If line 3e is greater than zero, and no portion of line 1a or 2a is includible in income under section 551 or 951, you may make Election D with respect to the amount on line 3e.*		3e
4a	Enter the total tax for the tax year (See instructions.)	4a	
b	Enter the total tax for the tax year determined without regard to the amount entered on line 3e	4b	
c	Subtract line 4b from line 4a. **This is the deferred tax, the time for payment of which is extended by making Election D. See instructions**		4c

Part III Gain or (Loss) From Mark-to-Market Election (See page 5 of instructions.)

5	Enter the fair market value of your PFIC stock at the end of the tax year	5	
6	Enter your adjusted basis in the stock at the end of the tax year	6	
7	**Excess.** Subtract line 6 from line 5. If a gain, **stop here.** Include this amount as ordinary income on your tax return. If a loss, go to line 8	7	
8	Enter any unreversed inclusions (as defined in section 1296(d)). See instructions.	8	
9	Enter the smaller of line 7 or line 8. Include this amount as an ordinary loss on your tax return	9	

Part IV Distributions From and Dispositions of Stock of a Section 1291 Fund (See page 6 of instructions.)
*Complete a **separate** Part IV for each excess distribution (see instructions).*

10a	Enter your total distributions from the section 1291 fund during the current tax year with respect to the applicable stock. If the holding period of the stock began in the current tax year, see instructions	10a	
b	Enter the total distributions (reduced by the portions of such distributions that were excess distributions but not included in income under section 1291(a)(1)(B)) made by the fund with respect to the applicable stock for each of the 3 years preceding the current tax year (or if shorter, the portion of the shareholder's holding period before the current tax year).	10b	
c	Divide line 10b by 3. (See instructions if the number of preceding tax years is less than 3.)	10c	
d	Multiply line 10c by 125% (1.25)	10d	
e	Subtract line 10d from line 10a. This amount, if more than zero, is the excess distribution with respect to the applicable stock. If zero or less and you did not dispose of stock during the tax year, **do not** complete the rest of Part IV. See instructions if you received more than one distribution during the current tax year. Also, see instructions for rules for reporting a nonexcess distribution on your income tax return	10e	
f	Enter gain or loss from the disposition of stock of a section 1291 fund or former section 1291 fund. If a gain, complete line 11. If a loss, show it in brackets and **do not** complete line 11	10f	
11a	Attach a statement for each distribution and disposition. Show your holding period for each share of stock or block of shares held. Allocate the excess distribution to each day in your holding period. Add all amounts that are allocated to days in each tax year.		
b	Enter the total of the amounts determined in line 11a that are allocable to the current tax year and tax years before the foreign corporation became a PFIC (pre-PFIC tax years). Enter these amounts on your income tax return as other income	11b	
c	Enter the aggregate increases in tax (before credits) for each tax year in your holding period (other than the current tax year and pre-PFIC years). (See instructions.)	11c	
d	Foreign tax credit. (See instructions.)	11d	
e	Subtract line 11d from line 11c. Enter this amount on your income tax return as "additional tax." (See instructions.)	11e	
f	Determine interest on each net increase in tax determined on line 11e using the rates and methods of section 6621. Enter the aggregate amount of interest here. (See instructions.)	11f	

Part V Status of Prior Year Section 1294 Elections and Termination of Section 1294 Elections
Complete a separate column for each outstanding election. Complete lines 9 and 10 only if there is a partial termination of the section 1294 election.

		(i)	(ii)	(iii)	(iv)	(v)	(vi)
1	Tax year of outstanding election						
2	Undistributed earnings to which the election relates						
3	Deferred tax						
4	Interest accrued on deferred tax (line 3) as of the filing date						
5	Event terminating election						
6	Earnings distributed or deemed distributed during the tax year						
7	Deferred tax due with this return						
8	Accrued interest due with this return						
9	Deferred tax outstanding after partial termination of election						
10	Interest accrued after partial termination of election						

Instructions for Form 8621

(Rev. February 2008)

Department of the Treasury
Internal Revenue Service

(Use with the December 2004 revision of Form 8621.)

Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

Who Must File

Generally, a U.S. person that is a direct or indirect shareholder of a PFIC must file Form 8621 for each tax year in which that U.S. person:

- Recognizes gain on a direct or indirect disposition of PFIC stock,
- Receives certain direct or indirect distributions from a PFIC, or
- Is making an election reportable in Part I of the form.

A **separate** Form 8621 must be filed for each PFIC in which stock is held. See *Chain of ownership* below for specific filing requirements.

Indirect shareholder. Generally, a U.S. person is an indirect shareholder of a PFIC if it is:

1. A direct or indirect owner of a pass-through entity that is a direct or indirect shareholder of a PFIC,
2. A shareholder of a PFIC that is a shareholder of another PFIC, or
3. A 50%-or-more shareholder of a foreign corporation that is not a PFIC and that directly or indirectly owns stock of a PFIC.

Interest holder of pass-through entities. The following interest holders must file Form 8621 under the circumstances described above:

1. A U.S. person that is an interest holder of a foreign pass-through entity that is a direct or indirect shareholder of a PFIC,
2. A U.S. person that is considered (under sections 671 through 679) the shareholder of PFIC stock held in trust, and
3. A U.S. partnership, S corporation, trust (other than a trust that is subject to sections 671 through 679 for the PFIC stock), or estate that is a direct or indirect shareholder of a PFIC.

Note. U.S. persons that are interest holders of pass-through entities described in 3 above must file Form 8621 if the pass-through entity fails to file such form or the U.S. person is required to recognize any income under section 1291.

Chain of ownership. If the shareholder owns one PFIC and through that PFIC owns one or more other PFICs, the shareholder must either:

1. File a Form 8621 for each PFIC in the chain or
2. Complete Form 8621 for the first PFIC and, in an attachment, provide the information required on Form 8621 for each of the other PFICs in the chain.

When and Where To File

Attach Form 8621 to the shareholder's tax return and file both by the due date, including extensions, of the return at the Internal Revenue Service Center where the tax return is required to be filed.

If you are not required to file an income tax return or other return for the tax year, file Form 8621 directly with the Internal Revenue Service Center, Ogden, UT 84201-0201.

Definitions and Special Rules

Passive Foreign Investment Company (PFIC)

A foreign corporation is a PFIC if it meets either the income or asset test described below.

1. **Income test.** 75% or more of the corporation's gross income for its taxable year is passive income (as defined in section 1297(b)).
2. **Asset test.** At least 50% of the average percentage of assets (determined under section 1297(e)) held by the foreign corporation during the taxable year are assets that produce passive income or that are held for the production of passive income.

Basis for measuring assets. When determining PFIC status using the asset test, a foreign corporation may use adjusted basis if:

1. The corporation is not publicly traded for the taxable year and
2. The corporation is (a) a CFC or (b) makes an election to use adjusted basis.

Publicly traded corporations must use fair market value when determining PFIC status using the asset test.

Look-thru rule. When determining if a foreign corporation that owns at least 25% (by value) of another corporation is a PFIC, the foreign corporation is treated as if it held a proportionate share of the assets and received directly its proportionate share of the income of the 25%-or-more owned corporation.

CFC overlap rule. A 10% U.S. shareholder (defined in section 951(b)) that includes in income its pro rata share of subpart F income for stock of a CFC that is also a PFIC, generally will not be subject to the PFIC provisions for the same stock during the qualified portion of the shareholder's holding period of the stock in the PFIC. This exception does not apply to option holders. For more information, see section 1297(d).

Note. The attribution rules of section 1298(a)(2)(B) will continue to apply even if the foreign corporation is not a PFIC under the CFC overlap rule.

Qualified Electing Fund (QEF)

A PFIC is a QEF if the U.S. person who is a direct or indirect shareholder of the PFIC elects (under section 1295) to treat the PFIC as a QEF. See the instructions for Election A on page 2 for information on making this election.

Tax Consequences for Shareholders of a QEF

- A shareholder of a QEF must annually include in gross income as ordinary income its pro rata share of the ordinary earnings and as long-term capital gain the net capital gain of the QEF.
- The shareholder may elect to extend the time for payment of tax on its share of the undistributed earnings of the QEF (Election D) until the QEF election is terminated.

• The shareholder may make a deemed sale election (Election B) or a deemed dividend election (Election C) to purge the section 1291 fund years from its holding period.

Note. A shareholder that receives a distribution from an unpedigreed QEF (defined in Regulations section 1.1291-9(j)(2)(iii)) is also subject to the rules applicable to a shareholder of a section 1291 fund (see below).

Basis adjustments. A shareholder's basis in the stock of a QEF is increased by the earnings included in gross income and decreased by a distribution from the QEF to the extent of previously taxed amounts.

Section 1291 Fund

A PFIC is a section 1291 fund if:

1. The shareholder did not elect to treat the PFIC as a QEF or
2. It is an unpedigreed QEF (as defined in Regulations section 1.1291-9(j)(2)(iii)).

Tax Consequences for Shareholders of a Section 1291 Fund

Shareholders of a section 1291 fund are subject to special rules when they receive an excess distribution (defined below) from, or dispose of the stock of, a section 1291 fund. A distribution may be partly or wholly an excess distribution. The entire amount of gain from the disposition of a section 1291 fund is treated as an excess distribution.

Excess distributions. An excess distribution is the part of the distribution received from a section 1291 fund in the current tax year that is greater than 125% of the average distributions received in respect to such stock by the shareholder during the 3 preceding tax years (or, if shorter, the portion of the shareholder's holding period before the current tax year). No part of a distribution received or deemed received during the first tax year of the shareholder's holding period of the stock will be treated as an excess distribution.

The excess distribution is determined on a per share basis and is allocated to each day in the shareholder's holding period of the stock. See section 1291(b)(3) for adjustments that are made when determining if a distribution is an excess distribution.

Portions of an excess distribution are treated differently. The portions allocated to the days in the current tax year and the shareholder's tax years in its holding period before the foreign corporation qualified as a PFIC (pre-PFIC years) are taxed as ordinary income. The portions allocated to the days in the shareholder's tax years (other than the current tax year) in its holding period when the foreign corporation was a PFIC are not included in income, but are subject to the deferred tax amount, as defined in section 1291(c).

See the instructions for Part IV on page 6.

Exempt organizations. If a shareholder of a PFIC is a tax exempt organization, the tax and interest rules of section 1291 will apply only if the dividend from the PFIC will be taxable to the shareholder under subchapter F.

Mark-to-Market Election for PFIC Stock

A U.S. shareholder of a PFIC may elect to mark the PFIC stock to market if the stock is "marketable stock."

Marketable stock. Marketable stock is:

• PFIC stock that is regularly traded (as defined in Regulations section 1.1296-2(b)) on:

1. A national securities exchange that is registered with the Securities and Exchange Commission (SEC),
2. The national market system established under section 11A of the Securities and Exchange Act of 1934, or
3. A foreign securities exchange that is regulated or supervised by a governmental authority of the country in which the market is located and has the characteristics described in Regulations section 1.1296-2(c)(1)(ii).

• Stock in certain PFICs described in Regulations section 1.1296-2.

• Any option on marketable stock described above to the extent provided in Regulations section 1.1296-2(e).

For additional information, including special rules for RICs that own PFIC stock, see Regulations section 1.1296-2.

Tax Consequences

If the PFIC shareholder elects to mark the stock to market, the shareholder either:

1. Includes in income each year an amount equal to the excess, if any, of the fair market value of the PFIC stock as of the close of the taxable year over the shareholder's adjusted basis in such stock or
2. Is allowed a deduction equal to the lesser of:

a. The excess, if any, of the adjusted basis of the PFIC stock over its fair market value as of the close of the tax year or

b. The excess, if any, of the amount of mark-to-market gain included in the gross income of the PFIC shareholder for prior taxable years over the amount allowed such PFIC shareholder as a deduction for a loss with respect to such stock for prior taxable years.

See the instructions for Part III on page 6 for more information.

Basis adjustment. If the stock is held directly, the shareholder's adjusted basis in the PFIC stock is increased by the amount included in income and decreased by any deductions allowed. If the stock is owned indirectly through foreign entities, see Regulations section 1.1296-1(d)(2).

Additional Information Required

A shareholder of a PFIC must attach certain information to Form 8621. This information includes:

• The number of shares in each class of stock owned by the shareholder at the beginning of its tax year;

• Any changes in the number of shares in each class of stock during its tax year and the dates of such changes; and

• The number of shares in each class of stock at the end of its tax year.

Specific Instructions

Important: All line references to Form 1120 and Form 1040 are to the 2007 forms. Other entities should use the comparable line on their tax return.

Address and Identifying Number

Address. Include the suite, room, or other unit number after the street address. If the post office does not deliver mail to the street address and the shareholder has a P.O. box, enter the box number instead.

Identifying number. Individuals should enter a social security number or a taxpayer identification number issued by the IRS. All other entities should enter an employer identification number.

Part I. Elections

A. Election To Treat the PFIC as a QEF (Section 1295 Election)

Who May Make the Election

Generally, a U.S. person that owns stock in a PFIC, directly or indirectly, may make Election A to treat the PFIC as a QEF.

Note. A **separate** election must be made for each PFIC that the shareholder wants to treat as a QEF.

Exception. A tax-exempt organization that is not taxable under section 1291 may not make the election. In addition, a tax-exempt organization that is a member of a domestic pass-through entity is not subject to a QEF election made by the pass-through entity.

Chain of ownership. In a chain of ownership, only the first U.S. person that is a direct or indirect shareholder of the PFIC may make the election.

Pass-through entities. A QEF election made by a domestic partnership, S corporation, or estate is made in the pass-through entity's capacity as a shareholder of a PFIC. The entity will include the QEF earnings as income for the year in which the PFIC's taxable year ends. The interest holder in the pass-through entity takes the income into account under the rules applicable to inclusions of income from a pass-through entity.

Affiliated groups. The common parent of an affiliated group of corporations that joins in filing a consolidated income tax return makes the QEF election for all members of the affiliated group that are shareholders in the PFIC. An election by a common parent is effective for all members of the group that own stock in the PFIC at the time the election is made or any time thereafter.

For more information on who may make the election, see Regulations section 1.1295-1(d).

When To Make the Election

Generally, a shareholder must make the election to be treated as a QEF by the due date, including extensions, for filing the shareholder's income tax return for the first taxable year to which the election will apply (the "election due date"). See *Retroactive election* below for exceptions. The foreign corporation will be treated as a QEF with respect to the shareholder for the taxable year in which the election is made and for each subsequent tax year of the foreign corporation ending with or within a taxable year of the shareholder for which the election is effective. For more information on making a retroactive election, see Regulations section 1.1295-3.

Retroactive election. A shareholder may make a QEF election for a taxable year **after** the election due date (a retroactive election), only if:

- The shareholder has preserved its right to make a retroactive election under the protective statement regime (described below) or
- The shareholder obtains the permission of the IRS to make a retroactive election under the consent regime (described below).

Protective statement regime. Under the protective statement regime, a shareholder may preserve the ability to make a retroactive election if the shareholder:

1. Reasonably believed, as of the due date for making the QEF election, that the foreign corporation was not a PFIC for its taxable year that ended during that year (retroactive election year);
2. Filed a Protective Statement (see below) with respect to the foreign corporation, applicable to the retroactive election year, in which the shareholder describes the basis for its reasonable belief;
3. Extended, in the Protective Statement, the periods of limitations on the assessment of taxes under the PFIC rules for all taxable years to which the protective statement applies; and
4. Complied with the other terms and conditions of the protective statements.

The Protective Statement must be attached to the shareholder's tax return for the shareholder's first taxable year to which the statement will apply. For required content of the statement and other information, see Regulations section 1.1295-3(c).

Consent regime. Under the consent regime, a shareholder that has not satisfied the requirements of the protective regime may request that the IRS permit a retroactive election. The consent regime applies only if:

1. The shareholder reasonably relied on tax advice of a competent and qualified tax professional;
2. The interest of the U.S. government will not be prejudiced if the consent is granted;
3. The shareholder requests consent before the PFIC status issue is raised on audit; and
4. The shareholder satisfies the procedural requirements under Regulations section 1.1295-3(f)(4).

Special Rules

For rules relating to the invalidation, termination, or revocation of a section 1295 election, see Regulations section 1295-1(i). Also see Regulations section 1.1295-1(c)(2) for rules relating to the years to which a section 1295 election applies.

How To Make the Election

For the tax year in which the section 1295 election is made, the shareholder must do the following.

1. Check box A in Part I of Form 8621.
2. Complete the applicable lines of Part II. Include the information provided in the PFIC Annual Information Statement, the Annual Intermediary Statement, or a combined statement (see below) received from the PFIC.
3. Attach Form 8621 to a timely filed tax return.

For each subsequent tax year in which the election applies and the corporation is treated as a QEF, the shareholder must:

1. Complete the applicable lines of Part II and
2. Attach Form 8621 to a timely filed tax return.

Annual Election Requirements of the PFIC or Intermediary

PFIC Annual Information Statement. For each year of the PFIC ending in a taxable year of a shareholder to which the section 1295 election applies, the PFIC must provide the shareholders with a PFIC Annual Information Statement. The statement must contain certain information, including:

1. The shareholder's pro rata share of the PFIC's ordinary earnings and net capital gain for that taxable year or
2. Sufficient information to enable the shareholder to calculate its pro rata share of the PFIC's ordinary earnings and net capital gain for that taxable year. For other information required to be included in the PFIC Annual Information Statement see Regulations section 1.1295-1(g).

Annual Intermediary Statement. If the shareholder holds stock in a PFIC through an intermediary, an Annual Intermediary Statement may be issued in lieu of the PFIC Annual Information Statement. For the definition of an intermediary, see Regulations section 1.1295-1(j). For details on the information that should be included in the Annual Intermediary Statement, see Regulations section 1.1295-1(g)(3).

Combined statements. A PFIC that owns directly or indirectly any shares of stock in one or more PFICs may provide its shareholders with a PFIC Annual Information Statement in which it combines its own required information and representations with the information and representations of any lower-tier PFIC. Similarly, an intermediary through which a shareholder indirectly holds stock in more than one PFIC may provide the shareholder a combined Annual Intermediary Statement. For more information, see Regulations section 1.1295-1(g)(4).

Documentation. For all taxable years subject to the section 1295 election, the shareholder must keep copies of all

Forms 8621, attachments, and all PFIC Annual Information Statements or Annual Intermediary Statements. Failure to produce these documents at the request of the IRS may result in invalidation or termination of the section 1295 election. See Regulations section 1.1295-1(f)(2)(ii). In rare and unusual circumstances, the IRS will consider requests for alternative documentation to verify the ordinary earnings and net capital gain of the PFIC. For more information, see Regulations section 1.1295-1(g)(2).

B. Deemed Sale Election

Who May Make the Election

This election may be made by a U.S. person that elects to treat a PFIC as a QEF for a foreign corporation's tax year following its first tax year as a PFIC included in the shareholder's holding period (an unpedigreed QEF). A shareholder making this election is deemed to have sold the PFIC stock as of the first day of the PFIC's first tax year as a QEF (the qualification date) for its fair market value.

Special Rules

For purposes of this election, the following apply.

- The gain from the deemed sale is taxed as an excess distribution received on the qualification date.
- The basis of the stock is increased by the gain recognized. The manner in which the basis adjustment is made depends on whether the shareholder is a direct or indirect shareholder. See Regulations section 1291-10(f).
- The new holding period of the stock begins on the qualification date.
- The election may be made for stock on which the shareholder will realize a loss, but that loss cannot be recognized. In addition, there is no basis adjustment for a loss.
- After the deemed sale, the PFIC becomes a pedigreed QEF with respect to the shareholder.

When To Make the Election

This election must be made by the due date, including extensions, of the shareholder's original tax return (or by filing an amended return within 3 years of the due date) for the tax year that includes the qualification date. However, see Form 8621-A if the 3-year period has expired.

How To Make the Election

To make this election:

1. Check box B in Part I,
2. Enter the gain or loss on line 10f of Part IV, and
3. If a gain is entered, complete line 11 to report the tax and interest due on the excess distribution.

For more information regarding making Election B, see Regulations section 1.1291-10.

C. Deemed Dividend Election

Who May Make the Election

This election may be made by a U.S. person that elects to treat a PFIC that is also a CFC as a QEF for the foreign corporation's tax year following its first tax year as a PFIC included in the shareholder's holding period (an unpedigreed QEF).

A shareholder making this election is treated as receiving a dividend of its pro rata share of the post-1986 earnings and profits (defined below) of the PFIC on the qualification date (defined under the instructions for Election B above). The deemed dividend is taxed as an excess distribution, allocated only to the days in the shareholder's holding period during which the foreign corporation qualified as a PFIC. For this purpose, the shareholder's holding period ends on the day before the qualification date.

Special Rules

For purposes of this election, the following apply.

- The term "post-1986 earnings and profits" means the undistributed earnings and profits of the PFIC (as of the day before the qualification date) accumulated in tax years beginning after 1986 during which the CFC was a PFIC and while the shareholder held the stock.
- The basis of the shareholder's stock is increased by the amount of the deemed dividend. The manner in which the basis adjustment is made depends on whether the shareholder is a direct or indirect shareholder. See Regulations section 1.1291-9(f).
- The shareholder's holding period (solely for purposes of applying the PFIC rules after the deemed dividend election) begins on the qualification date.

When To Make the Election

This election must be made by the due date (including extensions), of the shareholder's original tax return (or by filing an amended return within 3 years of the due date) for the tax year that includes the qualification date. However, see Form 8621-A if the 3-year period has expired.

How To Make the Election

To make this election:

1. Check box C in Part I,
2. Enter the dividend on line 10e of Part IV as an excess distribution, and
3. Complete line 11 to figure the tax and interest due on the excess distribution.

Attachments. The shareholder must attach a statement to Form 8621 that demonstrates the calculation of its pro rata share of the post-1986 earnings and profits of the PFIC that are treated as distributed to the shareholder on the qualification date. The post-1986 earnings and profits may be reduced (but not below zero) by the amount that the shareholder satisfactorily demonstrates was previously included in its income or in the income of another U.S. person. The shareholder demonstrates this by including in the statement mentioned above the following information:

- The name, address, and identifying number of the U.S. person and the amount that was included in income;
- The tax year in which the amount was previously included in income;
- The provision of law under which the amount was previously included in income;
- A description of the transaction in which the shareholder acquired the stock of the PFIC from the other U.S. person; and
- The provision of law under which the shareholder's holding period includes the holding period of the other U.S. person.

For more information on making Election C, see Regulations section 1.1291-9.

D. Election To Extend Time for Payment of Tax

Who May Make the Election

A shareholder of a QEF may make Election D to extend the time for payment of the tax on its share of the undistributed earnings of the fund for the current tax year. If a U.S. partnership is a shareholder of a QEF, the election is made at the partner level.

Special Rules

- If this election is made, interest will be imposed on the amount of the deferred tax.
- The election cannot be made for any earnings on shares disposed of during the tax year or for a tax year that any portion of the shareholder's pro rata share of the fund's earnings is included in income under section 551 (relating to foreign personal holding companies) or section 951 (relating to CFCs).

When To Make the Election

Generally, this election must be made by the due date, including extensions, of the shareholder's tax return for the tax year for which the shareholder reports the income related to the deferred tax.

How To Make the Election

To make this election:

1. Check box D in Part I and
2. Complete lines 3a through 4c of Part II.

For more information on making Election D, see Temporary Regulations section 1.1294-1T.

E. Election To Recognize Gain on Deemed Sale of PFIC Stock

Who May Make the Election

This election may be made by:

- A U.S. person that is a shareholder of a foreign corporation that no longer qualifies as a PFIC under either the income or asset test of section 1297(a) or
- A U.S. shareholder (as defined in section 951(b)) that owns stock in a foreign corporation that is a CFC and is not treated as a PFIC with respect to the U.S. shareholder under section 1297(d).

Such persons may elect to treat the stock of the foreign corporation as sold on the last day of the last tax year of the foreign corporation in which it was treated as a PFIC (termination date) for its fair market value on that date.

Special Rules

- The gain from the deemed sale is taxed as an excess distribution.
- Any shareholder who owns stock in a CFC during its last taxable year as a PFIC, may, alternatively, apply the deemed dividend election rules under Election C. The deemed dividend is taxed as an excess distribution.
- The basis in the stock is increased by the amount of the excess distribution taxed to the shareholder making Election E.
- The new holding period of the stock begins on the date after the deemed sale.
- Election E may be made for stock on which there would be a loss, but the loss is not recognized.

For more information on making this election, see Temporary Regulations sections 1.1297-3T(a) and (b).

When To Make the Election

This election is made either:

1. With the original return for the tax year of the shareholder that includes the last day of the last year of the foreign corporation during which it qualified as a PFIC or
2. By filing an amended return for the tax year that includes the date of the deemed sale.

How To Make the Election

To make this election:

1. Check box E in Part I and
2. Enter the gain or loss on line 10f of Part IV. If a gain, complete the rest of Part IV.

See Part V for annual reporting requirements for outstanding section 1294 elections.

F. Election To Mark-to-Market PFIC Stock

Who May Make the Election

Election F may be made by:

- A U.S. person who owns (or is treated as owning) "marketable stock" (defined on page 2) in a PFIC at the close of such person's tax year or
- A RIC that meets the requirements of section 1296(e)(2).

For more information, see section 1296 and Regulations section 1.1296-1. See sections 1296(f) and (g) and Regulations sections 1.1296-1(e) and (h)(1)(ii) for information regarding stock owned through certain foreign entities.

When To Make the Election

This election must be made on or before the due date (including extensions) of the U.S. person's income tax return for the tax year in which the stock is marked to market. A section 1296 election by a CFC is made by its controlling shareholders. For more information, see Regulations section 1.1296-1(h)(1)(ii). Once made, the election applies to all subsequent tax years unless the election is revoked or terminated pursuant to Regulations section 1.1296-1(h)(3).

How To Make the Election

To make the election:

1. Check box F in Part I,
2. Complete Part III to report the gain or loss, and
3. Complete Part IV if the tax and interest rules of section 1291 (explained in the Part IV instructions, which begin on page 6) apply.

Coordination of Election F with section 1291. If Election F is made for any tax year, then, except as provided in *Coordination rules for first year of election* below, do not complete Part IV of Form 8621 with respect to any stock for which that election is made.

Coordination rules for first year of election. See section 1296(j) and Regulations section 1.1296-1(i) for coordination rules that apply for the first year that election F is made.

Coordination of other mark-to-market rules under chapter 1 of the Code with section 1291. See Regulations section 1.1291-1(c)(4).

Part II. Income From a QEF

For any tax year in which the foreign corporation is not treated as a QEF because it is not a PFIC under section 1297(a), the shareholder is not required to complete Part II. However, the section 1295 election is not terminated. If the foreign corporation is treated as a PFIC in any subsequent tax year, the original election continues to apply and the shareholder must include in Part II its pro rata share of ordinary earnings and net capital gain and also must comply with the section 1295 annual reporting requirements.

Lines 1 and 2

Lines 1a and 2a. Enter on lines 1a and 2a, respectively, your pro rata share of the ordinary earnings and net capital gain of the QEF. The PFIC should provide these amounts or information that will help you determine your pro rata share. See *Annual Election Requirements of the PFIC or Intermediary* on page 3.

Lines 1b and 2b. Your share of the ordinary earnings and net capital gain of the QEF is reduced by the amounts you include in income under section 551 or 951 for the tax year with respect to the QEF. Your share of these amounts may also be reduced as provided in section 1293(g).

Line 1c. This amount is treated as an ordinary dividend on your tax return.

For individuals, include this amount in the total on Form 1040, line 9a. For corporations, include this amount in the total on Form 1120, Schedule C, line 13.

Line 2c. See the instructions for the Schedule D used for your tax return. Portions of the net capital gain may have to be reported on different lines of Schedule D, depending upon the information provided by the QEF concerning the section 1(h) categories of net capital gains and amounts thereof, derived by the QEF. See Regulations section 1.1293-1(a)(2) for 3 options a QEF may use to report and calculate capital gain.

Line 3

If you receive a distribution from the QEF during the current tax year, the distribution is first treated as a distribution out of the earnings and profits of the QEF accumulated during the year. If the total amount distributed (line 3b) exceeds the amount included in income (line 3a), the excess is treated as distributed out of the most recently accumulated earnings and

profits and is taxable to you unless you satisfactorily demonstrate that the excess was previously included in the income of another U.S. person. To satisfactorily demonstrate this, the QEF shareholder must attach a statement to Form 8621 that includes the information listed under *Attachments* on page 4.

Line 4

Line 4a. Enter the total tax on your total taxable income (including your share of undistributed earnings of the QEF) for the tax year (e.g., from Form 1120, Schedule J, line 10, or Form 1040, line 63).

For this purpose, "undistributed earnings" is the excess, if any, of the amount included in gross income under section 1293(a) over the sum of the amount of any distribution and the portion of the amount attributable to stock in the QEF that you transferred or otherwise disposed of before the end of the QEF's tax year.

Line 4b. Calculate your total tax as if your total taxable income did not include your share of the undistributed earnings of the QEF (line 3e). Enter this amount on line 4b.

Line 4c. For corporations, enter this tax on Form 1120, Schedule J, in brackets to the left of the entry space for line 10. Subtract that amount from the total of lines 7 through 9 and enter the difference on line 10.

For individuals, enter this tax on Form 1040 in brackets to the left of the entry space for line 63. Subtract that amount from the total of lines 57 through 62, and enter the difference on line 63.

Part III. Gain or (Loss) From Mark-to-Market Election

Lines 7 Through 9

If the fair market value of the PFIC stock as of the close of the tax year is more than the U.S. person's adjusted basis in the stock, the excess is a gain and is treated as ordinary income.

If the adjusted basis of the stock is more than the fair market value, the excess is allowed as a deduction, but only to the extent of the lesser of:

1. The amount of the excess (line 7) or
2. The excess of the amounts that were included in income under the mark-to-market rules for prior tax years over the amounts allowed as a deduction under the mark-to-market rules for prior tax years (line 8). See section 1296(d) and Regulations sections 1.1296-1(c)(3) and (4).

This amount is treated as an ordinary loss.

Line 9. Corporations and individuals should include the gain or (loss) on the "other income" line of their tax returns. Other entities should include this amount on the comparable line of their tax return.

If a CFC makes a mark-to-market election with respect to a PFIC in which it owns stock, any line 9 gain is treated as foreign personal holding company income and any line 9 loss is treated as a deduction that is allocable to foreign personal holding company income.

For more information relating to mark-to-market elections under section 1296, see Regulations sections 1.1296-1 and 1.1296-2.

Part IV. Distributions From and Dispositions of Stock of a Section 1291 Fund

See *Section 1291 Fund* on page 2 for the definition of section 1291 fund. See page 2 for a brief summary of the tax consequences for shareholders of a section 1291 fund.

Complete a separate Part IV for each excess distribution. That is, if you receive a distribution from a section 1291 fund with respect to shares for which you have different holding periods, complete lines 10a through 10e separately for each block of shares that has the same holding period ("applicable stock"). If you dispose of stock in a section 1291 fund for which you have different holding periods, complete line 10f for each block of shares that has the same holding period.

Line 10

Lines 10a and 10b

Enter your total distributions from the section 1291 fund with respect to the applicable stock for the periods indicated.

Note. A distribution to a corporation claiming the foreign tax credit for deemed paid foreign taxes includes foreign taxes deemed paid. See Form 1118, Foreign Tax Credits–Corporations, Schedule C, Part I, column 10, and Parts II and III, column 8, for the gross-up amount.

Line 10a. If the holding period of the applicable stock began in the current year, there is no excess distribution and Part IV should be completed as follows: Enter on line 10a the total distributions you received from the section 1291 fund with respect to that stock during the current tax year. If you did not dispose of that stock during the tax year, do not complete the rest of Part IV. If you did dispose of that stock during the tax year, skip lines 10b through 10e and complete lines 10f and 11.

If the holding period of the applicable stock began in the current tax year, the line 10a amount is taxed according to the rules of section 301. To the extent that section 301(c)(1) is applicable, include the amount as a dividend on your income tax return. For corporations, include this amount on Form 1120, Schedule C, line 13. For individuals, include this line 10a amount on Form 1040, line 9a (and, if applicable, on Schedule B (Form 1040), line 5).

Line 10c

Divide the amount on line 10b by 3. If the number of tax years in your holding period preceding the current tax year is less than 3, divide the amount on line 10b by that number.

Line 10e

Nonexcess distribution. The nonexcess distribution is the lesser of line 10a or line 10d. This amount is taxed according to the rules of section 301. To the extent that section 301(c)(1) is applicable, include the amount as a dividend on your income tax return. For corporations, include this amount on Form 1120, Schedule C, line 13. For individuals, include this amount on Form 1040, line 9a (and, if applicable, on Schedule B (Form 1040), line 5).

Excess distributions. If you received more than one distribution during the tax year with respect to the applicable stock, the excess distribution is apportioned among all actual distributions. Each apportioned amount is treated as a separate excess distribution.

Line 10f

Gain recognized on the disposition of stock of a section 1291 fund is treated as an excess distribution. Losses are not recognized. Stock of a section 1291 fund is considered disposed of if it is sold, transferred, or pledged.

Line 11

Lines 11a and 11b

Determine the taxation of the excess distribution on a separate sheet and attach it to Form 8621. Divide the amount on line 10e or 10f, whichever applies, by the number of days in your holding period. The holding period of

the stock is treated as ending on the date of the distribution or disposition.

Special rules apply to the holding period if:

- The deemed dividend election (Election C) is made (see the instructions for Election C beginning on page 4) or
- The mark-to-market election (Election F) is made or was made in a prior year (see section 1291(a)(3)(A)(ii)).

Determine the amount allocable to each tax year in your holding period by adding the amounts allocated to the days in each such tax year. Add the amounts allocated to the pre-PFIC and current tax years. Enter the sum on line 11b.

This amount is treated as ordinary income (e.g., individuals and corporations should enter this amount on the "other income" line of their tax return).

Line 11c

Determine the increase in tax for each tax year in your holding period (other than the current tax year and pre-PFIC years). An increase in tax is determined for each PFIC year by multiplying the part of the excess distribution allocated to each year (as determined on line 11a) by the highest rate of tax under section 1 or section 11, whichever applies, in effect for that tax year. Add the increases in tax computed for all years. Enter the aggregate increases in tax (before credits) on line 11c.

Line 11d

To figure the foreign tax credit, the shareholder of a section 1291 fund figures the total creditable foreign taxes attributable to the distribution. This amount includes the direct foreign taxes paid by the shareholder on the distribution (for example, withholding taxes) and, for 10% or greater corporate shareholders, any taxes deemed paid under section 902. Both the direct and indirect foreign taxes must be creditable under general foreign tax credit principles and the shareholder must choose to claim the foreign tax credit for the current tax year.

The excess distribution taxes (the creditable foreign taxes attributable to an excess distribution) are determined by apportioning the total creditable foreign taxes between the part of the distribution that is an excess distribution and the part that is not.

The excess distribution taxes are allocated in the same manner as the excess distribution is allocated. See *Excess distributions* on page 2. Those taxes allocated to pre-PFIC tax years and the current tax year are taken into account for the current tax year under the general rules of the foreign tax credit.

The excess distribution taxes allocated to a PFIC year only reduce the increase in tax figured for that tax year (but not below zero). No carryover of any unused excess distribution taxes is allowed.

When you dispose of PFIC stock, the above foreign tax credit rules apply only to the part of the gain that, without regard to section 1291, would be treated under section 1248 as a dividend.

Line 11e

This amount is the aggregate increase in tax and is included on your tax return as additional taxes.

For individuals, enter this amount on Form 1040 to the left of the line 44 entry space. Enter "Sec. 1291" next to the amount and include the amount as part of the total for line 44.

For corporations, enter this amount on Form 1120, Schedule J, to the left of the entry space for line 2. Enter "Sec. 1291" next to the amount and include it as part of the total for line 2. Other entities should use the comparable line on their income tax return.

Line 11f

Interest is charged on each net increase in tax for the period beginning on the due date (without regard to extensions) of your income tax return for the tax year to which an increase in tax is attributable and ending with the due date (without regard to extensions) of your income tax return for the tax year of the excess distribution.

For individuals, enter the interest at the bottom right margin of Form 1040, page 1 and label it as "Sec. 1291 interest." Include this amount in your check or money order payable to the United States Treasury. If you would otherwise receive a refund, reduce the refund by the interest due.

For corporations, enter this interest at the bottom right margin of Form 1120, page 1, and label it as "Sec. 1291 interest." Include this amount in your check or money order payable to the United States Treasury. If you would otherwise receive a refund, reduce the refund by the interest due.

Part V. Status of Prior Year Section 1294 Elections and Termination of Section 1294 Elections

Each person who has made a section 1294 election must (1) annually report the status of that election and (2) report the termination of any section 1294 election that occurred during the tax year. See Temporary Regulations section 1.1294-1T(h).

Line 1. Enter the last day of each tax year for which you made a section 1294 election that is outstanding. Do not include an election made in the current tax year.

Line 2. Enter the undistributed earnings of the QEF for which the payment of tax was extended by the section 1294 election entered on line 1. If the election was partially terminated in a prior year, enter the remaining undistributed earnings.

Line 3. Enter the tax for which payment was extended by the section 1294 election entered on line 1. If the election was partially terminated in a previous tax year, enter the balance of the deferred tax.

Line 4. Enter the accrued interest (determined under section 6621) on the deferred tax. This is the interest accrued from the due date (not including extensions) of the return for the year for which the section 1294 election was made until the date the current year's return is filed.

Line 5. Enter the event(s) that occurred during the tax year that terminated one or more of the section 1294 elections reported on line 1. A section 1294 election may be terminated voluntarily. However, an election will terminate automatically, in whole or in part, when any of the following events occur:

- An actual or deemed distribution of earnings to which the election is attributable (a loan, pledge, or guarantee by the QEF to or for the benefit of the taxpayer may cause a deemed distribution of the earnings);
- A disposition of stock in the QEF, including a pledge by the taxpayer of stock as security for a loan; or
- A change of status of the QEF (that is, a foreign corporation that is no longer a QEF or PFIC).

Line 6. Enter the earnings distributed or deemed distributed as a result of the events described on line 5. Earnings are treated as distributed out of the most recently accumulated earnings and profits. Accordingly, an event will

first terminate the most recently made election.

An election may be terminated in whole or in part depending on the event causing the termination. Examples are as follows.

- A distribution of earnings will terminate an election to the extent the election is attributable to the earnings distributed.
- A loan, pledge, or guarantee by the QEF made directly or indirectly to the electing shareholder or related person will terminate an election to the extent of the undistributed earnings equal to the amount loaned, secured, or guaranteed.
- A disposition of stock will terminate all elections with respect to the undistributed earnings attributable to that stock.
- A change in status of the QEF will terminate **all** elections.

For more information, see Regulations section 1.1294-1T(e).

Line 7. Enter the deferred tax due from the termination of the section 1294 election. The deferred tax entered on line 3 is due if the election was completely terminated. If the election was only partially terminated, a proportionate amount of the deferred tax is due. That amount is determined by multiplying the amount entered on line 3 by a fraction, of which the numerator is the amount entered on line 6 and the denominator is the amount entered on line 2. The deferred tax is due by the due date of the shareholder's income tax return (without regard to extensions) for the year of termination.

When the election is terminated, corporations include the deferred tax as part of the total for Form 1120, Schedule J, line 10. Also enter the deferred tax to the left of line 10 and label it as "Sec. 1294 deferred tax."

For individuals, enter the deferred tax as part of the total for Form 1040, line 63. Also enter the deferred tax to the left of line 63, and label it as "Sec. 1294 deferred tax."

Line 8. Enter the interest accrued on the deferred tax. Interest accrues beginning on the due date (without regard to extensions) of your tax return for the tax year in which the section 1294 election is made, and ending with the due date (without regard to extensions) of your tax return for the tax year of the termination. Interest is computed using the rates and methods under section 6621.

For corporations, enter the amount of section 1294 interest at the bottom right margin of Form 1120, page 1 and label it as "Sec. 1294 interest." Also include this amount in your check or money order payable to the United States Treasury. If you would otherwise receive a refund, reduce the refund by the interest due.

For individuals, enter the interest from line 8 at the bottom right margin of Form 1040, page 1, and label it as "Sec. 1294 interest." Also include this amount in your check or money order payable to the United States Treasury. If you would otherwise receive a refund, reduce the amount of the refund by the amount of interest due.

Lines 9 and 10. Complete lines 9 and 10 only if you have partially terminated your section 1294 election. Enter on line 9 the part of the deferred tax outstanding after the partial termination of the section 1294 election. This amount should equal line 3 minus line 7.

Enter on line 10 the accrued interest remaining after the partial termination of the section 1294 election. This amount should equal line 4 minus line 8.

Disclosure, Privacy Act, and Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. Sections 6001, 6011, 6012(a), 6103, and 6109, and their regulations, require you to provide this information. We need this information to ensure that you are complying with the Internal Revenue laws and to allow us to figure and determine the right amount of tax.

Section 6109 requires that you provide your identifying number on the return. This is so we know who you are and can process your return and other papers. You must fill in all parts of the tax form that apply to you. If you do not file a return under circumstances requiring its filing, do not provide the information we ask for, or provide fraudulent information, you may be charged penalties and be subject to criminal prosecution.

Generally, tax returns and return information are confidential, as required by section 6103. However, section 6103 allows or requires the Internal Revenue Service to disclose or give the information shown on your tax return to others as described in the Code. For example, we may disclose your tax information to the Department of Justice for civil and criminal litigation. We may also disclose this information to cities, states, and the District of Columbia for use in administering their tax laws, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration any Internal Revenue law.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below.

Recordkeeping	13 hr., 37 min.
Learning about the law or the form	8 hr., 38 min.
Preparing and sending the form to the IRS	9 hr., 14 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. **Do not** send the tax form to this office. Instead, see *When and Where To File* on page 1.

Attachment B
Form 8621 for LBPEPI

Form **8621**
(Rev. December 2004)
Department of the Treasury
Internal Revenue Service

Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund

► See separate instructions.

OMB No. 1545-1002

Attachment Sequence No. **69**

Name of shareholder	**Identifying number** (see page 2 of instructions)
Number, street, and room or suite no. (If a P.O. box, see page 2 of instructions.)	Shareholder tax year: calendar year 20 .... or other tax year beginning ..... , 20 ..... and ending ..... , 20 ..... .
City or town, state, and ZIP code or country	

Check type of shareholder filing the return: ☐ Individual ☐ Corporation ☐ Partnership ☐ S Corporation ☐ Nongrantor Trust ☐ Estate

Name of passive foreign investment company (PFIC) or qualified electing fund (QEF)	**Employer identification number** (if any)
Lehman Brothers PEP Investments Limited	**98-0545519**
Address (Enter number, street, city or town, and country.)	Tax year of company or fund: calendar year 20 ..... or other tax year beginning **July 6** , 20 **07** and ending **November 30** , 20 **07** .
325 North St. Paul Street, Suite 4900 **Dallas, TX 75201**	

Part I Elections (See instructions.)

A ☐ **Election To Treat the PFIC as a QEF.** I, a shareholder of a PFIC, elect to treat the PFIC as a QEF. *Complete lines 1a through 2c of Part II.*

B ☐ **Deemed Sale Election.** I, a shareholder on the first day of a PFIC's first tax year as a QEF, elect to recognize gain on the deemed sale of my interest in the PFIC. *Enter gain or loss on line 10f of Part IV.*

C ☐ **Deemed Dividend Election.** I, a shareholder on the first day of a PFIC's first tax year as a QEF that is a controlled foreign corporation (CFC), elect to treat an amount equal to my share of the post-1986 earnings and profits of the CFC as an excess distribution. *Enter this amount on line 10e of Part IV.*

D ☐ **Election To Extend Time For Payment of Tax.** I, a shareholder of a QEF, elect to extend the time for payment of tax on the undistributed earnings and profits of the QEF until this election is terminated. *Complete lines 3a through 4c of Part II to calculate the tax that may be deferred.*
Note: *If any portion of line 1a or line 2a of Part II is includible under section 551 or 951, you may* ***not*** *make this election. Also, see sections 1294(c) and 1294(f) and the related regulations for events that terminate this election.*

E ☐ **Election To Recognize Gain on Deemed Sale of PFIC.** I, a shareholder of a former PFIC or a PFIC to which section 1297(e) applies, elect to treat as an excess distribution the gain recognized on the deemed sale of my interest in the PFIC, or, if I qualify, my share of the PFIC's post-1986 earnings and profits deemed distributed, on the last day of its last tax year as a PFIC under section 1297(a). *Enter gain on line 10f of Part IV.*

F ☐ **Election To Mark-to-Market PFIC Stock.** I, a shareholder of a PFIC, elect to mark-to-market the PFIC stock that is marketable within the meaning of section 1296(e). *Complete Part III.*

Part II Income From a Qualified Electing Fund (QEF).

All QEF shareholders complete lines 1a through 2c. If you are making Election D, also complete lines 3a through 4c. (See page 5 of instructions.)

1a	Enter your pro rata share of the ordinary earnings of the QEF	1a	
b	Enter the portion of line 1a that is included in income under section 551 or 951 or that may be excluded under section 1293(g)	1b	
c	Subtract line 1b from line 1a. Enter this amount on your tax return as dividend income		1c
2a	Enter your pro rata share of the total net capital gain of the QEF	2a	
b	Enter the portion of line 2a that is included in income under section 551 or 951 or that may be excluded under section 1293(g)	2b	
c	Subtract line 2b from line 2a. This amount is a net long-term capital gain. Enter this amount in Part II of the Schedule D used for your income tax return. (See instructions.)		2c
3a	Add lines 1c and 2c		3a
b	Enter the total amount of cash and the fair market value of other property distributed or deemed distributed to you during the tax year of the QEF. (See instructions.)	3b	
c	Enter the portion of line 3a not already included in line 3b that is attributable to shares in the QEF that you disposed of, pledged, or otherwise transferred during the tax year	3c	
d	Add lines 3b and 3c		3d
e	Subtract line 3d from line 3a, and enter the difference (if zero or less, enter amount in brackets) **Important:** *If line 3e is greater than zero, and no portion of line 1a or 2a is includible in income under section 551 or 951, you may make Election D with respect to the amount on line 3e.*		3e
4a	Enter the total tax for the tax year (See instructions.)	4a	
b	Enter the total tax for the tax year determined without regard to the amount entered on line 3e	4b	
c	Subtract line 4b from line 4a. **This is the deferred tax, the time for payment of which is extended by making Election D. See instructions**		4c

Part III Gain or (Loss) From Mark-to-Market Election (See page 5 of instructions.)

5	Enter the fair market value of your PFIC stock at the end of the tax year	5	
6	Enter your adjusted basis in the stock at the end of the tax year	6	
7	**Excess.** Subtract line 6 from line 5. If a gain, **stop here.** Include this amount as ordinary income on your tax return. If a loss, go to line 8	7	
8	Enter any unreversed inclusions (as defined in section 1296(d)). See instructions.	8	
9	Enter the smaller of line 7 or line 8. Include this amount as an ordinary loss on your tax return	9	

Part IV Distributions From and Dispositions of Stock of a Section 1291 Fund (See page 6 of instructions.)
*Complete a **separate** Part IV for each excess distribution (see instructions).*

10a	Enter your total distributions from the section 1291 fund during the current tax year with respect to the applicable stock. If the holding period of the stock began in the current tax year, see instructions	10a	
b	Enter the total distributions (reduced by the portions of such distributions that were excess distributions but not included in income under section 1291(a)(1)(B)) made by the fund with respect to the applicable stock for each of the 3 years preceding the current tax year (or if shorter, the portion of the shareholder's holding period before the current tax year).	10b	
c	Divide line 10b by 3. (See instructions if the number of preceding tax years is less than 3.)	10c	
d	Multiply line 10c by 125% (1.25)	10d	
e	Subtract line 10d from line 10a. This amount, if more than zero, is the excess distribution with respect to the applicable stock. If zero or less and you did not dispose of stock during the tax year, **do not** complete the rest of Part IV. See instructions if you received more than one distribution during the current tax year. Also, see instructions for rules for reporting a nonexcess distribution on your income tax return	10e	
f	Enter gain or loss from the disposition of stock of a section 1291 fund or former section 1291 fund. If a gain, complete line 11. If a loss, show it in brackets and **do not** complete line 11	10f	
11a	Attach a statement for each distribution and disposition. Show your holding period for each share of stock or block of shares held. Allocate the excess distribution to each day in your holding period. Add all amounts that are allocated to days in each tax year.		
b	Enter the total of the amounts determined in line 11a that are allocable to the current tax year and tax years before the foreign corporation became a PFIC (pre-PFIC tax years). Enter these amounts on your income tax return as other income	11b	
c	Enter the aggregate increases in tax (before credits) for each tax year in your holding period (other than the current tax year and pre-PFIC years). (See instructions.)	11c	
d	Foreign tax credit. (See instructions.)	11d	
e	Subtract line 11d from line 11c. Enter this amount on your income tax return as "additional tax." (See instructions.)	11e	
f	Determine interest on each net increase in tax determined on line 11e using the rates and methods of section 6621. Enter the aggregate amount of interest here. (See instructions.)	11f	

Part V Status of Prior Year Section 1294 Elections and Termination of Section 1294 Elections
Complete a separate column for each outstanding election. Complete lines 9 and 10 only if there is a partial termination of the section 1294 election.

		(i)	(ii)	(iii)	(iv)	(v)	(vi)
1	Tax year of outstanding election						
2	Undistributed earnings to which the election relates						
3	Deferred tax						
4	Interest accrued on deferred tax (line 3) as of the filing date						
5	Event terminating election						
6	Earnings distributed or deemed distributed during the tax year						
7	Deferred tax due with this return						
8	Accrued interest due with this return						
9	Deferred tax outstanding after partial termination of election						
10	Interest accrued after partial termination of election						

Attachment C
LBPE 2007 Annual Information Statement

PFIC ANNUAL INFORMATION STATEMENT

Lehman Brothers Private Equity Partners Limited
325 North St. Paul Street, Suite 4900
Dallas, TX 75201

1) The first and last day of the taxable year of Lehman Brothers Private Equity Partners Limited to which the information statement applies are:

   First day: **June 22, 2007**

   Last day: **November 30, 2007**

2) Your pro rata share of the ordinary earnings and net capital gain of Lehman Brothers Private Equity Partners Limited for the taxable period specified in paragraph 1) is as follows:

   Net Long Term Capital Gain: **None**

   Ordinary Income: **None**

3) The amount of cash and fair market value of other property distributed or deemed distributed to you by Lehman Brothers Private Equity Partners Limited during the taxable year specified in paragraph 1) is as follows:

   Distribution Amount: **None**

4) The PFIC will permit you, in the even of a U.S. Internal Revenue Service audit, to inspect and copy the permanent books of account, records and such other documents as may be maintained by the PFIC that are necessary to establish that the PFIC's ordinary earnings and net capital gains, as provided in Section 1293(e) of the Internal Revenue Code, are computed in accordance with U.S. income tax principles.

Lehman Brothers Private Equity Partners Limited

Scott Christiansen, Authorized Signatory

Attachment D
LBPEPI 2007 Annual Information Statement

PFIC ANNUAL INFORMATION STATEMENT

Lehman Brothers PEP Investments Limited
325 North St. Paul Street, Suite 4900
Dallas, TX 75201

1) The first and last day of the taxable year of Lehman Brothers Private Equity Partners Limited to which the information statement applies are:

   First day: **July 6, 2007**

   Last day: **November 30, 2007**

2) Your pro rata share of the ordinary earnings and net capital gain of Lehman Brothers Private Equity Partners Limited for the taxable period specified in paragraph 1) is as follows:

   Net Long Term Capital Gain: **None**

   Ordinary Income: **None**

3) The amount of cash and fair market value of other property distributed or deemed distributed to you by Lehman Brothers Private Equity Partners Limited during the taxable year specified in paragraph 1) is as follows:

   Distribution Amount: **None**

4) The PFIC will permit you, in the even of a U.S. Internal Revenue Service audit, to inspect and copy the permanent books of account, records and such other documents as may be maintained by the PFIC that are necessary to establish that the PFIC's ordinary earnings and net capital gains, as provided in Section 1293(e) of the Internal Revenue Code, are computed in accordance with U.S. income tax principles.

Lehman Brothers PEP Investments Limited

Scott Christiansen, Authorized Signatory

Attachment E
QEF Illustration

QEF ELECTION
FOR ILLUSTRATIVE PURPOSES ONLY

The purpose of this illustration is to highlight the U.S. tax impact of an election to treat a PFIC investment as a qualified electing fund ("QEF") investment. Please note that this illustration is not inclusive of all potential scenarios and tax consequences, and you should consult your tax advisor prior to making an election to determine the best course of action for you.

Facts: Ordinary income earned between 7/25/2007 and 11/30/2007 is $0.00 per share
Capital gains income earned between 7/25/2007 and 11/30/2007 is $0.00 per share
Ordinary income earned between 12/1/2007 and 11/30/2008 is $0.12 per share
Capital gains income earned between 12/1/2007 and 11/30/2008 is $0.48 per share

Note that in each example the QEF income would be reported 99.5% on a Form 8621 for LBPE and 0.5% on a Form 8621 for LBPEPI

Example 1: U.S. Investor purchases one (1) share in July 2007 for $10.00 per share and holds the share on December 31, 2008.

QEF	**2007 Tax Return**	**2008 Tax Return**
Share of Ordinary Income	$ 0.00	$ 0.12
Share of Capital Gain	$ 0.00	$ 0.48
QEF Inclusion in US Investor's Return	$ 0.00	$ 0.60

Example 2: U.S. Investor purchases one (1) share in July 2007 for $10.00 per share and sells the share on June 1, 2008 for $9.00.

QEF	**2007 Tax Return**	**2008 Tax Return**
Share of Ordinary Income	$ 0.00	$ 0.06 (50% of 2008 income)
Share of Capital Gain	$ 0.00	$ 0.24 (50% of 2008 income)
QEF Inclusion in US Investor's Return	$ 0.00	$ 0.30
Consideration for Shares	$ 0.00	$ 9.00
Initial Tax Basis in Shares	$ 0.00	$(10.00)
Adjustments to Tax Basis for QEF Inclusions	$ 0.00	$ (0.30)
Gain (Loss) on Sale of Stock	$ 0.00	$ (1.30)

Example 3: U.S. Investor purchases one (1) share on August 1, 2007 for $10.00 per share and sells the share on October 1, 2007 for $9.00.

QEF	**2007 Tax Return**
Share of Ordinary Income	$ 0.00
Share of Capital Gain	$ 0.00
QEF Inclusion in US Investor's Return	$ 0.00
Consideration for Shares	$ 9.00
Initial Tax Basis in Shares	$(10.00)
Adjustments to Tax Basis for QEF Inclusions	$ 0.00
Gain (Loss) on Sale of Stock	$ (1.00)

Example 4: U.S. Investor purchases one (1) share on January 1, 2008 for $10.00 per share and sells the share on June 1, 2008 for $9.00.

QEF	**2008 Tax Return**
Share of Ordinary Income	$ 0.06 (50% of 2008 income)
Share of Capital Gain	$ 0.24 (50% of 2008 income)
QEF Inclusion in US Investor's Return	$ 0.30
Consideration for Shares	$ 9.00
Initial Tax Basis in Shares	$(10.00)
Adjustments to Tax Basis for QEF Inclusions	$ (0.30)
Gain (Loss) on Sale of Stock	$ (1.30)

Attachment F
MTM Illustration

MTM ELECTION
FOR ILLUSTRATIVE PURPOSES ONLY

The purpose of this illustration is to highlight the U.S. tax impact of an election to treat a PFIC investment as a mark to market ("MTM") investment. Please note that this illustration is not inclusive of all potential scenarios and tax consequences, and you should consult your tax advisor prior to making an election to determine the best course of action for you.

Note that in each example the MTM election would only apply to LBPE and that 0.5% of all income would be included on a Form 8621 for LBPEPI. This fractional interest is ignored for these examples.

Example 1: U.S. Investor purchases one (1) share in July 2007 for $10.00 per share and holds the share on December 31, 2008. Market value of the share on December 31, 2007 is $8:00 per share and on December 31, 2008 is $9.00 per share. The Investor sells the share on January 1, 2010 for $10.00.

MTM	**2007 Tax Year**	**2008 Tax Year**	**2009 Tax Year**	**2010 Tax Year**
Adjusted Basis at Beginning of Year	$ 10.00	$ 10.00	$ 10.00	
Value at End of Year	$ 8.00	$ 9.00	$ 10.00	
Change in PFIC Value	$ (2.00)	$ (1.00)	$ (0.00)	
MTM Inclusion in US Investor's Return	$ - *	$ - *	$ -	

Consideration for Shares	$ 10.00
Initial Tax Basis in Shares	$(10.00)
Adjustments to Tax Basis for MTM Inclusions	$ 0.00
Gain (Loss) on Sale of Stock	$ 0.00

***Note: If an MTM election is made, losses can only be utilized to offset taxable income in specific circumstances (i.e. to the extent of unreversed prior MTM inclusions).**

Example 2: U.S. Investor purchases one (1) share in July 2007 for $10.00 per share and holds the share on December 31, 2008. Market value of the share on December 31, 2007 is $8.00 per share and on December 31, 2008 is $10.50 per share. The Investor sells the share on January 1, 2010 for $12.00.

MTM	**2007 Tax Year**	**2008 Tax Year**	**2009 Tax Year**	**2010 Tax Year**
Adjusted Basis at Beginning of Year	$ 10.00	$ 10.00	$10.50	
Value at End of Year	$ 8.00	$ 10.50	$12.00	
Change in PFIC Value	$ (2.00)	$ 0.50	$ 1.50	
MTM Inclusion in US Investor's Return	$ - *	$ 0.50	$ 1.50	

Consideration for Shares	$ 12.00
Initial Tax Basis in Shares	$(10.00)
Adjustments to Tax Basis for MTM Inclusions	$ (2.00)
Gain (Loss) on Sale of Stock	$ 0.00

*** Note: If an MTM election is made, losses can only be utilized to offset taxable income in specific circumstances (i.e. to the extent of unreversed prior MTM inclusions).**

Example 3: U.S. Investor purchases one (1) share on January 1, 2008 for $9.00 per share and holds the share on December 31, 2009. Market value of the share on December 31, 2008 is $10.00 per share and on December 31, 2009 is $8.00 per share. The Investor sells the share on January 1, 2010 for $8.00 per share.

MTM	**2008 Tax Year**	**2009 Tax Year**	**2010 Tax Year**
Adjusted Basis at Beginning of Year	$ 9.00	$ 10.00	
Value at End of Year	$ 10.00	$ 8.00	
Change in PFIC Value	$ 1.00	$ (2.00)	
MTM Inclusion in US Investor's Return	$ 1.00	$ (1.00)*	

Consideration for Shares	$ 8.00
Initial Tax Basis in Shares	$ (9.00)
Adjustments to Tax Basis for MTM Inclusions	$ (0.00)
Gain (Loss) on Sale of Stock	$ (1.00)

***Note: If an MTM election is made, losses can only be utilized to offset taxable income in specific circumstances (i.e. to the extent of unreversed prior MTM inclusions).**