

	2003	2004	2005	Average
Revenues	1,200,000	1,100,000	1,300,000	1,200,000
Cost of Goods Sold	100,000	100,000	N/A	66,667
Operating Expenses	1,100,000	1,000,000	1,300,000	1,133,333
Operating Profit	0	0	0	0

(v) After adjustments have been made to account for identified material differences between the relevant business activity of Company B and the comparables, the average ratio for the taxable years 2003 through 2005

of operating profit to total services costs is calculated for each of the uncontrolled service providers. Applying each ratio to Company B's average total services costs from the relevant business activity for the

taxable years 2003 through 2005 would lead to the following comparable operating profit (COP) for the services rendered by Company B:

Uncontrolled service provider	OP/total service costs (In percent)	Company B COP
Company 1	15.75	\$189,000
Company 2	15.00	180,000
Company 3	14.00	168,000
Company 4	13.30	159,600
Company 5	12.00	144,000
Company 6	11.30	135,600
Company 7	11.25	135,000
Company 8	11.18	134,160
Company 9	11.11	133,320
Company 10	10.75	129,000

(vi) The available data are not sufficiently complete to conclude that it is likely that all material differences between the relevant business activity of Company B and the comparables have been identified. Therefore, an arm's length range can be established only pursuant to § 1.482-1(e)(2)(iii)(B). The arm's length range is established by reference to the interquartile range of the results as calculated

under § 1.482-1(e)(2)(iii)(C), which consists of the results ranging from \$168,000 to \$134,160. Company B's reported average operating profit of zero (\$0) falls outside this range. Therefore, an allocation may be appropriate.

(vii) Because Company B reported income of zero, to determine the amount, if any, of the allocation, Company B's reported

operating profit for 2005 is compared to the comparable operating profits derived from the comparables' results for 2005. The ratio of operating profit to total services costs in 2005 is calculated for each of the comparables and applied to Company B's 2005 total services costs to derive the following results:

Uncontrolled service provider	OP/total service costs (For 2005) (In percent)	Company B COP
Company 1	15.00	\$195,000
Company 2	14.75	191,750
Company 3	14.00	182,000
Company 4	13.50	175,500
Company 5	12.30	159,900
Company 6	11.05	143,650
Company 7	11.03	143,390
Company 8	11.00	143,000
Company 9	10.50	136,500
Company 10	10.25	133,250

(viii) Based on these results, the median of the comparable operating profits for 2005 is \$151,775. Therefore, Company B's income for 2005 is increased by \$151,775, the difference between Company B's reported operating profit for 2005 of zero and the median of the comparable operating profits for 2005.

(f) *Simplified cost-based method for certain services*—(1) *Evaluation of arm's length charge*—(i) *In general*. The simplified cost-based method evaluates whether the amount charged in a controlled services transaction that meets the conditions of paragraph (f)(3) of this section and is not described in paragraph (f)(2)(iii) or (f)(4) of this

section is arm's length by reference to the markup on total services costs by uncontrolled taxpayers that engage in similar business activities under similar circumstances. This measure of an arm's length price corresponds to the profit level indicator consisting of the ratio of operating profit to total services costs, described in paragraph (e)(2)(ii) of this section.

(ii) *Coordination with best method rule*. If a controlled services transaction that meets the conditions of paragraph (f)(3) of this section and is not described in paragraphs (f)(2)(iii) or (f)(4) of this section is priced under or consistent

with the simplified cost-based method, then the simplified cost-based method will be considered the best method for purposes of § 1.482-1(c).

(2) *Limitation on allocations by the Commissioner*—(i) *In general*. Except as provided in paragraphs (f)(2)(iv) and (v) of this section, the Commissioner may make an allocation with respect to a controlled services transaction that meets the conditions of paragraph (f)(3) of this section, that is not described in paragraphs (f)(2)(iii) or (f)(4) of this section, and that is priced under or consistent with the simplified cost-based method, only if the arm's length