

ITEM 5

Michael Verne

From: [REDACTED]
Sent: Thursday, May 01, 2003 12:31 PM
To: Michael Verne
Subject: Question related to proper NAICS code usage

Dear Mike-

I am working with an international client who is primarily engaged in manufacturing both in and outside of the US. I understand that those items which are manufactured outside of the US but brought into the US for distribution & sale are reported under the wholesale category and not the manufacturing codes under Item 5 pursuant to a discussion with your office last spring. I also understand that although my client has a very small number of outlet stores where it sells directly to the public, these revenues are not reported as retail as we are primarily engaged in manufacturing.

CONNECT

My client has asked whether these sales should be bifurcated to reflect the sale of those items which were manufactured outside of the US and report these items under the wholesale code, or whether these items should be reported within the manufacturing code. My initial reaction was that these items should be reported under the manufacturing codes, but in hindsight, I believe that to the extent possible, these items should be reported in this bifurcated manner as it more accurately reflects the nature of the source of those goods, but wished to clarify. Clearly if there is no need to bifurcate, this will help eliminate the time required in obtaining the type of detail required to do so.

OUTLETS ARE SEPARATE ESTABLISHMENT FROM MFG. FACILITY - REPORT AS RETAIL

Further, in connection with our outlet business, we occasionally sell reconditioned products, which are serviced in the US and then resold and occasionally we do minor repairs for our customers. I believe that revenues from these services should be attributed to the manufacturing code and not to wholesaling or retailing. Further, if it is not possible to clearly identify the services performed on products which may have been manufactured in the US as opposed to products manufactured outside the US, I would recommend reporting all as if manufactured in the US to be more conservative. Can you please confirm? — YES — ALL US, REGARDLESS OF WHERE ORIGINALLY MANUFACTURED IF REPAIRED IN US.

AGREE

Due to the size of my client, the accountant is trying to gather this information, and update the appropriate year end numbers in anticipation of possible future acquisitions or mergers. It is my understanding that he is creating a program to help him update this information as necessary should the base year change.

Thank you very much. I look forward to hearing from you.

Sincerely,

[REDACTED SIGNATURE]

SEE COMMENTS ABOVE.

B. [Signature]

5/1/03