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Verne, B. Michael

From: [redacted]
Sent: Tuesday, November 22, 2005 11:39 AM
To: Verne, B. Michael
Cc: [redacted]
Subject: Informal interpretation call

Dear Mr. Verne:

A is a New York company that manufactures and distributes consumer apparel accessories.

As discussed over the phone, we are sending you this written description of the proposed transaction that we went over with you, and our conclusion as to the applicability of the continuum theory, which you confirmed. Please let us know if this email does not reflect your views in any way.

B is a newly formed New York company unaffiliated with A or C.

C is a United States subsidiary of a foreign corporation.

A, B and C have agreed to enter into the following transactions:

A will be merged with a subsidiary of B (the "Merger"). As a result of the Merger, A will become a wholly owned subsidiary of B

Simultaneously with the Merger, B will sell to C all of the outstanding stock of A (the "B-C Stock Sale").

Immediately before the Merger, A will sell to B certain assets of A, including inventory, receivables, cash, leases, and manufacturing plants and related assets (the "A-B Asset Sale"). A will retain, and B will not acquire, the right to continue A's current product line, including rights of distribution and all of A's trademarks, designs and other intellectual property.

As a result of these transactions, C will own A, and, indirectly, the product line currently owned and marketed by A, including the product brand name. However, A will cease much or all of its prior manufacturing operations, with the assets related thereto being owned by B. Following the transaction, B will manufacture and distribute A products in certain territories pursuant to a license from A.

The aggregate consideration payable to A's shareholders is $100 million ($97.5 million in cash and $2.5 million in installment payments). More than 80% of such consideration will be paid by C in consideration for A's stock. The balance will be paid by B in consideration of the assets acquired in the A-B Asset Sale.

A and C intend to file a notification with respect to the sale of A's stock to C that is being effectuated pursuant to these back-to-back transactions (the "A-C Stock Sale").

We have concluded, and you confirmed, that, provided that the A-C Stock Sale is reported by A and

C, under the continuum theory the sale of A's stock to B pursuant to the Merger and B's resale of A's stock to C pursuant to the B-C Stock Sale need not be reported.

This is because:

1. The back-to-back sale of A's stock, from A to B and then from B to C, are "part of the same transaction." Indeed, B is a mere conduit for the ultimate transfer of A's stock to C.

2. The sale of A's stock to C following its acquisition by B must occur due "to contract." Closing of these transactions will occur under a complex escrow agreement intended to make sure that neither transaction is consummated unless the other closes as well. Further, the relevant agreements include cross-closing conditions precedent intended to insure that B will not acquire A's stock unless it is transferred simultaneously to C.

3. A's sale of its stock to B and B's subsequent sale of A's stock to C will occur simultaneously.

4. The ultimate transaction, i.e., the sale of A's stock to C (the A-C Stock Sale), is reportable.

We also note that the asset transaction immediately preceding closing of the Merger (the A-B Asset Sale) is not reportable.

Thank you for returning our call so promptly and for your help in this matter.

Kind regards,

[redacted]

Agree - continuum applies.
B. [illegible]
11/22/05