

S.C. Johnson & Son, Inc.

State and Local Tax Observations & Considerations

April 18, 2008

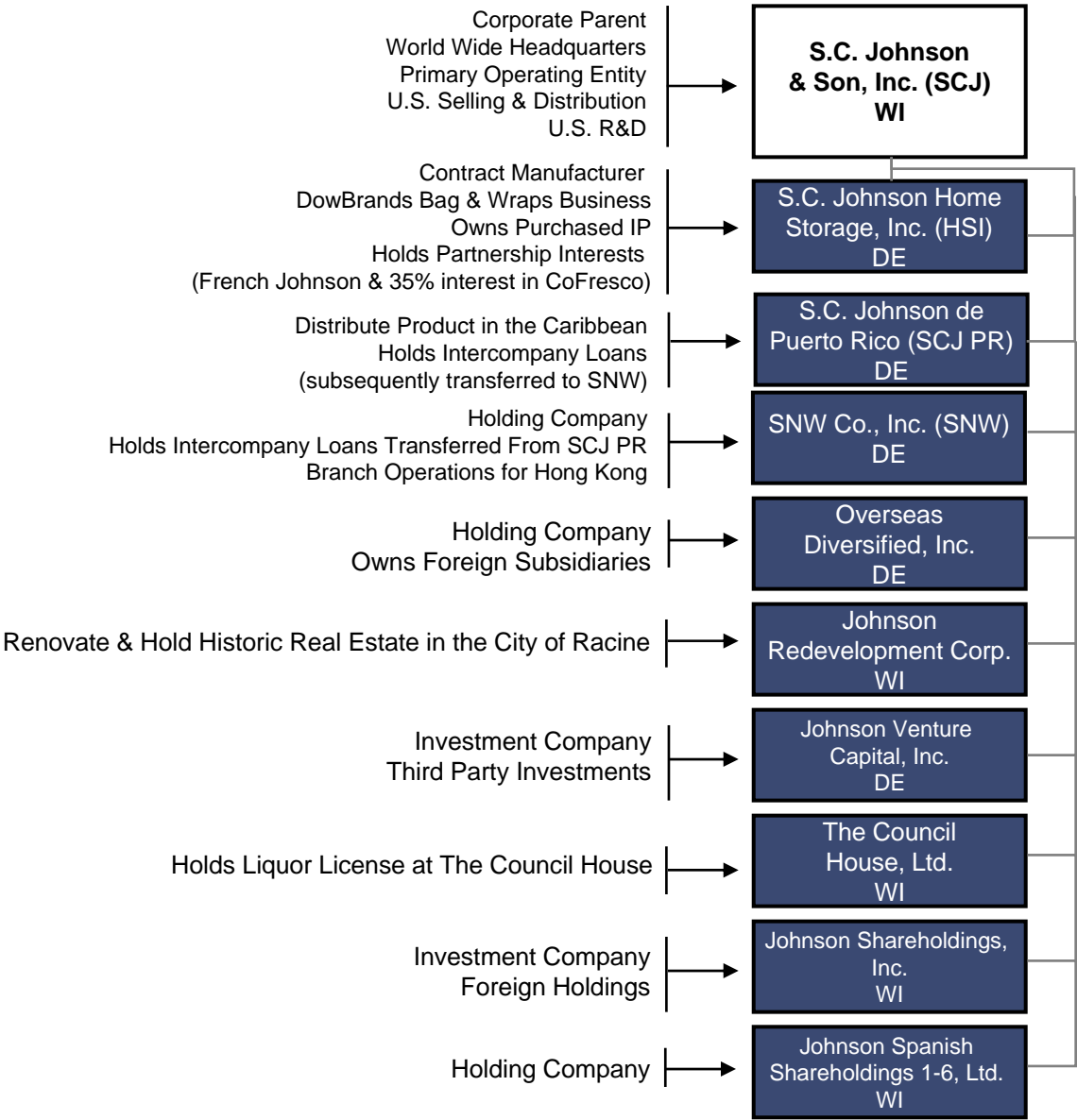
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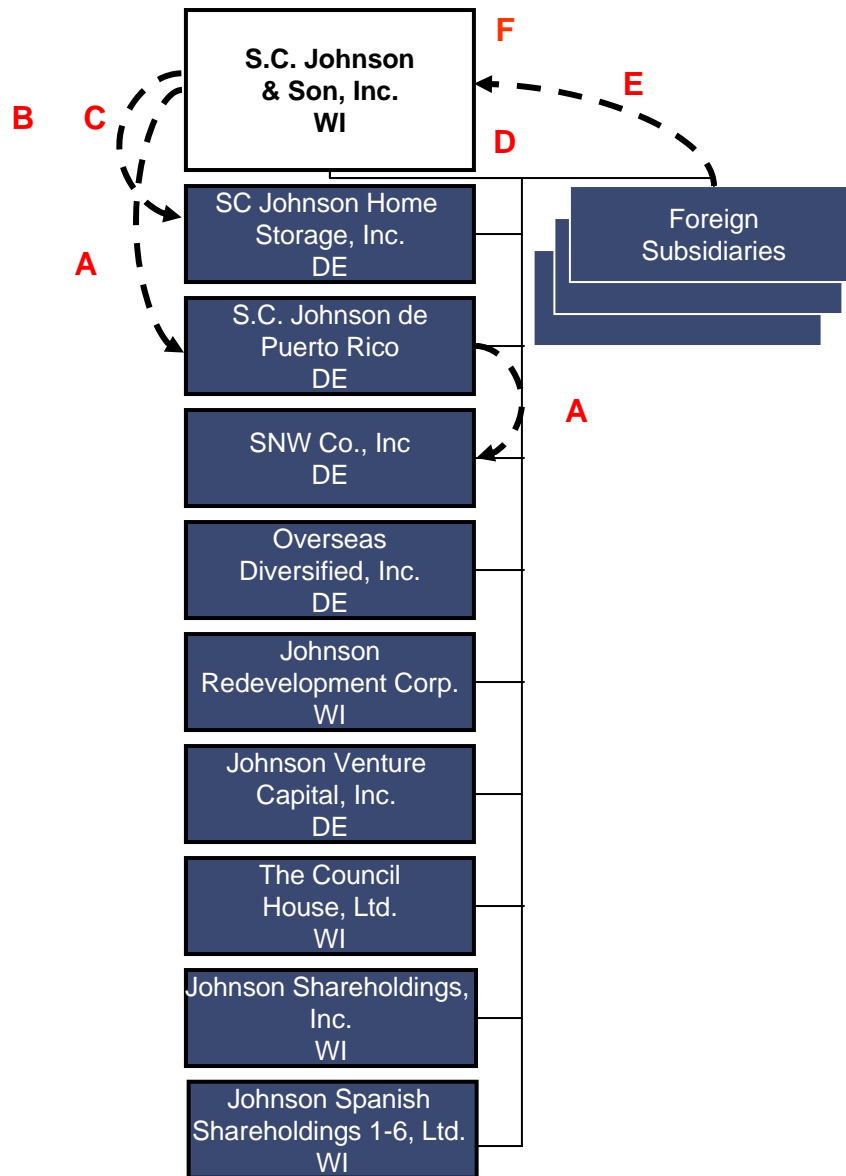
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U.S. Domestic Subsidiary Organizational Structure



Related-Party Transactions

Based on 6/30/06



- A: Interest expense paid to SCJ PR, now transferred to SNW (\$60M).
- B: Royalty paid to HSI (\$31M).
- C: Mark-up adjustment paid to HSI on purchases of HSI products (\$77M).
- D: Dracket amortization deduction not expected in future years (\$47M).
- E: Royalty income received from foreign subsidiaries. (\$155M).
- F: Pools of cost at SCJ
 - Interdivisional transfers
 - Regional staff changes
 - BPT (business, process, and technology) charge (reimbursement)
 - Charges related to SAP system

State Tax Profile

Existing Separate Return State Tax Profile

Federal Taxable Income	\$ 155,000,000
State Additions	3,000,000
State Subtractions	<u>(226,000,000)</u>
State Apportionable Income¹	\$ (68,000,000)

State Tax Attributes

State NOL Carryforward: \$320,000,000

WI 230,000,000

PA 31,000,000

State Credit Carryforward:

WI R&D 16,500,000

(SCJ Generates \$1.5 million annually)

¹Based on FYE 6/30/06.

Potential Adjustments to Monitor

Separate State Taxable Income	\$ (68,000,000)
Additions:²	
Interest expense paid to SC Johnson de Puerto Rico³	60,000,000
SC Johnson Home Storage, Inc. Royalty Income³	31,000,000
Mark-Up Adjustment paid to SC Johnson Home Storage, Inc.³ (less royalty income)	43,000,000
Dracket Amortization (Deduction anticipated to end)³	47,000,000

² State Tax Reserve Support FYE 6/06.

³ Critical issues to watch on a go forward basis.

Assumption: HSI pays income tax in various states in which SCJ files.

S.C. Johnson Home Storage, Inc.

Observations & Considerations



Observations:

- \$4M of interest income (net of interest expense).
- \$31M of royalty income (less \$32M of amortization expense).
- Income derived from resale of product to SCJ (approximately \$43M).
- HSI generates a material amount of income. Has a significant net receivable position with SCJ.

Apportionment / Nexus Considerations:

- Risks of economic nexus related to licensing of intellectual property and associated royalty receipts (e.g., Wisconsin nexus). Consider nexus analysis/study. Despite nexus potential, facts around apportionment may result in minimal sourcing to other states.
- Sourcing of sales: understand where HSI products go when it leaves California or Michigan. Review intercompany sales arrangement to determine where possession and control transfers to SCJ to ensure sourcing of sales to point of origination.
- Consider concurrent employment of traveling employees to avoid nexus considerations.

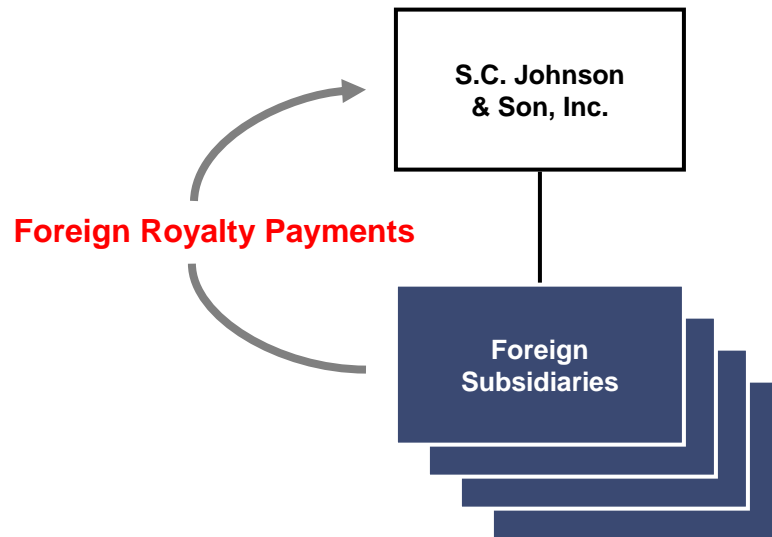
Royalty Considerations:

- SCJ state addbacks associated with royalty receipts.
- Potential inability to offset addback without HSI amortization expense.

Other Considerations:

- Impact of centralized cash management structure.
- Transitioning royalty considerations into resale price:
 - May reduce economic nexus considerations related to royalty arrangement.
 - Becoming more reliant on the apportionment results for HSI.
 - Further substantiate that goods were shipped from Michigan to Wisconsin.
 - R&D charged out, or some part, such that all or part of R&D is out of Wisconsin.

Foreign Intellectual Property Rights Observations & Considerations



Observations:

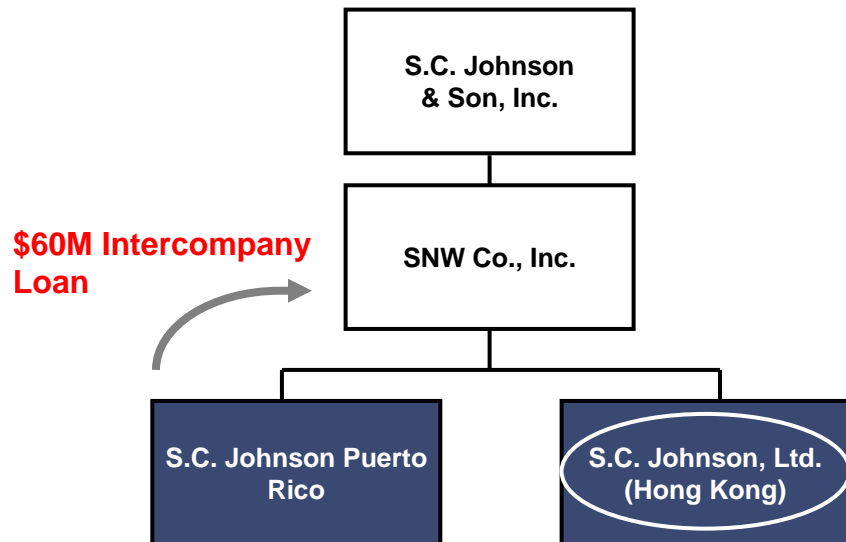
- Previously discussed re-registration of select foreign country intellectual property rights to minimize administrative and legal efforts and maximize impact.
- SCJ Royalty Income (\$155 million annually as of FYE June 30, 2006):
 - Britain: \$61,000,000 (UK acts as conduit for Europe)
 - Mexico: \$12,000,000
 - Canada: \$11,000,000**Total: \$84,000,000** (55% of Total Foreign Source Royalties)

Considerations:

- Validate lack of any alternatives for “moving” foreign royalty stream without re-registration.
- Prospective structure anticipates flow of royalties through SwissCo entity and back to U.S.
- Consider impact of potential sub-license to U.S. subsidiary. Stream some foreign IP through US subsidiary.
- Consider assigning to subsidiary the foreign intellectual property rights for a limited term (e.g., a prescribed number of years) in an effort to avoid re-registration through contribution of rights for a prescribed period of time, e.g., 20 years. Would still enable SCJ to maintain foreign IP.

SNW Co., Inc.

Observations & Considerations

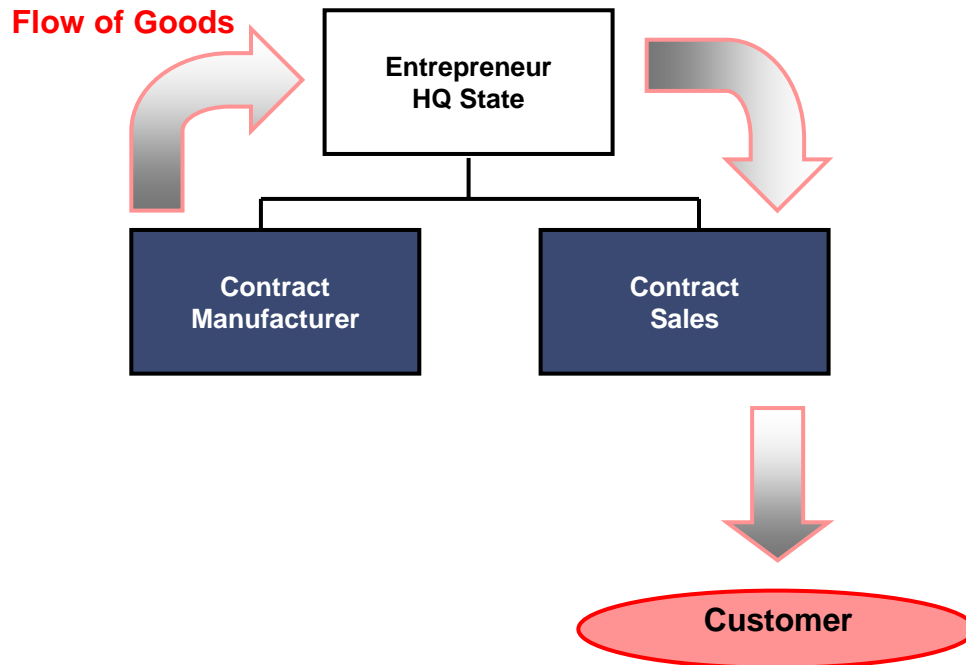


Observations & Considerations:

- Reexamine current intercompany loans held at SNW. Consider other activities that may be held at SNW.
- Review locations of operations in event there's a cost of performance analysis.
- Review sourcing rules for Wisconsin sales factor purposes.
- Consider impact of intercompany expense for Wisconsin income tax purposes.
- Consider SNW as a financial organization for Wisconsin state income tax purposes.
- Consider consequence of merging SNW into HSI.
- Wisconsin could come in and assert 100% Wisconsin factor on SNW.
- Review loan terms (e.g. payments, arm's length, add substance behind management and control outside Wisconsin.)

Buy-Sell Structure Adopted by Other Consumer Product Companies

Observations & Considerations



Observations & Considerations:

Can clearly be an example of aligning legal structure with operations

- Value of entrepreneurial risk and related intellectual property remains at headquarter company through transfer price on goods
- Each entity typically holds significant operations minimizing economic substance concerns
- May rely on lack of nexus or a limited geographic footprint for Entrepreneur company – P. L. 86-272 considerations
- Critical to consider location and operation of management functions within Entrepreneur
- Flash title transfers means location of intercompany destination sales is an equally important consideration
- Contract Manufacturer files in plant states and operates at controlled margin
- Manufacturer sells goods to a sales company at a price that allocates most profit to the Entrepreneur because it holds the IP
- Contract Seller files in many states and operates at a controlled margin similar to commission
- Transfer pricing is key
- Should understand best and worst case state income tax treatment including combination and transaction disallowance authority as well as nexus potential and alternative apportionment sourcing.

Next Steps

- Discuss and fully evaluate each idea with S.C. Johnson and decide which opportunities are viable and which need further development.
- Potential modeling to determine impact where necessary.
- Determine S.C. Johnson's views with respect to discussed items.
- Determine which items are worthy of additional consideration.
- Establish action steps and timelines for each viable idea.
- Determine role of advisor for each area in terms of idea development, technical analysis, and project implementation.
- In keeping with our experience, offer insights and advise in relation to planning risks, viability of planning ideas and expected audit outcomes.

Appendix

Why PricewaterhouseCoopers

Commitment and Partnership

- **The Right Team**

- National PricewaterhouseCoopers experience assisting the local service team

- Provide first hand experiences of other clients with similar and alternative structures

- Relevant FAS 109 and FIN 48 experience

- State & Local Tax, Federal Tax, and International Tax member, as needed

- Synergies and coordination with European structuring project

- Ongoing legislative monitoring to ensure consideration of latest developments (e.g. Possible Wisconsin legislative changes)

- **Relationship Investment**

- Long and extensive service history providing a deep understanding of SCJ

- Commitment to a long-term value-driven teaming relationship

- Work in an environment focused on sharing and collaboration

- **Experience**

- Proven track record of innovative and reliable solutions

- Experience planning in an environment of evolving tax landscapes and changing business objectives

- PricewaterhouseCoopers' phased approach utilizing a proven comprehensive process to enhance value

- Experienced implementation service team focused on project management / implementation

- Best practices based on years of experience

- Experience in dealing with state audits and understanding audit consequences

S.C. Johnson Core Service Team

The Right Team

Ken Turner – SALT Partner, Chicago

Phone: 312-298-2053

Email kenneth.turner@us.pwc.com

Role: SALT Engagement partner

Ken, as the national lead for PricewaterhouseCoopers state restructuring practice, has over 20 years of experience in the state and local tax area primarily focusing on corporate reorganizations, tax accounting matters and planning for the management of state and local taxes. Ken has extensive consulting experience on complex tax matters working with large SEC registered and privately-held multinational corporations in a variety of industries including consumer products. Ken also has FAS 109 / Fin 48 experience in respect to planning, as well as overall effective tax rate analysis.

Bob Love – Client Service Partner, Milwaukee

Phone: 414-212-1723

Email robert.love@us.pwc.com

Role: Lead Tax Services Partner for S.C. Johnson

Bob is the tax site lead for PricewaterhouseCoopers Milwaukee based Tax Department and is the lead tax services partner on a number of key Wisconsin based multi-national companies including S.C. Johnson. Bob's experience includes a wide range of tax consulting focusing on acquisition assistance, reorganization and restructuring consulting, fixed asset advisory services, inventory consulting, general tax planning and tax return assistance.

Mark Brzycki – SALT Director, Milwaukee

Phone: 414-212-1653

Email mark.a.brzycki@us.pwc.com

Role: SALT Engagement Director

Mark is the state and local tax practice lead for the Milwaukee office and has over 25 years of experience serving both large privately owned and publicly held companies. Mark's experience spans a number of industries including consumer products. He consults on a broad spectrum of state and local tax issues with an emphasis on the design and implementation of restructuring plans, mergers and acquisitions, transactional analysis, general tax planning and tax return assistance.

S.C. Johnson Core Service Team

The Right Team (Cont.)

Kate Pham – SALT Manager, Chicago

Phone: 312-298-3088

Email kate.t.pham@us.pwc.com

Role: SALT Engagement Project Manager

Kate's experience in the state and local tax group focuses primarily on income and franchise tax issues and credits & incentives. Kate has worked as project manager on a variety of engagements with clients in various industries including manufacturing, retail, and private equity firms.

Other PricewaterhouseCoopers subject matter experts will be added to the S.C. Johnson service team as needed.

Timeline

Phased Approach to Control Limited Resources

PHASE	STEPS	KEY ACTIONS	TIMETABLE
PHASE I – DESIGN Facts Become Ideas	Step 1	PRESENT Results of Initial Analysis and Evaluation Align with International Structuring Project where Possible to Ensure that Structure Changes Are Consistent with the Global Structure Brainstorm, Determine Feasibility, Confirm Legal and Regulatory Issues, Jointly Prioritize Recommendations with S.C. Johnson	2 MONTHS
PHASE II – DEVELOP Ideas Become Plans	Step 2	CONDUCT Alignment Session (Technical Research with Strategic Business Objectives)	TBD
	Step 3	REVIEW Potential Ideas with Operational Personnel	
	Step 4	MODEL & REVIEW Conduct Technical Research and Evaluate / Quantify Ideas	
	Step 5	PREPARE Implementation Work Program	
	Step 6	PRESENT Preliminary Results and Recommendations	
Phase III – IMPLEMENT & REVIEW Plans Become Actions	Step 7	DEFINE Action Steps and Assign Responsibilities	TBD
	Step 8	IMPLEMENTATION Coordination, Communication and Project Deliverable	
	Step 9	REVIEW RESULTS Of Anticipated Tax Impact, effect on Operations and Compliance	

Fees

- Phase I Fee based on time incurred, plus expenses
- Phase II and III fee determined after completion of Phase I
- Phased Approach for maximizing flexibility
- Role & depth of services directly impacts budget
 - Full scope implementation means active day-to-day role of PricewaterhouseCoopers in management of project
 - Minimum scope implementation generally means a high-level role for PricewaterhouseCoopers service team with little change in scope for technical research and documentation

Phase I - Design	\$75,000
Phase II - Develop	TBD
Phase III - Implementation	TBD