STATE BOARD OF EQUALIZATION

Appeal Name: Pacific Coast Building Products, Inc. et.al.
Case ID: 514183 et al. ITEM #. B7
Date: 10/29/13 Exhibit No: 10.12
TP FTB DEPT PUBLIC COMMENT

pwc

TAXPAYER EXHIBIT
B7
October 29, 2013
Pacific Coast Building Products, Inc., et al
514183

Pacific Coast Building Products, Inc.
State Board of Equalization Appeal
Hearing Packet

October 29, 2013

Pacific Coast Building Products, Inc.

Index to Board of Equalization Appeal

October 29, 2013

Hearing Packet

Tab No.

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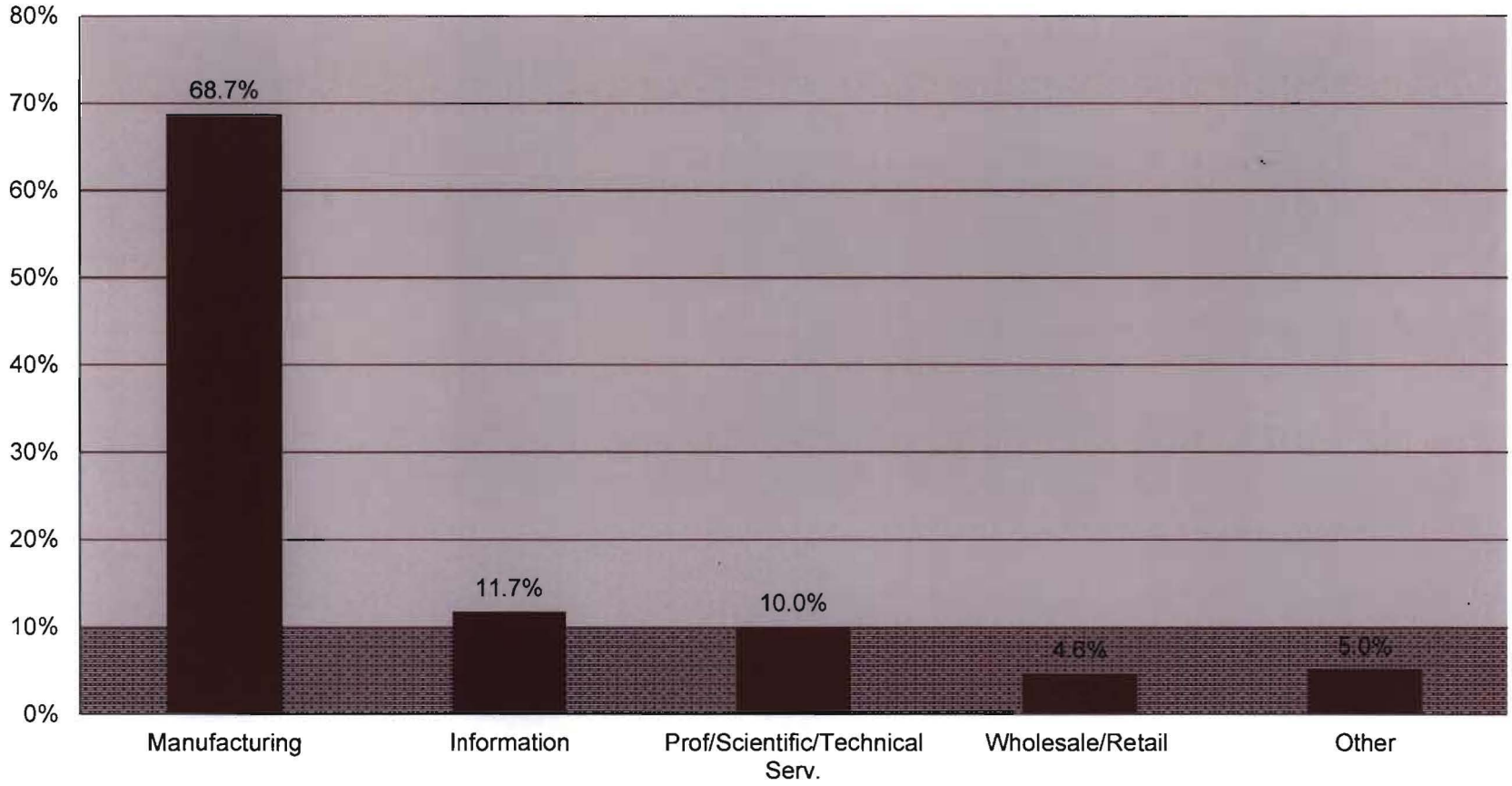
Percentage of R&D Credit Claimed By Industry (2001-2010)



Source: Statistics of Income, Internal Revenue Service, *available at:* http://www.irs.gov/uac/SOI-Tax-Stats-Corporation-Research-Credit

Manufacturing in the U.S.

Apple, Inc.'s CEO Tim Cook with NBC's Brian Williams

[In response to Brian Williams' question on whether Apple would be able to manufacture its products in the United States again]

"Honestly, it's not so much about price it's about the skills, et cetera. Over time, there are skills that are associated with manufacturing that have left the U.S. . . . "

Tim Cook with NBC's Brian Williams , December 6, 2012

(available at: http://articles.latimes.com/2012/dec/06/business/la-fi-tn-transcript-apple-ceo-tim-cook-interviewed-on-nbc-20121206)

Pacific Coast's Amount of QREs as a percentage of Average Annual Gross Receipts compared to IRS Statistics on Manufacturing Sector percentage

	2001 (in thousands)	2002 (in thousands)	2003 (in thousands)	2004 (in thousands)
Pacific Coast **California** QREs	8,337,353	6,586,505	5,102,737	5,271,649
Pacific Coast California Annual Gross Receipts	434,761,333	482,729,905	466,720,665	483,051,602
Pacific Coast California QREs as a percentage of Average Annual Gross Receipts	**1.9177%**	**1.3644%**	**1.0933%**	**1.0913%**

	2001 (in thousands)	2002 (in thousands)	2003 (in thousands)	2004 (in thousands)
Pacific Coast **Federal** QREs	13,687,389	9,947,806	8,513,640	9,482,235
Pacific Coast Federal Annual Gross Receipts	703,839,941	720,029,681	756,252,719	801,393,240
Pacific Coast Federal QREs as a percentage of Average Annual Gross Receipts	**1.9447%**	**1.3816%**	**1.1258%**	**1.1832%**

	2001 (in thousands)	2002 (in thousands)	2003 (in thousands)	2004 (in thousands)
Total Manufacturing Sector Qualified Research Expenses	64,153,022	59,753,288	61,700,357	58,309,588
Average Annual Gross Receipts	1,638,229,095	1,725,773,853	1,900,576,482	1,838,824,301
Total Manufacturing Sector QREs as a percentage of Average Annual Gross Receipts	**3.916%**	**3.462%**	**3.246%**	**3.171%**

Qualified Wages Claimed by Cost Center (FYE 1999-2004)

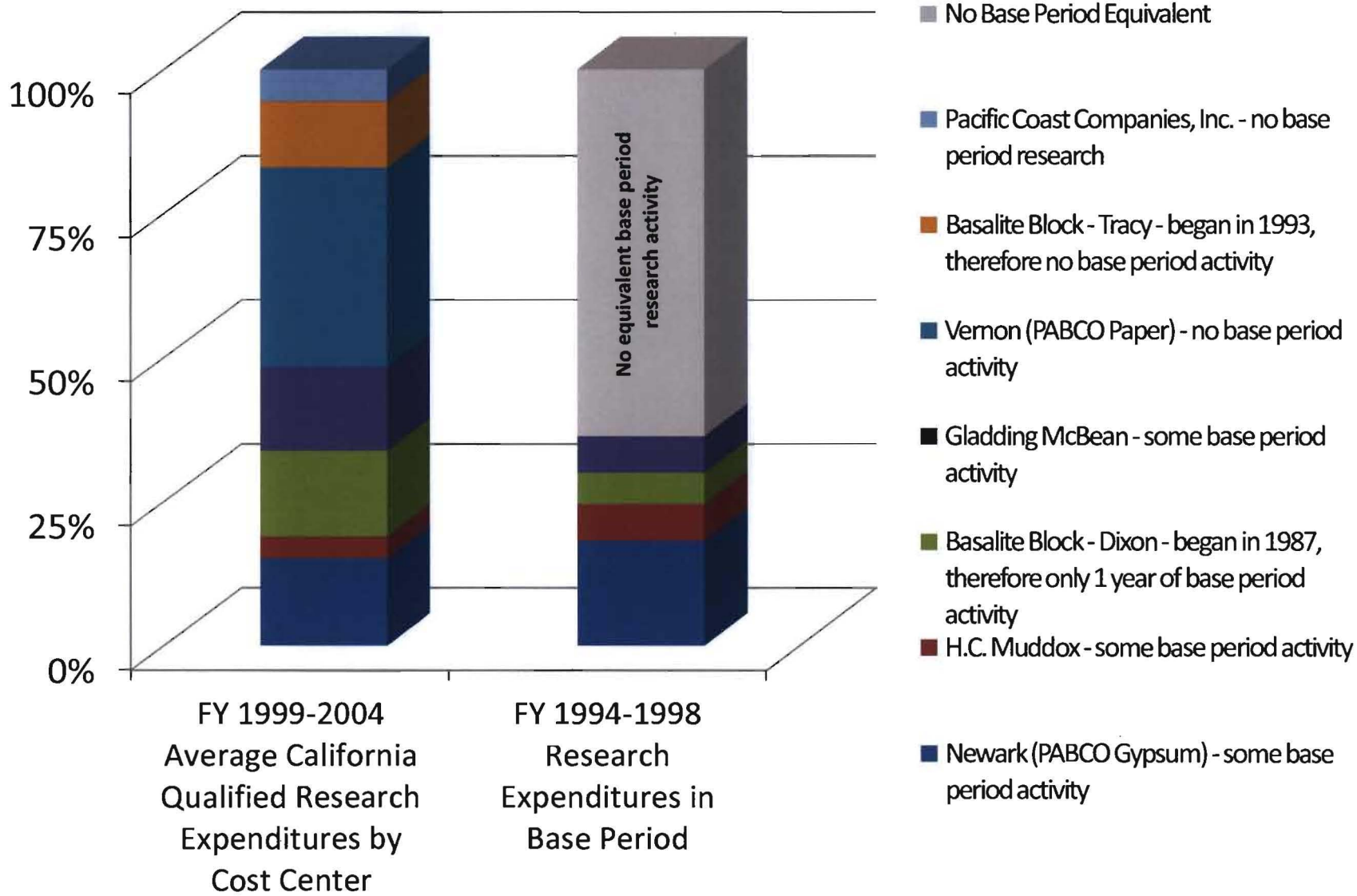
	FYE 1999	FYE 2000	FYE 2001	FYE 2002	FYE 2003	FYE 2004	Total
Vernon							
Qualified Wages	$605,769	$654,793	$739,699	$732,897	$638,930	$804,122	**$4,176,210**
Total Wages	$3,688,874	$3,994,243	$3,703,587	$3,642,120	$3,868,797	$4,041,999	**$22,939,620**
% (Qualified/Total)	16.42%	16.39%	19.97%	20.12%	16.51%	19.89%	**18.21%**
Newark							
Qualified Wages	$332,469	$329,470	$355,646	$923,015	$421,919	$413,644	**$2,776,163**
Total Wages	$3,473,688	$3,864,739	$4,503,424	$5,250,103	$4,743,255	$5,789,134	**$27,624,342**
% (Qualified/Total)	9.57%	8.53%	7.90%	17.58%	8.90%	7.15%	**10.05%**
Gladding McBean							
Qualified Wages	$476,216	$559,726	$554,677	$578,793	$661,297	$573,850	**$3,404,559**
Total Wages	$5,800,667	$6,701,333	$7,185,136	$7,852,628	$8,037,723	$7,571,798	**$43,149,285**
% (Qualified/Total)	8.21%	8.35%	7.72%	7.37%	8.23%	7.58%	**7.89%**
H.C. Muddox							
Qualified Wages	$214,251	$205,816	$184,225	$179,766	$197,321	$204,468	**$1,185,847**
Total Wages	$2,229,997	$2,637,753	$2,679,855	$2,829,262	$2,581,371	$2,647,190	**$15,605,427**
% (Qualified/Total)	9.61%	7.80%	6.87%	6.35%	7.64%	7.72%	**7.60%**
Basalite - Tracy							
Qualified Wages	$183,424	$204,286	$180,238	$167,354	$248,036	$276,112	**$1,259,450**
Total Wages	$2,377,102	$3,125,928	$3,634,476	$4,760,228	$4,805,081	$4,457,027	**$23,159,841**
% (Qualified/Total)	7.72%	6.54%	4.96%	3.52%	5.16%	6.19%	**5.44%**
Basalite - Dixon							
Qualified Wages	$350,033	$424,268	$457,913	$437,017	$453,279	$317,217	**$2,439,727**
Total Wages	$5,035,535	$5,998,682	$6,460,380	$6,341,530	$7,742,945	$9,273,302	**$40,852,374**
% (Qualified/Total)	6.95%	7.07%	7.09%	6.89%	5.85%	3.42%	**5.97%**
Pac Coast Companies							
Qualified Wages			$384,350	$277,741	$312,632	$95,823	**$1,070,546**
Total Wages			$9,484,264	$10,558,563	$10,894,872	$8,060,036	**$38,997,735**
% (Qualified/Total)			4.05%	2.63%	2.87%	1.19%	**2.75%**
Total Qual. Wages per Year	**$2,162,162**	**$2,378,359**	**$2,856,748**	**$3,296,583**	**$2,933,414**	**$2,685,236**	**$16,312,502**
Total Wages per Year	**$22,605,863**	**$26,322,678**	**$37,651,122**	**$41,234,433**	**$42,674,044**	**$41,840,485**	**$212,328,624**
Average % per Year	**9.75%**	**9.11%**	**8.37%**	**9.21%**	**7.88%**	**7.59%**	**8.27%**

PwC

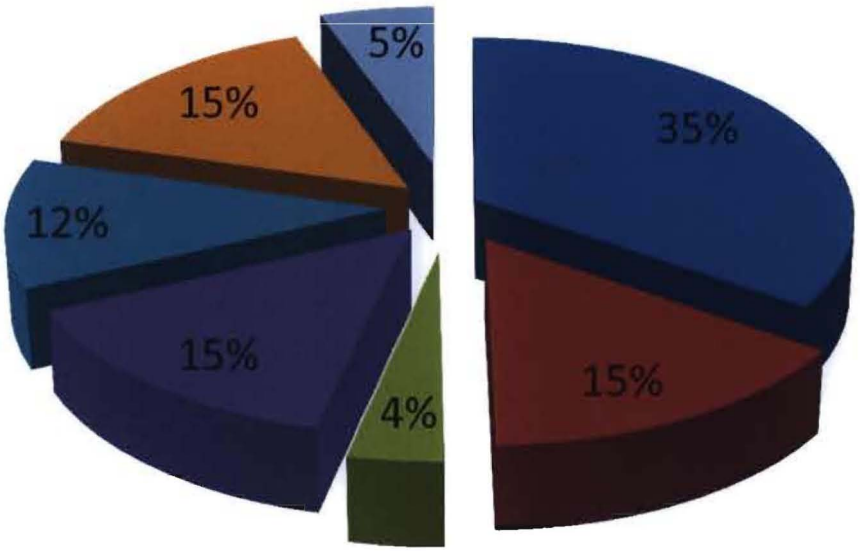
Qualified Supplies Claimed by Cost Center (FYE 1999-2004)

	FYE 1999	FYE 2000	FYE 2001	FYE 2002	FYE 2003	FYE 2004	Total
Vernon							
Qualified Supplies	$2,370,392	$1,654,994	$2,127,827	$920,455	$658,406	$828,729	**$8,560,803**
Total QRE per Year	$3,127,242	$2,453,140	$3,035,839	$1,780,556	$1,438,871	$1,792,825	**$13,628,473**
% (Qualified/Total)	75.80%	67.46%	70.09%	51.69%	45.76%	46.22%	**62.82%**
Newark							
Qualified Supplies	$1,201,047	$522,450	$475,473	$278,277	$269,942	$252,228	**$2,999,417**
Total QRE per Year	$1,555,671	$872,266	$846,426	$1,236,403	$753,713	$693,231	**$5,957,710**
% (Qualified/Total)	77.20%	59.90%	56.17%	22.51%	35.81%	36.38%	**50.35%**
Gladding McBean							
Qualified Supplies	$264,230	$287,369	$390,653	$375,239	$345,760	$373,634	**$2,036,885**
Total QRE per Year	$781,524	$905,182	$987,999	$1,012,241	$1,050,132	$981,838	**$5,718,916**
% (Qualified/Total)	33.81%	31.75%	39.54%	37.07%	32.93%	38.05%	**35.62%**
H.C. Muddox							
Qualified Supplies	$36,135	$37,834	$61,916	$37,682	$32,979	$38,510	**$245,056**
Total QRE per Year	$255,035	$249,731	$251,855	$223,843	$236,555	$248,731	**$1,465,750**
% (Qualified/Total)	14.17%	15.15%	24.58%	16.83%	13.94%	15.48%	**16.72%**
Basalite - Tracy							
Qualified Supplies	$579,081	$785,947	$983,297	$181,537	$186,253	$236,140	**$2,952,255**
Total QRE per Year	$795,912	$1,042,581	$1,231,541	$406,756	$493,694	$558,192	**$4,528,676**
% (Qualified/Total)	72.76%	75.38%	79.84%	44.63%	37.73%	42.30%	**65.19%**
Basalite - Dixon							
Qualified Supplies	$707,012	$717,154	$867,430	$187,148	$191,552	$237,025	**$2,907,321**
Total QRE per Year	$1,084,962	$1,169,964	$1,361,374	$675,501	$688,771	$901,013	**$5,881,585**
% (Qualified/Total)	65.16%	61.30%	63.72%	27.71%	27.81%	26.31%	**49.43%**
Pac Coast Companies							
Qualified Supplies					$0	$0	**$0**
Total QRE per Year			$622,320	$1,251,205	$441,004	$95,823	**$2,410,352**
% (Qualified/Total)			0.00%	0.00%	0.00%	0.00%	**0.00%**
Total Qual. Supplies per Year	**$5,157,897**	**$4,005,748**	**$4,906,596**	**$1,980,338**	**$1,684,892**	**$1,966,266**	**$19,701,737**
Total QRE per Year	**$7,600,346**	**$6,692,864**	**$8,337,354**	**$6,586,505**	**$5,102,740**	**$5,271,653**	**$39,591,462**
Average % per Year	**56.48%**	**51.82%**	**47.71%**	**28.63%**	**27.71%**	**29.25%**	**40.02%**

Base Period – Pacific Coast is Always Subject to 50% Limitation



FY 1999-2004 Average California Qualified Research Expenditures by Cost Center



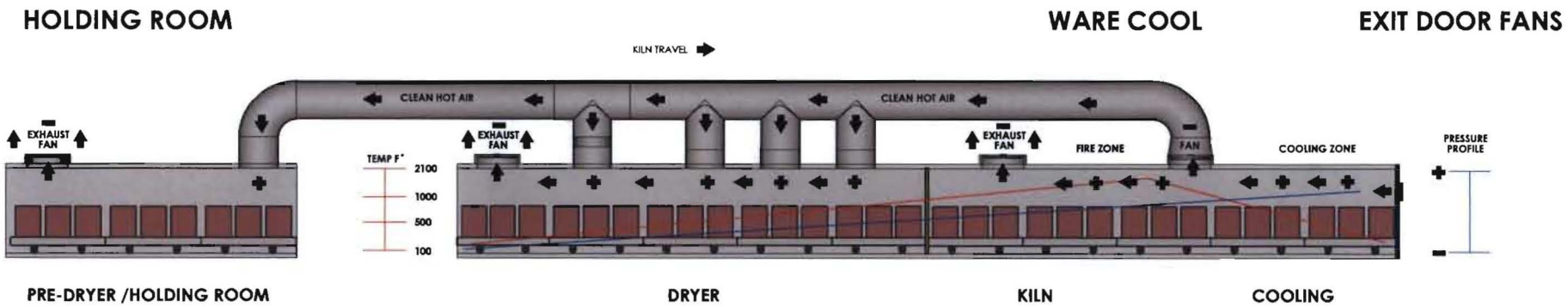
- Vernon (PABCO Paper)
- Newark (PABCO Gypsum)
- H.C. Muddox
- Gladding McBean
- Basalite Block - Tracy
- Basalite Block - Dixon
- Pacific Coast Companies, Inc.

R&D Credit Claimed vs. Amount of Tax Paid to CA

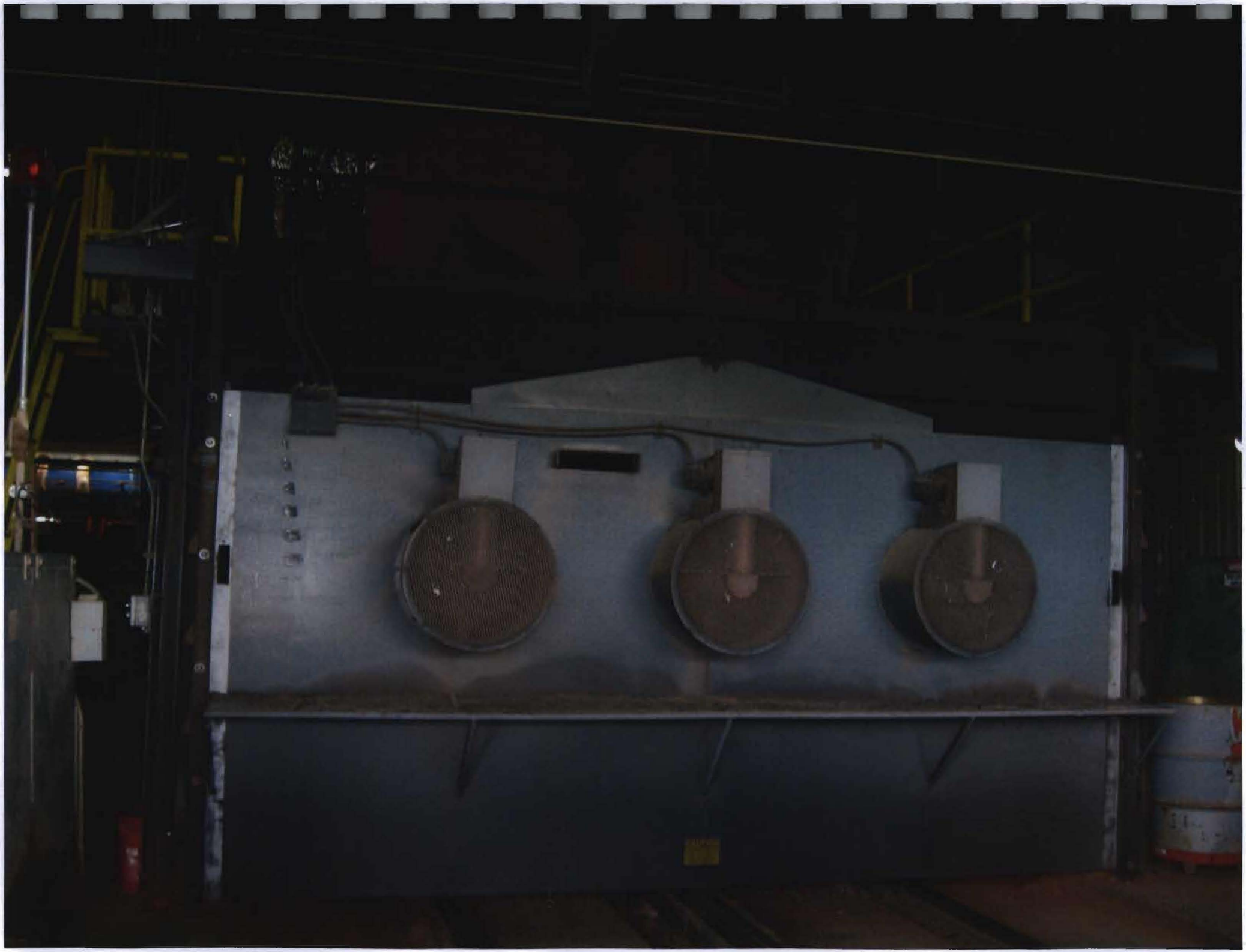
Total Tax Due from Shareholders with R&D Claims	22,114,898
Total Tax Due from Shareholders without R&D Claims	24,334,477
Difference	*2,219,579*
Percentage Reduction in Tax Due	**9.12%**

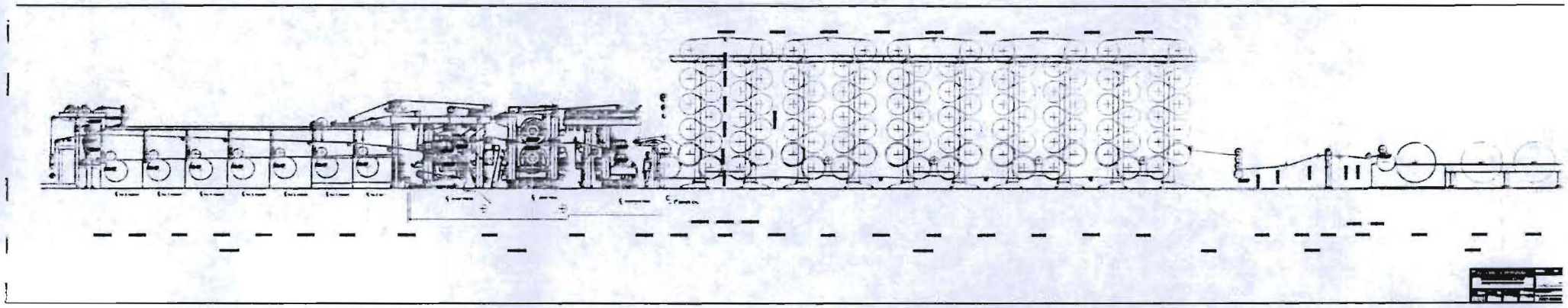
Total Tax Due from Shareholders and Pacific Coast with R&D Claims	23,082,580
Total Tax Due from Shareholders and Pacific Coast without R&D Claims	25,934,615
Difference	*2,852,035*
Percentage Reduction in Tax Due	**11.00%**

*** During each year at issue, the Shareholders were subject to the highest rate of tax notwithstanding the R&D credit claims.**



H. C. Muddox
Kiln Upgrade Project





Contemporaneous Documentation Included in Pacific Coast's R&D Credit Study

Basalite Technical Service

Technical Project 6/3/2005

Fly Ash Trials - Port Neal & Victorville Cement

Requested By: D Puskas | Date: 04/24/2002 | Product Type: Sack Mix

Opened By: | Plant # 1403 | Request Type: R&D

TR *175* | Distribution:

Objective:

Test Victorville Cement content @ 15.8%
Determine optimum Class C fly ash replacement rates.
Vary coarse to fine aggregate ratios for optimum strengths

Identification of Uncertainty

Development of New or Improved Business Component

Resolution:

Aggregates: Lemon Cove
Cement: Victorville
Fly Ash: ISG Port Neal Class C

1. Control 15.8% - 45%CA
2. 25% Fly Ash - 45%CA
3. 25% Fly Ash - 50%CA
4. 25% Fly Ash - 55%CA
5. 25% Fly Ash - 60%CA
6. 25% Fly Ash - 45%CA 55% Crusher Fines

Alternatives to Eliminate Uncertainty and Process of Evaluation

Treasury Regulation Section 1.41-4(a)(5) Process of Experimentation

"A process of experimentation is a process designed to evaluate one or more alternatives to achieve a result where the capability or the method of achieving that result, is uncertain . . . . A process of experimentation must fundamentally rely on principles of physical and biological sciences. . . and involves the **identification of uncertainty** concerning the **development or improvement of a business component**, the identification of one or more **alternatives intended to eliminate that uncertainty**, and the identification and the conduct of a process of **evaluating the alternatives** (through, for example, modeling , simulation, or a systematic trial and error methodology).

Contemporaneous Documentation Included in Pacific Coast's R&D Credit Study

Basalite Technical Service

Technical Project 6/3/2005

Adjustment of Clalite Mix designs

Requested By: D. Puskas Date: 05/25/2001 Product Type: Block

Opened By: Plant # 1401 Request Type: R&D

TR *112* Distribution:

Hypothesis

Evaluated Alternatives (analysis)

Objective:

Adjustment of Clalite Mix designs. Reduce cracking and evaluate mix deisgns for possible changes to facilitate reduce core-bar cracking and production problems.

Resolution:

530series mix design trials in progress, 5-25-01.
Increased Admixture adopted in standard Mix designs. 6-01-01

Process of Experimentation (systematic trial and error)

Improved Business Component (quality and reliability)

Basalite Technical Service

Technical Project

6/3/2005

Fly Ash Trials - Phoenix & ISG - Victorville

Requested By:	D Puskas	Date:	04/30/2002	Product Type:	Sack Mix
Opened By:		Plant #	1403	Request Type:	R&D
TR	*176*			Distribution:	

Objective:

Test Victorville Cement content @ 15%
Determine optimum Class C fly ash replacement rates
Vary coarse to fine aggregate ratios for optimum strengths
Compare ISG Port Neal to Phoenix

Resolution:

Aggregates: Lemon Cove
Cement: Victorville
Fly Ash: ISG Port Neal

1. Control - 15% Cement, 50% Sand, 50% Rock
2. 25% Fly Ash, 50% Sand, 50% Rock
3 25% Fly Ash, 45% Sand, 55% Rock
4 30% Fly Ash, 50% Sand, 50% Rock
5 30% Fly Ash, 50% Sand, 50% Rock

Aggregates: Lemon Cove
Cement: Victorville
Fly Ash: Phoenix

1. 25% Fly Ash, 50% Sand, 50% Rock
2. 25% Fly Ash, 45% Sand, 55% Rock
3. 30% Fly Ash, 50% Sand, 50% Rock
4. 30% Fly Ash, 50% Sand, 50% Rock

*Victorville cement, Lemon Cove aggregates % as noted. T.Harold

Basalite Technical Service

Technical Project

6/3/2005

Goshen - Fly Ash Replacement Trial

Requested By:	D Puskas	Date:	03/05/2002	Product Type:	Sack Mix
Opened By:		Plant #	1402	Request Type:	R&D
TR	*162*			Distribution:	

Objective:

Determine Replacement rate of Cement/Fly Ash.

Resolution:

1. Run Control with 15.8% Cement using Victorville Cement.
2. Reduce Cement to 13.8% to determine Strength Performance against 15.8% Standard.
3. Replace 15% of Cement loading with Fly Ash A & with Fly Ash B.

   Lab Batch: 8.06#/1.42#
4. Replace 20% of Cement loading with Fly Ash A & with Fly Ash B.

   Lab Batch: 7.58#/1.9#
5. Replace 25% of Cement loading with Fly Ash A & with Fly Ash B.

   Lab Batch: 7.11#/2.37#
6. Replace 30% of Cement loading with Fly Ash A & with Fly Ash B.

   Lab Batch: 6.64#/2.84#
7. Replace 35% of Cement loading with Fly Ash A & with Fly Ash B.

   Lab Batch: 6.16#/3.32#
8. Replace 40% of Cement loading with Fly Ash A & with Fly Ash B.

   Lab Batch: 5.7#/3.78#

* Six 3 x 6 cylinders will be run from each batch. 3 each for 7 & 28 day strength testing.
Set time, Slump, & Aggregate Gradation will be included for each Lab Batch.
** Victorville cement, pre-blend Lemon Cove aggregates (55%sand 45%rock) T.Harold

Basalite Technical Service

Technical Project

6/3/2005

Fly Ash Trials - Port Neal & Victorville Cement

Requested By:	D Puskas	Date:	04/24/2002	Product Type:	Sack Mix
Opened By:		Plant #	1403	Request Type:	R&D
TR	*175*			Distribution:	

Objective:

Test Victorville Cement content @ 15.8%
Determine optimum Class C fly ash replacement rates.
Vary coarse to fine aggregate ratios for optimum strengths

Resolution:

Aggregates: Lemon Cove
Cement: Victorville
Fly Ash: ISG Port Neal Class C

1. Control 15.8% - 45%CA
2. 25% Fly Ash - 45%CA
3. 25% Fly Ash - 50%CA
4. 25% Fly Ash - 55%CA
5. 25% Fly Ash - 60%CA
6. 25% Fly Ash - 45%CA 55% Crusher Fines

Internal Revenue Service
Large and Mid-Size Business

Department of the Treasury
4330 WATT AVE.
SACRAMENTO CA 95661

Date: April 30 2009

Number of this Letter 982 (DO)
Person to Contact:
HARRY I. POTTER

PACIFIC COAST BUILDING PRODUCTS, IN
ATTN: KEN IRWIN
10600 WHITE ROCK RD., STE. 100
P.O. BOX 19074
RANCHO CORDOVA CA 95741-9074

Contact Telephone Number
(916) 974-5549
☒ Form 1120S-Small Business Corporation
Years: March 31, 2006
☐ Form 1065-Partnership
Years:
☐ Form 5500 Series-Employee Benefit Plan
Years:
Employer Identification Number:
94-6103555
Plan Number:
File Folder Number:
1

Dear PACIFIC COAST BUILDING PRODUCTS, IN:

Our recent examination of your returns for the above years shows no change is necessary in the information reported. We have accepted the returns as filed. This is the final notice you will receive regarding the examination.

If you have any questions, please write to the person whose name is shown at the top of this letter or call that person at the telephone number shown. If the number is outside your local calling area, you will be charged a long-distance fee. If you prefer, you may call the IRS telephone number listed in your local directory. An employee there may be able to help you, but this office is most familiar with your case.

Whenever you write to us, please include your area code and telephone number, the best time for us to call you, and this letter. You may want to keep a copy of the letter for your records.

Sincerely yours,

HARRY I. POTTER
INTERNAL REVENUE AGENT

Form 4605-A

Department of the Treasury - Internal Revenue Service

Examination Changes – Partnerships, Fiduciaries, Small Business Corporations, and Domestic International Sales Corporations

Name and Address of Taxpayer	Employer Identification Number (TIN)	Form Number:
PACIFIC COAST BUILDING PRODUCTS, IN 10600 WHITE ROCK RD., STE. 100 P.O. BOX 419074 RANCHO CORDOVA, California 95741-9074	[redacted]	1120S
	Person Examination Changes Were Discussed With:	Name and Title: KEN IRWIN Representative

1. Adjustments to ordinary, distributable net, or taxable income	Tax Period: 03/31/2005	Tax Period: 03/31/2006	Tax Period:
a.			
b.			
c.			
d.			
e.			
f.			
g.			
2. Total adjustment to ordinary, distributable net, or taxable income			
3. Ordinary, distributable net, or taxable income as reported	65,146,101.00	127,049,103.00	
4. Corrected, ordinary, distributable net, or taxable income	65,146,101.00	127,049,103.00	
5. Other adjustments			
a. Net income (loss) from rental real estate activities			
(1) Adjustment	0.00	0.00	
(2) As reported	283,634.00	233,289.00	
(3) Corrected	283,634.00	233,289.00	
b. Portfolio income (loss) Interest			
(1) Adjustment	0.00	0.00	
(2) As reported	2,067,302.00	2,918,185.00	
(3) Corrected	2,067,302.00	2,918,185.00	

Remarks

THIS REPORT INDICATES THAT THE EXAMINATION RESULTED IN NO CHANGE TO THE TAX YEARS IN QUESTION.

Examiner's Signature:	Employee ID:	Office:	Date:
HARRY L POTTER	68-10251	SACRAMENTO	04/30/2009

Taxpayer: PACIFIC COAST BUILDING PRODUCTS, IN
TIN: 94-6103555 Page of

Form 4605-A – Other Adjustments (Continued)

	Tax Period: 03/31/2005	Tax Period: 03/31/2006	Tax Period:
c. Portfolio income (loss) - qualified dividends			
(1) Adjustment	0.00	0.00	
(2) As reported	1,750.00	53,608.00	
(3) Corrected	1,750.00	53,608.00	
d. Portfolio income (loss) dividends			
(1) Adjustment	0.00	0.00	
(2) As reported	179,728.00	683,494.00	
(3) Corrected	179,728.00	683,494.00	
e. Portfolio income (loss) net short-term gain (loss)			
(1) Adjustment	0.00	0.00	
(2) As reported	58,252.00	243,447.00	
(3) Corrected	58,252.00	243,447.00	
f. Portfolio income net long-term gain (loss) total			
(1) Adjustment	0.00	0.00	
(2) As reported	(890,702.00)	6,025,022.00	
(3) Corrected	(890,702.00)	6,025,022.00	
g. Net gain (loss) under section 1231 not casualty/theft			
(1) Adjustment	0.00	0.00	
(2) As reported	(293,036.00)	(135,495.00)	
(3) Corrected	(293,036.00)	(135,495.00)	
h. Other income (loss)			
(1) Adjustment	0.00	0.00	
(2) As reported	9,435.00	(22,665.00)	
(3) Corrected	9,435.00	(22,665.00)	
i. Charitable contributions 30 percent			
(1) Adjustment	0.00		
(2) As reported	22,274,122.00		
(3) Corrected	22,274,122.00		
j. Charitable contributions 50 percent			
(1) Adjustment	0.00		
(2) As reported	869,122.00		
(3) Corrected	869,122.00		
k. Section 179 expense deduction			
(1) Adjustment	0.00	0.00	
(2) As reported	47,397.00	48,673.00	
(3) Corrected	47,397.00	48,673.00	
l. Deductions related to portfolio income			
(1) Adjustment	0.00		
(2) As reported	184.00		
(3) Corrected	184.00		
m. Other deductions			
(1) Adjustment		0.00	
(2) As reported		11,406.00	
(3) Corrected		11,406.00	
n. Investment income included in portfolio income			
(1) Adjustment	0.00	0.00	
(2) As reported	2,247,020.00	3,601,679.00	
(3) Corrected	2,247,020.00	3,601,679.00	

Taxpayer: PACIFIC COAST BUILDING PRODUCTS, IN
TIN: 94-6103555

Form 4605-A – Other Adjustments (Continued)

	Tax Period: 03/31/2005	Tax Period: 03/31/2006	Tax Period:
o. Investment expenses in deduct. related to portfolio income			
(1) Adjustment	0.00	0.00	
(2) As reported	184.00	11,406.00	
(3) Corrected	184.00	11,406.00	
p. Other credits (not related to rental activities)			
(1) Adjustment	0.00	0.00	
(2) As reported	1,082,017.00	1,098,849.00	
(3) Corrected	1,082,017.00	1,098,849.00	
q. Adj. tax pref. items depreciation in serv. after 1986			
(1) Adjustment	0.00	0.00	
(2) As reported	(2,858,522.00)	34,772,320.00	
(3) Corrected	(2,858,522.00)	34,772,320.00	
r. Adj. tax pref. items adjusted gain or loss			
(1) Adjustment	0.00	0.00	
(2) As reported	(64,270.00)	(205,297.00)	
(3) Corrected	(64,270.00)	(205,297.00)	
s. Adj. tax pref. items depletion other than oil & gas			
(1) Adjustment	0.00	0.00	
(2) As reported	1,950,970.00	(4,864.00)	
(3) Corrected	1,950,970.00	(4,864.00)	
t. Adj. tax pref. items other adjustments & tax pref. items			
(1) Adjustment	0.00	0.00	
(2) As reported	7,889,469.00	9,565,415.00	
(3) Corrected	7,889,469.00	9,565,415.00	
u. Foreign taxes - gross income from all sources			
(1) Adjustment		0.00	
(2) As reported		14,034,164.00	
(3) Corrected		14,034,164.00	
v. Gross income sourced at shareholder level			
(1) Adjustment		0.00	
(2) As reported		14,023,954.00	
(3) Corrected		14,023,954.00	
w. Foreign gross income sourced at corporate - passive			
(1) Adjustment		0.00	
(2) As reported		4,017.00	
(3) Corrected		4,017.00	
x. Deductions allocated/apportioned at shareholder level - other			
(1) Adjustment		0.00	
(2) As reported		48,074.00	
(3) Corrected		48,074.00	
y. Deductions allocated/apportioned at corp. level - passive			
(1) Adjustment		0.00	
(2) As reported		7,190.00	
(3) Corrected		7,190.00	
z. Foreign taxes total foreign taxes accrued			
(1) Adjustment		0.00	
(2) As reported		134,161.00	
(3) Corrected		134,161.00	

Taxpayer: PACIFIC COAST BUILDING PRODUCTS, IN
TIN: 94-6103555 Page of

Form 4605-A – Other Adjustments (Continued)

	Tax Period: 03/31/2005	Tax Period: 03/31/2006	Tax Period:
aa. Tax-exempt interest income			
(1) Adjustment	0.00	0.00	
(2) As reported	1,093,829.00	1,937,470.00	
(3) Corrected	1,093,829.00	1,937,470.00	
ab. Nondeductible expenses			
(1) Adjustment	0.00	0.00	
(2) As reported	1,207,392.00	1,262,749.00	
(3) Corrected	1,207,392.00	1,262,749.00	
ac. Property distributions other than dividends			
(1) Adjustment	0.00	0.00	
(2) As reported	47,322,876.00	33,738,267.00	
(3) Corrected	47,322,876.00	33,738,267.00	
(1) Adjustment			
(2) As reported			
(3) Corrected			
(1) Adjustment			
(2) As reported			
(3) Corrected			
(1) Adjustment			
(2) As reported			
(3) Corrected			
(1) Adjustment			
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(3) Corrected			
(1) Adjustment			
(2) As reported			
(3) Corrected			
(1) Adjustment			
(2) As reported			
(3) Corrected			
(1) Adjustment			
(2) As reported			
(3) Corrected			

Form 4564 (Rev. Jan.1984)	Department of the Treasury Internal Revenue Service INFORMATION DOCUMENT REQUEST	Request Number: 5
To: (Name Of Taxpayer and Company, Division, or Branch) Pacific Coast Building Products		Subject: Research credit
		Submitted To: Ken Irwin
		SAIN No.604-06
		Date of Previous Requests:

Please return with listed documents to requester listed below.

Description of Documents Requested

1. Workpapers showing computation of the research credit on the 200503 and 200603 returns:
2. Was any outside party involved in the calculation of the amounts of the qualifying expenses and of the credit?
3. Was a study of the credit prepared by an outside party? If so, provide a copy.

RESPONSE DATE: 12/21/2007

FROM:	Requesters Name, Address & Telephone Number: Harry Potter, Revenue Agent Internal Revenue Service 4330 Watt Ave. Sacramento, CA 95821 (916) 974-5549	Date Of Request: 11/21/2007

EX 17

17

Form 4564 (Rev. Jan.1984)	Department of the Treasury Internal Revenue Service INFORMATION DOCUMENT REQUEST	Request Number: 17
To: (Name Of Taxpayer and Company, Division, or Branch) Pacific Coast Building Products		Subject: 200503 & 200603 R&E Credit Submitted To: Ken Irwin SAIN No. 802-04 Date of Previous Requests:
Please return with listed documents to requester listed below.		

Description of Documents Requested

This Information Document Request concerns Pacific Coast Building Products, Inc.'s and Subsidiaries (PCBP) Tax Credit under IRC §41 for the tax years ending March 31, 2005 and March 31, 2006.

In response to a prior related request, PCPB provided a copy of certain cost accumulations for the tax years ending March 31, 2005 and March 31, 2006 and an **Executive Summary**. The costs accumulations were divided into "QRE Summary", "Wages QRE", "Supplies QRE" and "Contract Research QRE". **The Executive Summary reported on the results and certain aspects of a Research and Development Tax Credit Study prepared by PricewaterhouseCoopers for PCPB's tax years ending March 31, 1999 through March 31, 2005.** This **Executive Summary** notes that the details of the study was provided in three sets of binders, namely, **Cost Accumulation Binders, Documentation Binders** and a **Base Period Binder**. The **Executive Summary** also references certain "Site Summary Memoranda".

Please provide the following information:

- The **Executive Summary** which assumedly accompanied a Research and Development Tax Credit Study prepared for the tax year ending March 31, 2006.
- **All portions of the Cost Accumulations Binders** that were not included in the sections "QRE Summary", "Wages QRE", "Supplies QRE" and "Contract Research QRE" for the tax years ending March 31, 2005 and March 31, 2006.
- **All portions of the Documentation Binders** for the tax years ending March 31, 2005 and March 31, 2006. It is our understanding that this will include the "Site Summary Memoranda" referenced in the **Executive Summary** previously provided.

RESPONSE DATE: 10/16/2008

FROM:	**Requesters Name, Address & Telephone Number:** Harry Potter, Revenue Agent Internal Revenue Service 4330 Watt Ave. Sacramento, CA 95821 (916) 974-5549	Date Of Request: 9/16/2008

Form 4564 (Rev. Jan.1984)	Department of the Treasury Internal Revenue Service INFORMATION DOCUMENT REQUEST	Request Number: 17
To: (Name Of Taxpayer and Company, Division, or Branch) Pacific Coast Building Products		Subject: 200503 & 200603 R&E Credit Submitted To: Ken Irwin SAIN No. 802-04 Date of Previous Requests:
Please return with listed documents to requester listed below.		

Description of Documents Requested

- **All portions of the Base Period Binder(s) applicable to the tax years ending March 31, 2005 and March 31, 2006.**

RESPONSE DATE: 10/16/2008

FROM:	**Requesters Name, Address & Telephone Number:** Harry Potter, Revenue Agent Internal Revenue Service 4330 Watt Ave. Sacramento, CA 95821 (916) 974-5549	Date Of Request: 9/16/2008

Audit Techniques Guide:
Credit For Increasing Research Activities
(Research Credit)
I.R.C. § 41
Internal Revenue Service
Large And Mid-Size Business Division (LMSB)
Pre-Filing And Technical Guidance (LM:PFTG)

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In planning the audit strategy, remember that the Research Credit Technical Advisor Team is available to help examiners effectively allocate limited audit resources to those issues that pose the greatest compliance risk.

Once the audit strategy has been addressed, a meeting should be held with the taxpayer to gain a general understanding of how the taxpayer reached its return (or claim) position. All members of the audit team involved with the research credit issue should attend this meeting. Consider sending a letter or issuing an Information Document Request (IDR) prior to the meeting, addressing potential subjects for discussion and documents to be produced. Consider requesting that a taxpayer contact be designated for the research credit issue. Some potential issues for discussion and documents to be produced at the meeting are as follows:

- Who prepared the research credit computation workpapers?
- What methodology was employed for capturing QREs reflected in the research credit computation workpapers (i.e., estimates, interviews, sampling, surveys, reviews of contemporaneous documents, etc.)?
- What documentation and other substantiation are available to support the taxpayer's claim for the research credit (including the base years)?
- Was this documentation prepared contemporaneously with the research activities?
- What legal standard(s), if any, did the taxpayer employ to determine credit-eligibility?

At the meeting, find out whether the taxpayer sent surveys/questionnaires to employees. If so, request copies of these surveys/questionnaires and responses and have the taxpayer show how these were used in the research credit computation. Also request any instructions that accompanied the surveys/questionnaires.

Advise the taxpayer that interviews of current (and former) employees and contractors may be conducted as part of the audit. A tour of the research facilities should also be considered.

7. SUBSTANTIATION AND RECORDKEEPING

At the commencement of the audit, the examiner should discuss with the taxpayer the contemporaneous books and records available to substantiate the research credit claimed. Contemporaneous books and records should form the basis of the examination, and should be requested, as needed, in examining the particular issues addressed in this audit techniques guide.

For example, the following types of documentation may be helpful:

a. Chart of Accounts

b. Accounting and Finance Manuals

c. Organization Charts

d. Department Descriptions

e. Job Position Descriptions

f. Product Lists

g. Documentation of Experiments

h. Patent Applications[14]

i. Workpapers Used to Compute QREs

j. Workpapers Used to Compute the Research Credit

k. Workpapers Used to Compute the Base Amount

l. Documentation on QREs/Gross Receipts from acquired/ disposed trades or businesses

The following information may assist the examiner in understanding the appropriation of company resources or details of research projects the taxpayer conducted during the examination year:

[14] The examiner should note that the securing of a patent would usually occur prior to the examination year, as research must first be performed before securing a patent.

a. Materials explaining research activities, including brochures, pamphlets, press releases, and other similar documents.

b. Submissions to management, the board of directors, review committees or other similar groups regarding research projects, activities, expenditures, and the research credit.

c. Documents prepared by or on behalf of internal audit, including quarterly and annual reports that refer in any manner to research activities.

d. Minutes, notes, or other similar recordings from budget, board of directors, managerial or other similar meetings concerning research activities.

e. Project authorizations, budgets, or work orders that initiates a research project.

f. The internal authorization policies for approving a research project.

g. Project summaries and/or progress reports and project meeting minutes.

h. Field and lab verification data/summary data.

i. Research credit studies conducted by outside consultants.

j. Papers, treatises, or other published documents regarding the taxpayer's research.

k. Complete copies of contracts (including all modifications), letter agreements, memoranda of understanding, or similar documents for research performed by or on behalf of a third party.

The taxpayer bears the burden of proving its qualification for the research credit. Welch v. Helvering, 290 U.S. 111 (1939); Helvering v. Taylor, 293 U.S. 507 (1935); I.R.C. § 6001. To meet its burden, the taxpayer must prove it engaged in qualified research and substantiate the expenses incurred in the qualified research.

The Research Credit Technical Advisor Team has posted sample questions to the LMSB intranet website that can be used to facilitate production of the relevant information. Credible oral testimony may be helpful in evaluating and/or supplementing a taxpayer's contemporaneous documentation. To that end, it may be necessary to conduct interviews of taxpayer employees. A Research Credit Technical Advisor can provide guidance on the effective conduct of interviews.

Proposed Treasury Regulation section 1.41-4(d) provides that the rules generally applicable under section 6001 provide sufficient detail about required documentary substantiation for purposes of the research credit. Treasury Regulation section 1.6001-1 requires the keeping of records "sufficient to establish the amount of . . . credits, . . . required to be shown . . ." The consequence of failing to keep sufficient records substantiating a claimed credit may be denial of the credit. To facilitate compliance and administration, the Service and taxpayers may agree to guidelines for the keeping of specific records for purposes of substantiating the research credit.

As mentioned previously, the Research Credit Technical Advisor Team recommends considering, where appropriate, the use of expedited resolution procedures including Advanced Issue Resolution (AIR) and Pre-Filing Agreements (PFA). As a practical matter, many substantiation issues could be eliminated if taxpayers and the Service entered into specific research credit record retention agreements. The best time to propose such an agreement would likely be upon completion of the current examination cycle. At that time the examiner, CAS, and the taxpayer are in the best position to determine what taxpayer records are necessary. If the parties enter into such an agreement, the taxpayer will know what records need to be kept and maintained in order for the Service to effectively and efficiently audit the credit. Although such an agreement will not resolve other audit issues, such as whether the activities qualify under section 41(d), it should improve and expedite the audit process to the mutual benefit of the parties.

The examiner should also consider issuing a Notice of Inadequate Records, pursuant to Treasury Regulation section 1.6001-1(d), if the taxpayer does not keep sufficient or adequate records to support the research credit claimed.

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