Statement of Thom Walsh

My name is Thom Walsh. I am a Canadian Chartered Accountant. From September 1999 to December 2002, I was employed in the global tax department of Levi Strauss & Co. (LS&Co.). First as a manager, then as a senior manager, and from February 2001 to my termination in December 2003, as a Director of International Tax. As one of 5 Directors, I reported to Vice Presidents Laura Liang and Vince Fong. My responsibilities as Tax Director included calculating LS&Co's worldwide tax provision for 2001 and 2002. That process required the calculation of historical data including the history of tax accounting reserves established and released, the availability and prior use of foreign tax credits, and the application of valuation allowances against credits.

My efforts began in an unusual context as LS&Co. had at the time, 16 open tax years, meaning the company's consolidated tax returns had not been completely audited by the IRS for 16 years. With respect to reserves I discovered that from 1995 forward large amounts of tax reserves had been systematically released into earnings. From 1995 to 2001, LS&Co. released approximately 200 million of tax reserve into earnings. Because I was aware that the timed release of reserves violates GAAP and FASB rules, I looked for documentation that would tie the reserve release to the termination of a specific tax liability. I found no such documentation. I was equally unable to find any lawful justification for the release of the tax reserves. I concluded that LS&Co. was engaged in the systematic timed release of tax reserves to lower its effective tax rate. That is, it was releasing "cookie jar" reserves to lower its effective tax rate and boost income. Any doubts I had were removed when I was told by Vice Presidents Fong and Liang that the company sets its target tax rate and that it attains those rates through the release of tax reserves.

In addition to releasing unsubstantiated reserves, LS&Co. failed to set meaningful tax reserves against potential exposure for a number of extremely aggressive tax schemes. Setting reserves has the effect of reducing income and increasing the effective tax rate. Approximately 3 million dollars was set as a reserve against exposure that I and others in the Global tax department including Mr. Schmidt, calculated to be at least 100 million dollars.

A similar scenario existed with respect to foreign tax credits. From 1995 to 2002 LS&Co. claimed the benefit of foreign tax credits and "tax on unremitted foreign earnings" on its balance sheet in the aggregate amount of approximately $200 million. Unless LS&Co. can show that it is more likely than not that it will be able to use these deferred assets it must set a valuation allowance against them. LS&Co's own internal models demonstrated that it would not be able to utilize these tax credits before they expired. Even so, LS&Co. failed to book any valuation allowance. Therefore, overstating assets by up to $200 mil.

These issues troubled me deeply as I believed LS&Co's conduct to be unlawful. I raised my

concerns with Laura Liang, CFO Bill Chiasson, and HR Manager Nancy Handa among others. I also raised my concern that VP Fong had instructed the tax leadership team to show the new auditor KPMG "only what we want them to see". The response by the company was to issue me with a written warning threatening me with termination. A threat ultimately carried out approximately one week prior to the arrival of KPMG to perform its first year end F/S audit. With respect to KPMG it is also noteworthy that the original partners assigned to LS&Co. were removed at the request of VP Fong and replaced with two other partners.

Addendum

Levi Strauss Income Manipulation

Reserves

Between the years 1995 and 2001 Levi Strauss released into income $200 million or reserves and previously unrecognized loss carry forward. The result of the releases was to lower to its effective tax rate while increasing net income by over $200 million for the period. In a recent article published by the Wall Street Journal Levi Strauss was reported to have admitted that these reserves were not supported by sufficient contemporaneous documentation that related the reserves to specified tax exposures. Although Levi Strauss did not register its debt under the Securities Act of 1933 until February 2001 the S-4 and 10K filings include financial statements which report the financial results for the period back to the financial year ending November 24, 1996.

For the years commencing 2000 I was involved in meetings with the senior management (referred to as the "Tax Leadership Team") of the tax department where the discussion centered around determining the amount of reserves that were required to be released in order to achieve the desired effective tax rate. The amounts in these later years were not as large as during the period from 1995 through 1999 due to the fact that the net income before was smaller and therefore less reserves were required to be released to achieve the lower effective tax rate.

Levi Strauss' open audit years goes back to 1986. I became responsible for the worldwide effective tax provision in 2001 which includes tracking the reserves. I was uncomfortable with the way the tax reserves were determined and had attempted to set up and new analysis whereby we would identify the specific tax exposures in the open audit years and determine the amount of reserve which would be required to cover these potential exposures. Ms. Laura Liang VP Tax at Levi Strauss assigned Mr. Vince Fong (former VP of Tax at Levi Strauss) the responsibility of determining the tax exposures and their potential related costs. Mr. Fong had determined that amount to be approximately $3 million. I did not feel that this was a reasonable estimate in light of the fact that Levi Strauss had received a Revenue Agents Report ("IRS") for the 1990 through 1994 audit period which showed a tax liability of approximately $90 million and an additional $90 million of interest owing. Had Levi Strauss drawn down its tax reserves for the $180 million related the IRS RAR it would have left the company with tax reserves of approximately $25 million for the remaining tax exposures in the open audit years back to 1986 as well as various State tax exposures.

Valuation Allowances

In its 10K filed with the SEC for the year ended November 24, 2002 Levi Strauss reported a deferred tax asset related to its foreign tax credit carryforwards of approximately $200 million. Of this amount approximately $129 million relates to tax on unremitted foreign earnings in excess of 35%, this represents taxes paid to foreign jurisdiction in excess of 35% on foreign earnings which have not be repatriated to the US by way of dividends. The remaining $71 million relates to taxes paid to foreign jurisdiction which have been repatriated to the US but were unable to be used to offset US taxes.

I was responsible for the tracking of the foreign tax credits ("FTC"), for which I prepared a model which showed the utilization of these FTCs'. The results produced by various version of the FTC model showed that a large percentage of these FTC on repatriated earnings would expire unutilized. Therefore, it was more likely than not that the deferred tax asset related to these FTCs' reported would not be realized which is the criteria to determine whether a valuation allowance would be required to reduce the value of this asset, as defined in Financial Accounting Statement No. 109 (FAS 109). The result of this action was to overstate the net income and assets.

With respect to the $129 million of foreign taxes on unremitted earnings the triggering of the carry over period had not occurred. However, Levi's used a company in Belgium ("Finserv") as its cash management center whereby Levi Strauss' foreign subsidiaries would lend excess cash to Finserve and Finserve would then lend these funds back to Levi Strauss in the US, thereby effectively repatriating the foreign profits without triggering the FTCs'. The Internal Revenue Code contains provisions which provide that any amount of loans from foreign controlled corporations to its US parent, either directly or indirectly, would be deemed to be a dividend to the extent of the foreign subsidiaries' earnings and profits and trigger the foreign taxes paid. If the IRS was to successfully argue that the Finserve loans were made indirectly from Levi Strauss' other foreign subsidiaries or that Finserve was a conduit financing entity, that $129 million of foreign tax paid would be triggered commencing the 5 year carryforward period. The triggering of these foreign tax paid on unremitted earnings would result in those FTC expiring unutilized, therefore requiring a valuation allowance of $129 million to reduce the carrying value of this asset.

New Auditors KPMG

Levi Strauss was audited by Arthur Andersen prior to its collapse, in May of 2002 Levi Strauss appointed KPMG as their new auditors for the 2002 year. In the course of an internal Levi Strauss tax department auditor transition meeting Mr. Fong had stated that "we are only going to tell the auditors what we want them to know." I interpreted this statement to mean Levi Strauss intended on withholding information from its financial statement auditors, and vigorously refused to be involved in an "Enron-like" situation. KPMG had assigned a number of tax partners to be responsible for the audit of the tax provision. Two of these tax partners questioned the appropriateness of the tax reserves with respect to the large number of open IRS audit years and the valuation allowances related to the deferred tax assets related to the FTCs'. The management

of the tax department requested that these two partners be removed from the account and replaced with other partners. KPMG complied with the request and these partners were replaced. Mr. Schmidt and myself were terminated on December 10, 2002 one week before KPMG was to commence its audit fieldwork thereby denying the auditors access to us.