

Exporter Questionnaire Summary Advantage Controls

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We have made a good faith attempt to provide the proper answers to all of the questions posed. We have presented the information in a slightly different format in some cases, but trust that what we provided will serve the intended purpose of the questions.

This has been a difficult undertaking, but after going through the process, I think I have a better understanding of why these questions are being asked. The purpose of this summary is to get at some of the very specific areas that justify and clarify our position without having to wade through mountains of data.

Please understand that Advantage Controls does not dictate the sale price offered by our distributor. Any of the cost comparisons made between given Australian users (purchasers), is completely out of our control. Waterdos can provide you with purchaser price comparisons.

As is shown in the Exhibits, the net price charged for the two controller models in question is lower than the price like models are sold. There are two main factors in this pricing difference. First and foremost is the difference in distribution channels. US sales are made direct from the Manufacturer, (Advantage Controls). Australian sales are made through Waterdos, (the Distributor). Under this distribution structure, the distributor carries a substantial financial burden that we the manufacturer would have to bare if we sold our products directly in Australia.

We have never sought to make a final determination of what those costs are, We were not able to put an exact number on those costs as a part of this exercise either. What we are offering is complete access to our financial data, and 3 different ways to make the pricing difference readily understandable.

Any of the three will demonstrate that our Australian pricing is completely in line with the overall company performance.

Warranties and after sale service account for much of the preferential pricing to non-US Distributors, Waterdos in particular. This number is extremely difficult to pinpoint using general ledger line items. We are offering three different methods through which the price differences can be quantified.

Method 1 Gross margin. As can be determined from our financial statements, our overall gross margin is around 50%. The gross margin represents all costs associated with making the product.

Using the two models in question here is the Gross Margin Calculation. See Exhibit 7, Bill of Material.

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Model	XSCF3E8-A7Y	XSCPRF4E8-A7Y
Waterdos cost	\$xxx.xx USD	\$xxx.xx USD
less		
BOM cost	\$xxx.xx USD	\$xxx.xx USD
Weighted labor cost	\$xx.xxUSD	\$xx.xx USD
Gross Margin	45.3%	53.3%

Method 2 Comparable sales costs. Provided as part of Exhibit 8 is a document called costs of sales offices. These are the actual field costs that we pay domestically as part of the cost of sales of our products. From a size perspective, our sales territory designated 20, closely resembles the sales volume represented in Australia. I think it is fair to say that the amount spent to achieve that level of sales is like the amount we would spend as a company in Australia. Instead, these costs are now being absorbed by Waterdos.

This does not represent the other costs we would incur should we chose to sell our products directly in Australia and not through a distributor, such as, inventory, shipping, bad debt advertising, printing, etc.

Method 3 Actual Australian sales cost. We do not have access to this information but it is available from Waterdos. That would be their actual costs for sales, service, warranty, warehousing, bad debt, inventory cost and all the other items Advantage Controls would be paying for were we to establish our own sales office in Australia.

Any of these three methods should lead to the conclusion that we are not violating any laws.

As a side note, our price to Waterdos for these units has not increased in the past few years, even though Advantage Controls has increased prices during that period. Our reasoning is that the strong US dollar has caused Waterdos' cost to increase, and we have not raised their price to provide some relief from the unfavorable currency exchange rate.

We hope the information we have provided leads to the logical conclusion that we are not "Dumping" our product on the Australian market.