PLANT OPERATIONS REPORT

PLANT CAPACITY (000s of pairs w/o OT)	North America Plant	Europe-Africa Plant	Asia-Pacific Plant	Latin America Plant	All Plants Combined
Plant Capacity at the End of Year 17	2,100 pairs	2,500 pairs	4,000 pairs	1,000 pairs	9,600 pairs
New Construction (initiated in Year 17)	0	0	0	0	0
Capacity Purchased (at beginning of Y18)	0	0	0	0	0
Capacity Sold-Off (at beginning of Y18)	1,100	1,500	1,000	0	3,600
Capacity Available for Y18 Production	1,000	1,000	3,000	1,000	6,000
New Construction Iniatiated in Year 18	0	0	0	0	0
Total Capacity Available for Year 19	1,000 pairs	1,000 pairs	3,000 pairs	1,000 pairs	6,000 pairs
Plant Upgrade Options — Online (initiated prior to Y18)	A, D	none	none	none	
Pending (initiated in Y18)	none	C	none	B	

PLANT INVESTMENT ($000s)	North America Plant	Europe-Africa Plant	Asia-Pacific Plant	Latin America Plant	All Plants Combined
Gross Investment at the End of Year 17	91,848	109,700	180,667	37,200	419,415
+ Upgrade Options (initiated in Year 17)	0	0	0	0	0
+ New Construction (initiated in Year 17)	0	0	0	0	0
+ Capacity Purchased (at beginning of Y18)	0	0	0	0	0
– Capacity Sold-Off (at beginning of Y18)	48,198	65,920	45,292	0	159,410
+ Energy Efficiency Initiatives (in Y18)	167	167	500	167	1,001
Gross Investment in Year 18 Capacity	43,817	43,947	135,875	37,367	261,006
– Accumulated Depreciation (through Y17)	27,120	9,771	71,023	7,440	115,354
– Current Depreciation (incurred in Y18)	2,191	2,197	6,794	1,868	13,050
Net Investment in Year 18 Capacity	14,506	31,979	58,058	28,059	132,602
Upgrade and Construction Work in Progress	0	7,000	0	8,000	15,000

LABOR STATISTICS	North America		Europe-Africa		Asia-Pacific		Latin America	
	Year 17	Year 18	Year 17	Year 18	Year 17	Year 18	Year 17	Year 18
Worker Productivity (pairs / worker / year)	4,994	5,009	4,027	4,004	2,438	2,403	2,452	2,501
Number of Workers Employed	361	200	621	250	1,601	1,249	368	360
Compensation — Annual Base Wage ($000s per worker)	16.2	16.6	15.8	15.9	3.0	3.0	2.9	3.0
Incentive Pay	3.7	3.7	2.3	2.3	0.9	1.1	1.3	1.3
Total Compensation	19.9	20.2	18.0	18.2	3.9	4.1	4.2	4.3
Incentive Pay ($ per non-rejected pair)	0.75	0.75	0.50	0.50	0.40	0.40	0.55	0.55
Cumulative Best Practices — $ Per Worker	678		501		568		501	
$ Per Branded Pair	0.15		0.12		0.23		0.20	

PRODUCTION STATISTICS	North America		Europe-Africa		Asia-Pacific		Latin America		Overall	
	Branded	P-Label	Branded	P-Label	Branded	P-Label	Branded	P-Label	Branded	P-Label
Pairs Produced — Regular (000s)	1,000	0	1,000	0	3,000	0	900	0	5,900	0
Overtime (000s)	0	0	0	200	0	600	0	0	0	800
Pairs Rejected (000s)	24	0	55	11	198	37	63	0	340	48
Net Production (000s of pairs after rejects)	976	0	945	189	2,802	563	837	0	5,560	752
Reject Rate (% of regular + OT production)	2.4%	0.0%	5.5%	5.5%	6.6%	6.1%	6.9%	0.0%	5.8%	6.0%
Number of Models Produced	100	0	100	100	150		200	0		
S/Q Rating of Pairs Produced	5 stars	0 stars	5 stars	5 stars	4 stars	5 stars	4 stars	0 stars		
Capacity Utilization (max at full OT = 120%)	100.0%		120.0%		120.0%		90.0%		111.7%	

BRANDED PRODUCTION COSTS	North America		Europe-Africa		Asia-Pacific		Latin America		Overall	
	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair
Materials — Standard (sum of these = total materials cost)	3,046	3.12	2,866	3.03	9,316	3.32	2,688	3.21	17,916	3.22
Superior	7,791	7.98	8,202	8.68	22,962	8.19	7,135	8.52	46,090	8.29
Labor — Regular (wages + incentive comp.)	4,045	4.14	4,454	4.71	4,900	1.75	1,541	1.84	14,940	2.69
Overtime Compensation	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Best Practices Training	100	0.10	104	0.11	624	0.22	180	0.22	1,008	0.18
Plant Supervision	1,200	1.23	1,250	1.32	2,081	0.74	720	0.86	5,251	0.94
Enhanced Styling / Features	2,200	2.25	2,000	2.12	2,400	0.86	3,600	4.30	10,200	1.83
TQM / 6-Sigma Quality Program	900	0.92	417	0.44	1,250	0.45	500	0.60	3,067	0.55
Production Run Set-Up	2,500	2.56	2,500	2.65	4,000	1.43	6,000	7.17	15,000	2.70
Plant Maintenance	3,615	3.70	1,922	2.03	7,357	2.63	1,868	2.23	14,762	2.66
Depreciation	2,191	2.24	1,830	1.94	5,659	2.02	1,868	2.23	11,548	2.08
Total Production Costs	27,588	28.27	25,545	27.03	60,549	21.61	26,100	31.18	139,782	25.14
Costs Incurred Due to Rejected Pairs	662	0.68	1,405	1.48	3,996	1.43	1,827	2.18	7,890	1.42

DISTRIBUTION AND WAREHOUSE REPORT

WAREHOUSE OPERATIONS (thousands of branded pairs)		North America Warehouse	Europe-Africa Warehouse	Asia-Pacific Warehouse	Latin America Warehouse	Company Total
Ending Inventory from Year 17		1,159 pairs	983 pairs	243 pairs	268 pairs	2,653 pairs
Inventory Clearance (at the beginning of Y18)		290	246	0	67	603
Beginning Inventory (carried over for Y18 sale)		869	737	243	201	2,050
Incoming Shipments from	**North America Plant**	976	0	0	0	976
	Europe-Africa Plant	0	945	0	0	945
	Asia-Pacific Plant	1,523	0	0	1,279	2,802
	Latin America Plant	460	0	0	377	837
Pairs Available for Sale (inventory + shipments)		3,828	1,682	243	1,857	7,610
Pairs Sold	**Internet Segment**	216	243	214	166	839
	Wholesale Segment	1,330	1,353	22	1,266	3,971
	Total Branded Sales	1,546	1,596	236	1,432	4,810
Required Inventory (to achieve delivery times)		48	45	7	63	163
Inventory Surplus (Shortfall)		2,234	41	-1,961	362	676
Ending Inventory for Year 18		2,282 pairs	86 pairs	7 pairs	425 pairs	2,800 pairs
Model Availability (weighted average)		137	100	150	161	Weighted average of beginning inventory + new incoming pairs shipped from plants.
S/Q Rating (weighted average)		4 stars	5 stars	3 stars	4 stars	

COST OF BRANDED PAIRS SOLD	North America		Europe-Africa		Asia-Pacific		Latin America		Overall	
	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair
Cost of Beginning Year 18 Inventory	24,804	28.54	18,114	24.58	5,533	22.77	6,190	30.80	54,641	26.65
+ Production Cost of Incoming Pairs	74,843	25.29	25,545	27.03	0	0.00	39,394	23.79	139,782	25.14
± Exchange Rate Cost Adjustment	–926	–0.31	0	0.00	0	0.00	+445	+0.27	–481	–0.09
+ Freight on Incoming Pairs	4,942	1.67	945	1.00	0	0.00	2,935	1.77	8,822	1.59
+ Import Tariffs on Incoming Pairs	0	0.00	0	0.00	0	0.00	7,674	4.63	7,674	1.38
– Cost or Ending Year 18 Inventory	61,797	27.08	2,281	26.52	159	22.71	12,962	30.50	77,199	27.57
Cost of Branded Pairs Sold in Year 18	41,866	27.08	42,323	26.52	5,374	22.77	43,676	30.50	133,239	27.70

WAREHOUSE OPERATING EXPENSES		North America		Europe-Africa		Asia-Pacific		Latin America		Overall	
		$000s	$ / pair	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair
Inventory Storage		1,137	0.74	960	0.60	210	0.89	248	0.17	2,555	0.53
Packing / Shipping	**Internet**	2,203	1.42	2,479	1.55	2,183	9.25	1,693	1.18	8,558	1.78
	Wholesale	2,761	1.79	2,801	1.76	48	0.20	2,652	1.85	8,262	1.72
Warehouse Lease and Maintenance		1,000	0.65	1,000	0.63	1,000	4.24	1,000	0.70	4,000	0.83
Total Warehouse Operating Expenses		7,101	4.59	7,240	4.54	3,441	14.58	5,593	3.91	23,375	4.86

INVENTORY CLEARANCE		North America		Europe-Africa		Asia-Pacific		Latin America		Overall	
		$000s	$ / pair	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair
Net Revenues from Pairs Cleared		7,966	27.47	6,321	25.70	0	0.00	2,035	30.37	16,322	27.07
Direct Costs of Pairs Cleared	**Prod, Freight, & Tariffs**	8,278	28.54	6,046	24.58	0	0.00	2,064	30.81	16,388	27.18
	Inventory Storage	284	0.98	241	0.98	0	0.00	62	0.93	587	0.97
	Packing / Shipping	580	2.00	492	2.00	0	0.00	134	2.00	1,206	2.00
Margin Over Direct Costs		-1,176	-4.06	-458	-1.86	0	0.00	-225	-3.36	-1,859	-3.08

MARKETING AND ADMINISTRATIVE REPORT

MARKETING EXPENSES	North America		Europe-Africa		Asia-Pacific		Latin America		Overall	
	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair
Internet — **Advertising**[1]	1,746	8.08	2,056	8.46	7,617	35.59	522	3.14	11,941	14.23
Web Site Maintenance	710	3.29	799	3.29	704	3.29	546	3.29	2,759	3.29
Celebrity Endorsements[2]	202	0.94	227	0.93	200	0.93	155	0.93	784	0.93
Total Internet	2,658	12.31	3,082	12.68	8,521	39.82	1,223	7.37	15,484	18.46
Wholesale — **Advertising**[1]	10,754	8.09	11,444	8.46	783	35.59	3,978	3.14	26,959	6.79
Rebate Redemption	532	0.40	541	0.40	9	0.41	506	0.40	1,588	0.40
Retailer Support	1,035	0.78	862	0.64	717	32.59	432	0.34	3,046	0.77
On-Time Delivery	1,995	1.50	2,030	1.50	17	0.77	3,798	3.00	7,840	1.97
Celebrity Endorsements[2]	1,244	0.94	1,266	0.94	20	0.91	1,184	0.94	3,714	0.94
Total Wholesale	15,560	11.70	16,143	11.93	1,546	70.27	9,898	7.82	43,147	10.87

[1] Total regional advertising expenditures are allocated to internet and wholesale segments based on each segment's percentage of total branded pairs sold in the region.

[2] Total expenditures for celebrity endorsements are allocated to the internet and wholesale segments based on each segment's percentage of total branded pairs sold.

ADMINISTRATIVE EXPENSES	North America		Europe-Africa		Asia-Pacific		Latin America		Overall	
	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair
General Administration	733	0.47	757	0.47	112	0.47	679	0.47	2,281	0.47
Other Corporate Overhead	2,362	1.53	2,439	1.53	361	1.53	2,188	1.53	7,350	1.53
Total Administrative Expenses	3,095	2.00	3,196	2.00	473	2.00	2,867	2.00	9,631	2.00

Total company administrative expenses are allocated to each region based on the region's percentage of total branded pairs sold.

PRIVATE-LABEL REPORT

OFFERS SUBMITTED	North America Market	Europe-Africa Market	Asia-Pacific Market	Latin America Market	Company Total
Offers to Private Label Buyers — **Pairs Offered** (000s)	94 pairs	563 pairs	0 pairs	189 pairs	846 pairs
S/Q Rating	5 stars	5 stars	0 stars	5 stars	
Bid Price ($/pair)	40.00	38.00	38.00	38.00	
Pairs Ordered (000s)	0 pairs	563 pairs	0 pairs	189 pairs	752 pairs

PRODUCTION AND SHIPPING	N.A. Plant		E-A Plant		A-P Plant		L.A. Plant		Overall	
	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair
Production Costs — **Materials** — **Standard**	0	0.00	687	3.63	1,944	3.45	0	0.00	2,631	3.50
Superior	0	0.00	1,382	7.31	4,410	7.83	0	0.00	5,792	7.70
Labor — **Regular**	0	0.00	95	0.50	225	0.40	0	0.00	320	0.43
Overtime	0	0.00	1,194	6.32	1,134	2.01	0	0.00	2,328	3.10
Styling / Features	0	0.00	1,700	8.99	1,200	2.13	0	0.00	2,900	3.86
Production Run Set-Up	0	0.00	625	3.31	625	1.11	0	0.00	1,250	1.66
Other Allocated Costs[1]	0	0.00	1,106	5.85	3,402	6.04	0	0.00	4,508	5.99
Total Production Costs	0	0.00	6,789	35.92	12,940	22.98	0	0.00	19,729	26.24
Pairs Produced (000s of pairs after rejects)[2]	0 pairs		189 pairs		563 pairs		0 pairs		752 pairs	
Shipments To (000s of pairs) — **N.A. Warehouse**	0 pairs		0 pairs		0 pairs		0 pairs		0 pairs	
E-A Warehouse	0		0		563		0		563	
A-P Warehouse	0		0		0		0		0	
L.A. Warehouse	0 pairs		189 pairs		0 pairs		0 pairs		189 pairs	

[1] Best practices, plant supervision, TQM/6-sigma, plant maintenance, and depreciation cost allocations based on percentage of total pairs produced before rejects.

[2] For more private-label production info (rejected pairs, reject rate, number of models, and S/Q rating) see the Production Statistics section of the Plant Operations Report.

REVENUES / COSTS / MARGINS	N.A. Market		E-A Market		A-P Market		L.A. Market		Overall	
	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair
Gross Private-Label Revenues	0	0.00	21,394	38.00	0	0.00	7,182	38.00	28,576	38.00
± Exchange Rate Adjustment	0	0.00	+578	+1.03	0	0.00	–216	–1.14	+362	+0.48
Net Private-Label Revenues	0	0.00	21,972	39.03	0	0.00	6,966	36.86	28,938	38.48
Direct Costs — **Production Costs**	0	0.00	12,940	22.98	0	0.00	6,789	35.92	19,729	26.24
± Exchange Rate Adjustment	0	0.00	-538	-0.96	0	0.00	394	2.08	-144	-0.19
Freight	0	0.00	1,126	2.00	0	0.00	378	2.00	1,504	2.00
Import Tariffs	0	0.00	2,252	4.00	0	0.00	1,134	6.00	3,386	4.50
Packing / Shipping	0	0.00	676	1.20	0	0.00	227	1.20	903	1.20
Margin Over Direct Costs	0	0.00	5,516	9.80	0	0.00	-1,956	-10.35	3,560	4.73

INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT	North America		Europe-Africa		Asia-Pacific		Latin America		Overall	
	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair
Gross Revenues — Internet	14,256	66.00	16,038	66.00	14,124	66.00	10,956	66.00	55,374	66.00
Wholesale	78,456	53.00	76,511	52.00	924	42.00	66,664	51.00	222,555	51.96
Private-Label	0	0.00	21,394	38.00	0	0.00	7,182	38.00	28,576	38.00
Gross Revenues from Footwear Sales	92,712	59.97	113,943	52.78	15,048	63.76	84,802	52.31	306,505	55.11
± Exchange Rate Adjustment	0	0.00	+3,077	+1.43	–226	–0.96	–2,552	–1.57	+299	+0.05
Net Revenues from Footwear Sales	92,712	59.97	117,020	54.20	14,822	62.81	82,250	50.74	306,804	55.16
Operating Costs — Cost of Pairs Sold	50,144	32.43	64,149	29.71	5,374	22.77	54,435	33.58	174,102	31.30
Warehouse Expenses	7,681	4.97	8,408	3.89	3,441	14.58	5,954	3.67	25,484	4.58
Marketing Expenses	18,218	11.78	19,225	8.90	10,067	42.66	11,121	6.86	58,631	10.54
Administrative Expenses	3,095	2.00	3,196	1.48	473	2.00	2,867	1.77	9,631	1.73
Operating Profit (Loss)	13,574	8.78	22,042	10.21	-4,533	-19.21	7,873	4.86	38,956	7.00

PROFITABILITY & PAYOUT	Year 17	Year 18
Earnings Per Share	$5.04	$2.89
Dividends Per Share	$0.00	$0.00

	Overall $000s	Overall $ / pair
Interest Income (Expenses)	7,297	1.31
Other Income (Expenses)[1]	-779	-0.14
Pre-Tax Profit (Loss)	45,474	8.18
Income Taxes[2]	13,642	2.45
Net Profit (Loss)	31,832	5.72

[1] This item includes any charitable contributions and/or instructor-imposed fines (appearing as negative) and/or instructor-awarded refunds (appearing as positive).

[2] The income tax rate is 30%. If a net loss was recorded in Y17, the loss is carried forward and may offset some or all taxable Y18 profit and reduce Y18 income taxes.

REVENUE-COST-PROFIT PERFORMANCE IN THE WHOLESALE AND INTERNET SEGMENTS

INTERNET MARKET PERFORMANCE	North America		Europe-Africa		Asia-Pacific		Latin America		Overall	
	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair
Revenues from Internet Sales	14,256	66.00	16,038	66.00	14,124	66.00	10,956	66.00	55,374	66.00
Customer-Paid Shipping Fees	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Gross Internet Revenues	14,256	66.00	16,038	66.00	14,124	66.00	10,956	66.00	55,374	66.00
± Exchange Rate Adjustment	0	0.00	+433	+1.78	–212	–0.99	–330	–1.99	–109	–0.13
Net Internet Revenues	14,256	66.00	16,471	67.78	13,912	65.01	10,626	64.01	55,265	65.87
Operating Costs — Cost of Pairs Sold	5,849	27.08	6,444	26.52	4,873	22.77	5,063	30.50	22,229	26.49
Warehouse Expenses	2,502	11.58	2,778	11.43	3,280	15.33	1,838	11.07	10,398	12.39
Marketing Expenses	2,658	12.31	3,082	12.68	8,521	39.82	1,223	7.37	15,484	18.46
Administrative Expenses	432	2.00	487	2.00	429	2.00	332	2.00	1,680	2.00
Operating Profit (Loss)	2,815	13.03	3,680	15.14	-3,191	-14.91	2,170	13.07	5,474	6.52

MARKET STATISTICS	NA Year 17	NA Year 18	EA Year 17	EA Year 18	AP Year 17	AP Year 18	LA Year 17	LA Year 18	Overall Year 17	Overall Year 18
Pairs Sold (000s)	245	216	262	243	228	214	167	166	902	839
Market Share	8.6%	6.8%	9.3%	7.6%	9.3%	7.5%	6.8%	5.7%	8.7%	7.0%
Operating Profit Margin	18.3%	19.7%	22.8%	22.3%	33.1%	-22.9%	20.5%	20.4%	23.8%	9.9%

WHOLESALE MARKET PERFORMANCE	North America		Europe-Africa		Asia-Pacific		Latin America		Overall	
	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair	$000s	$ / pair
Gross Wholesale Revenues	70,490	53.00	70,356	52.00	924	42.00	64,566	51.00	206,336	51.96
± Exchange Rate Adjustment	0	0.00	+1,900	+1.40	–14	–0.64	–1,943	–1.53	–57	–0.01
Net Wholesale Revenues	70,490	53.00	72,256	53.40	910	41.36	62,623	49.47	206,279	51.95
Operating Costs — Cost of Pairs Sold	36,017	27.08	35,879	26.52	501	22.77	38,613	30.50	111,010	27.96
Warehouse Expenses	4,599	3.46	4,462	3.30	161	7.32	3,755	2.97	12,977	3.27
Marketing Expenses	15,560	11.70	16,143	11.93	1,546	70.27	9,898	7.82	43,147	10.87
Administrative Expenses	2,663	2.00	2,709	2.00	44	2.00	2,535	2.00	7,951	2.00
Operating Profit (Loss)	11,651	8.76	13,063	9.65	-1,342	-61.00	7,822	6.18	31,194	7.86

MARKET STATISTICS	NA Year 17	NA Year 18	EA Year 17	EA Year 18	AP Year 17	AP Year 18	LA Year 17	LA Year 18	Overall Year 17	Overall Year 18
Pairs Sold (000s)	1,353	1,330	1,505	1,353	1,928	22	1,267	1,266	6,053	3,971
Market Share	6.7%	6.4%	7.6%	6.5%	11.2%	0.1%	8.0%	7.3%	8.6%	6.7%
Operating Profit Margin	17.3%	16.5%	22.2%	18.1%	18.4%	-147.5%	16.5%	12.5%	18.7%	15.1%

BALANCE SHEET AND CASH FLOW REPORT

BALANCE SHEET

ASSETS	$000s
Cash On Hand	368,954
Accounts Receivable (see Note 1)	76,701
Footwear Inventories	77,199
Total Current Assets	522,854
Net Plant Investment (see Note 2)	132,602
Construction Work in Progress	15,000
Total Fixed Assets	147,602
Total Assets	670,456

LIABILITIES	$000s
Accounts Payable (see Note 3)	18,107
Overdraft Loan Payable (see Note 4)	0
1-Year Bank Loan Payable (see Note 5)	0
Current Portion of Long-Term Loans (see Note 6)	0
Total Current Liabilities	18,107
Long-Term Bank Loans Outstanding (see Note 7)	0
Total Liabilities	18,107

SHAREHOLDER EQUITY	Beginning Balance	Change in Y18	$000s
Common Stock (see Note 8)	11,000	0	11,000
Additional Capital (see Note 9)	159,715	0	159,715
Retained Earnings (see Note 10)	449,801	+31,833	481,634
Total Shareholder Equity	620,516	+31,833	652,349

Return on Average Equity for Year 18 (see Note 11) 5.0%

Balance Sheet Notes (all dollar and share figures are in thousands)

Note 1: Of the $306,505 net revenues reported in the Y18 income statement, 25% have not been collected from customers (will be collected in Y19).

Note 2: For more details on plant investment see the Plant Investment section of the Plant Operations Report.

Note 3: Of the $72,428 in materials used for footwear production in Y18, 25% have not been paid for (will be paid for in Y19).

Note 4: Loans for overdrafts carry an interest rate 2% above the 1-year loan rate and are incurred automatically to prevent a negative year-end cash balance.

Note 5: The prevailing 1-year loan interest rate in Year 18 was 7.0%.

Note 6: This item represents the principal protion of all outstanding 5-year and 10-year bank loans due to be repaid in Year 19.

Note 7: Long-term bank loans outstanding:

Loan Number	Initial Year	Original Principal	Interest Rate	Term	Out-standing Principal	Annual Principal Payment	Year 19 Interest Payable
1	Y7	115,000	8.5%	10-Yr	-	-	-
2	Y9	24,000	7.5%	5-Yr	-	-	-
3	Y12	48,000	5.8%	5-Yr	-	-	-
4	-	-	-	-	-	-	-
5	-	-	-	-	-	-	-
6	-	-	-	-	-	-	-
7	-	-	-	-	-	-	-
8	-	-	-	-	-	-	-
9	-	-	-	-	-	-	-
10	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-
16	-	-	-	-	-	-	-

Note 8: There are 11,000 shares issued and outstanding at a par value of $1.00 per share. The authorized maximum number of shares is 40 million.

Note 9: Additional Capital represents the amount over and above par value that shareholders have paid to purchase new shares of stock.

Note 10: Retained Earnings is a summation of all after-tax profits the company has earned that were not distributed to shareholders in the form of dividends.

Note 11: The formula for Return on Average Equity is:

$$\frac{\text{After-Tax Profit}}{(\text{Beginning Equity} + \text{Ending Equity}) \div 2}$$

CASH FLOW STATEMENT

CASH AVAILABLE IN YEAR 18		$000s
Beginning Cash Balance		243,249
Cash Inflows	**Receipts from Sales** (see Note 1)	325,877
	Bank Loans — 1-Year	0
	5-Year	0
	10-Year	0
	Stock Issues (0 shares issued)	0
	Sale of Existing Plant Capacity	91,246
	Loan to Cover Overdrafts	0
	Interest on Y17 Cash Balance	7,297
Total Available Cash from All Sources		667,669

CASH OUTLAYS IN YEAR 18		$000s
Payments to Materials Suppliers (see Note 2)		79,755
Production Expenses (see Note 3)		73,407
Distribution and Warehouse Expenses		46,870
Marketing and Administrative Expenses		68,261
Capital Outlays	**Plant Upgrade Options Initiated**	15,000
	Purchase of Used Plant Capacity	0
	Construction of New Capacity	0
	Energy Efficiency Initiatives	1,001
Repayment of Principal on Bank Loans (see Note 4)	**Overdraft Loan**	0
	1-Year Loan	0
	5-Year Loans	0
	10-Year Loans	0
Interest Payments	**Overdraft Loan**	0
	Bank Loans	0
Stock Repurchase (0 shares repurchased)		0
Income Tax Payments		13,642
Dividend Payments to Shareholders		0
Charitable Contributions		779
Total Cash Outlays		298,715
Net Cash Balance (at the end of Year 18)		368,954

Cash Flow Notes

Note 1: Receipts from Sales represents 75% of Year 18 revenues and 25% of Year 17 revenues due to a 3-month lag in receivables collections.

Note 2: Payments to Materials Suppliers represents 75% of the cost of materials used for Y18 production and 25% of the cost of materials used for Y17 production due to a 3-month lag in payments to materials suppliers.

Note 3: Production Expenses include all Y18 production-related expenses (adjusted for the exchange rate effects of shipping to regional warehouses) except for depreciation (which is a non-cash accounting charge).

Note 4: Overdraft and 1-year loans received in Year 17 were repaid in-full in Year 18. Interest on an overdraft loan received in Y17 would also be paid in Year 18.

SELECTED FINANCIAL STATISTICS

Credit Rating Measures	**Interest Coverage** (operating profit ÷ interest exp.	100.00
	Debt-To-Assets Ratio (total debt ÷ total assets)	0.00
	Default Risk Ratio (free cash flow ÷ prin. pmnts.)	10.00
	Default Risk Rating [1]	Low
	Credit Rating (at the end of Year 18)	A+
Current Ratio (current assets ÷ current liabilities)		28.88
Operating Profit Margin (operating profit ÷ net sales revenues)		12.7%
Net Profit Margin (after-tax profit ÷ net sales revenues)		10.4%
Dividend Payout (dividend per share ÷ earnings per share)		0.0%
Free Cash Flow (after-tax profit + [depreciation – dividends])		44,882
Total Principal Payments ($000s to be paid in Year 19)		0

[1] A default risk ratio of 3.00 or higher results in a Low default risk rating, 1.00 to 3.00 results in a Medium rating, and below 1.00 results in a High rating.