(CASE 11-3 CONTINUED)

speech and sent the case back down for further proceedings—likely including a trial on whether the statements were indeed misleading.[60]

A trial did not take place, as Nike settled on September 2003, agreeing to pay $1.5 million over a three-year period to the Fair Labor Association, a Washington worker-rights group.[61]

Required

a. Write a position paper on why the Nike reply should be viewed under the First Amendment.

b. Write a position paper on why the Nike reply should be viewed under the Fifth Amendment.

Good reference materials for this case are:
Note: Roger Parloff, "Can We Talk," *Fortune* (September 2, 2002), pp. 102–104, 106, 108, 110.
Note: *Kasky v. Nike, Inc.* Cite as 45 P. 3d 243 (Cal 2002).
Note: Nike Web site www.Nike.com.

CASE 11-4 BOOKS UNLIMITED*—PART I

Borders Group, Inc., presented this information in its 10-Ks:

CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions except per share data)

	Jan. 31, 2009	Feb. 2, 2008	Feb. 3, 2007
Sales	$3,242.1	$3,555.1	$3,532.3
Other revenue	33.3	42.3	37.1
Total revenue	$3,275.4	$3,597.4	$3,569.4
Cost of merchandise sold (includes occupancy)	2,484.8	2,668.3	2,615.7
Gross margin	790.6	929.1	953.7
Selling, general, and administrative expenses	839.6	907.0	879.8
Pre-opening expense	2.8	5.0	8.1
Goodwill impairment	40.3	—	—
Asset impairments and other write-downs	57.1	13.0	60.6
Operating income (loss)	(149.2)	4.1	5.2
Interest expense, net	5.3	43.1	29.9
Loss before income tax	(154.5)	(39.0)	(24.7)
Income tax provision (benefit)	30.2	(19.1)	(2.8)
Loss from continuing operations	$ (184.7)	$ (19.9)	$ (21.9)
Loss from operations of discontinued operations (net of income tax benefit of $0.9, $2.9 and $15.2)	(1.7)	(8.7)	(129.4)
Loss from disposal of discontinued operations (net of income tax benefit of $3.1, $7.6 and $0.0)	(0.3)	(128.8)	—
Loss from discontinued operations (net of tax)	(2.0)	(137.5)	(129.4)
Net loss	$ (186.7)	$ (157.4)	$ (151.3)
Loss per common share data (Note 2)			
Basic:			
Loss from continuing operations per common share	$ (3.07)	$ (0.34)	$ (0.35)
Loss from discontinued operations per common share	$ (0.03)	$ (2.34)	$ (2.09)
Net loss per common share	$ (3.10)	$ (2.68)	$ (2.44)
Weighted-average common shares outstanding	60.2	58.7	61.9

*"Borders Group, Inc., through our subsidiaries, Borders, Inc. ("Borders"), Walden Book Company, Inc. ("Waldenbooks"), and others (individually and collectively, "we," "our" or the "Company"), is an operator of book, music and movie superstores and mall-based bookstores." 10-K
Source: Borders Group, Inc 2010 10-K

CONSOLIDATED BALANCE SHEETS
(Dollars in millions except share amounts)

	Fiscal Year Ended	
	Jan. 31, 2009	Feb. 2, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 53.6	$ 58.5
Merchandise inventories	915.2	1,242.0
Accounts receivable and other current assets	102.4	103.5
Current assets of discontinued operations	—	102.0
Total current assets	1,071.2	1,506.0
Property and equipment, net	494.2	592.8
Other assets	39.4	64.9
Deferred income taxes	4.0	44.9
Goodwill	0.2	40.5
Noncurrent assets of discontinued operations	—	53.6
Total assets	$1,609.0	$2,302.7
Liabilities, Minority Interest and Stockholders' Equity		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	$ 329.8	$ 548.6
Trade accounts payable	350.0	511.9
Accrued payroll and other liabilities	279.8	321.6
Taxes, including income taxes	30.1	18.3
Deferred income taxes	4.0	9.9
Current liabilities of discontinued operations	—	57.5
Total current liabilities	993.7	1,467.8
Long-term debt	6.4	5.4
Other long-term liabilities	345.8	325.0
Noncurrent liabilities of discontinued operations	—	25.4
Contingencies (Note 8)	—	—
Total liabilities	1,345.9	1,823.6
Minority interest	0.5	2.2
Total liabilities and minority interest	1,346.4	1,825.8
Stockholders' equity:		
Common stock, 300,000,000 shares authorized; 59,903,232 and 58,794,224 shares issued and outstanding at January 31, 2009 and February 2, 2008, respectively	186.9	184.0
Accumulated other comprehensive income	11.9	42.4
Retained earnings	63.8	250.5
Total stockholders' equity	262.6	476.9
Total liabilities, minority interest and stockholders' equity	$1,609.0	$2,302.7

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in millions)

	Fiscal Year Ended,		
	Jan. 31, 2009	Feb. 2, 2008	Feb. 3, 2007
Cash provided by (used for):			
Net loss	$(186.7)	$(157.4)	$(151.3)
Net loss from discontinued operations	(2.0)	(137.5)	(129.4)
Net loss from continuing operations	(184.7)	(19.9)	(21.9)
Operations			
Adjustments to reconcile net loss from continuing operations to operating cash flows:			
Depreciation	107.1	103.7	111.2
Gain on sale of investments	—	—	(5.0)
Loss on disposal of assets	1.9	0.5	2.0
Stock-based compensation cost	3.0	5.1	4.1

(continued)

Required

a. Compute the following liquidity ratios for 2009 and 2008:
   1. Days' sales in inventory
   2. Inventory turnover (use ending inventory)
   3. Working capital
   4. Current ratio
   5. Cash ratio
   6. Sales to working capital (use ending working capital)
   7. Operating cash flow/current maturities of long-term debt and current notes payable

b. Compute the following long-term debt-paying ability for 2009 and 2008:
   1. Debt ratio
   2. Operating cash flow/total debt

c. Compute the following profitability ratios for 2009 and 2008:
   1. Net profit margin
   2. Return on assets (use end of year total assets)
   3. Return on total equity (use end of year total equity)
   4. Gross profit margin

d. Compute or obtain the following investor analysis:
   1. Earnings per common share
   2. Operating cash flow/cash dividends

e. Comment on the results in (a), (b), (c) and (d).

f. Comment on the trend in net income (loss).

g. Comment on significant trends (items) in the Consolidated Statement of Cash Flows.

h. Using these ratios for 2009 and 2008, comment using the Beaver Study on possible financial failure:
   1. Cash flow/total debt
   2. Net income/total assets (return on assets)
   3. Total debt/total assets (debt ratio)

CASE 11-5 BOOKS UNLIMITED—PART 2

Borders Group, Inc. presented this information in its 10-K:*

CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions except per share data)

	Jan. 30, 2010	Jan. 31, 2009	Feb. 2, 2008
Sales	$2,791.1	$3,242.1	$3,555.1
Other revenue	32.8	33.3	42.3
Total revenue	$2,823.9	$3,275.4	$3,597.4
Cost of merchandise sold (includes occupancy)	2,191.3	2,484.8	2,668.3
Gross margin	632.6	790.6	929.1
Selling, general and administrative expenses	711.3	842.4	912.0
Goodwill impairment	—	40.3	—
Asset impairments and other writedowns	16.2	57.1	13.0
Operating income (loss)	(94.9)	(149.2)	4.1
Interest expense	24.1	45.4	43.1
Warrant/put expense (income)	20.7	(40.1)	—
Total interest expense	44.8	5.3	43.1

(*continued*)

*"Borders Group, Inc., through our subsidiaries including Borders, Inc. ("Borders") (individually and collectively, "we," "our" or the "Company"), is an operator of book and movie superstores and mall-based bookstores." 10-K
Source: Borders Group, Inc 2010 10-K

(CASE 11-4 CONTINUED)

	Fiscal Year Ended,		
	Jan. 31, 2009	Feb. 2, 2008	Feb. 3, 2007
Operations *(continued)*			
Decrease in minority interest	—	0.4	0.6
Decrease (increase) in deferred income taxes	34.5	(3.7)	(24.7)
Decrease (increase) in other long-term assets	23.6	0.3	(1.3)
(Decrease) increase in other long-term liabilities	(14.9)	4.5	8.8
Goodwill impairment	40.3	—	—
Asset impairments and other write-downs	57.1	13.0	60.6
Cash provided by (used for) current assets and current liabilities:			
Decrease (increase) in inventories	321.4	52.2	(23.3)
Decrease (increase) in accounts receivable	10.2	13.3	(7.5)
Decrease (increase) in prepaid expenses	9.8	(1.0)	10.4
Decrease in accounts payable	(160.2)	(59.2)	(55.7)
Increase (decrease) in taxes payable	13.7	(36.4)	(70.0)
(Decrease) increase in accrued payroll and other liabilities	(29.2)	32.2	50.8
Net cash provided by operating activities of continuing operations	233.6	105.0	39.1
Investing			
Capital expenditures	(79.9)	(131.3)	(165.6)
Investment in Paperchase	(3.6)	(0.8)	—
Proceeds from the sale of discontinued operations	97.3	20.4	—
Proceeds from sale of investments	—	—	21.6
Net cash provided by (used for) investing activities of continuing operations	13.8	(111.7)	(144.0)
Financing			
Proceeds from the excess tax benefit of options exercised	0.5	0.9	4.3
Net (repayment of) funding from credit facility	(261.7)	43.4	303.4
Funding from short-term note financing	42.5	—	—
Issuance of long-term debt	1.2	0.4	—
Repayment of long-term debt	(1.4)	—	—
Repayment of long-term capital lease obligations	(0.4)	(0.4)	(0.1)
Issuance of common stock	(0.4)	3.1	21.9
Repurchase of common stock	(0.2)	(0.6)	(148.7)
Payment of cash dividends	(6.5)	(19.4)	(25.2)
Net cash (used for) provided by financing activities of continuing operations	(226.4)	27.4	155.6
Effect of exchange rates on cash and cash equivalents of continuing operations	(0.9)	0.8	(0.6)
Net cash (used for) provided by operating activities of discontinued operations	(21.3)	(0.7)	16.2
Net cash used for investing activities of discontinued operations	(6.5)	(17.8)	(41.9)
Net cash (used for) provided by financing activities of discontinued operations	—	(41.9)	13.9
Effect of exchange rates on cash and cash equivalents of discontinued operations	2.8	(0.2)	0.5
Net cash used for discontinued operations	(25.0)	(60.6)	(11.3)
Net increase (decrease) in cash and cash equivalents	(4.9)	(39.1)	38.8
Cash and cash equivalents at beginning of year	58.5	97.6	58.8
Cash and cash equivalents at end of year	$ 53.6	$ 58.5	$ 97.6
Supplemental cash flow disclosures:			
Interest paid	$ 36.3	$ 43.8	$ 32.8
Income taxes (received) paid	$ (34.6)	$ 12.4	$ 63.5

(CASE 11-5 CONTINUED)

	Jan. 30, 2010	Jan. 31, 2009	Feb. 2, 2008
Loss before income tax	(139.7)	(154.5)	(39.0)
Income tax provision (benefit)	(29.5)	30.2	(19.1)
Loss from continuing operations	$ (110.2)	$ (184.7)	$ (19.9)
Loss from operations of discontinued operations (net of income tax benefit of $—, $0.9 and $2.9)	—	(1.7)	(8.7)
Gain (loss) from disposal of discontinued operations (net of income tax benefit of $—, $3.1 and $7.6)	0.8	(0.3)	(128.8)
Gain (loss) from discontinued operations (net of tax)	0.8	(2.0)	(137.5)
Net loss	$ (109.4)	$ (186.7)	$ (157.4)
Loss per common share data (Note 2)			
Basic:			
Loss from continuing operations per common share	$ (1.83)	$ (3.07)	$ (0.34)
Gain (loss) from discontinued operations per common share	$ 0.01	$ (0.03)	$ (2.34)
Net loss per common share	$ (1.82)	$ (3.10)	$ (2.68)
Weighted-average common shares outstanding (in millions)	60.1	60.2	58.7

CONSOLIDATED BALANCE SHEETS
(Dollars in millions except share amounts)

	Fiscal Year Ended	
	Jan. 30, 2010	Jan. 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 37.0	$ 53.6
Merchandise inventories	873.8	915.2
Accounts receivable and other current assets	76.5	102.4
Deferred income taxes	1.0	—
Total current assets	988.3	1,071.2
Property and equipment, net	392.8	494.2
Other assets	39.9	39.4
Deferred income taxes	3.9	4.0
Goodwill	0.3	0.2
Total assets	$1,425.2	$1,609.0
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	$ 275.4	$ 329.8
Trade accounts payable	350.8	350.0
Accrued payroll and other liabilities	257.4	279.8
Taxes, including income taxes	44.1	30.1
Deferred income taxes	—	4.0
Total current liabilities	927.7	993.7
Long-term debt	6.6	6.4
Other long-term liabilities	332.6	345.8
Contingencies (Note 8)	—	—
Total liabilities	1,266.9	1,345.9
Stockholders' equity:		
Common stock, 300,000,000 shares authorized; 59,869,384 and 59,903,232 shares issued and outstanding at January 31, 2010 and January 31, 2009, respectively	187.2	187.4
Accumulated other comprehensive income	16.7	11.9
Retained earnings (deficit)	(45.6)	63.8
Total stockholders' equity	158.3	263.1
Total liabilities and stockholders' equity	$1,425.2	$1,609.0

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in millions)

	Fiscal Year Ended,		
	Jan. 30, 2010	Jan. 31, 2009	Feb. 2, 2008
Cash provided by (used for):			
Net loss	$(109.4)	$(186.7)	$(157.4)
Net income (loss) from discontinued operations	0.8	(2.0)	(137.5)
Loss from continuing operations	(110.2)	(184.7)	(19.9)
Operations			
Adjustments to reconcile net loss from continuing operations to operating cash flows:			
Depreciation	98.8	107.1	103.7
Loss on disposal of assets	3.8	1.9	0.5
Stock-based compensation cost (income)	(0.3)	3.0	5.1
Increase in warranty liability	8.8	0.8	—
Increase (decrease) in deferred income taxes	(4.8)	34.5	(3.7)
Decrease in other long-term assets	0.2	23.6	0.3
(Decrease) increase in other long-term liabilities	(22.5)	(15.7)	4.9
Goodwill impairment	—	40.3	—
Write-off intangible asset	16.2	—	—
Asset impairments and other writedowns	16.2	57.1	13.0
Cash provided by (used for) current assets and current liabilities:			
Decrease in inventories	43.9	321.4	52.2
Decrease in accounts receivable	10.4	10.2	13.3
Decrease (increase) in prepaid expenses	3.9	9.8	(1.0)
Increase (decrease) in accounts payable	0.2	(160.2)	(59.2)
Increase (decrease) in taxes payable	13.4	13.7	(36.4)
Increase (decrease) in accrued payroll and other liabilities	(21.9)	(29.2)	32.2
Net cash provided by operating activities of continuing operations	56.1	233.6	105.0
Investing			
Capital expenditures	(17.9)	(79.9)	(131.3)
Investment in Paperchase	—	(3.6)	(0.8)
Proceeds from the sale of discontinued operations	—	97.3	20.4
Net cash provided by (used for) investing activities of continuing operations	(17.9)	13.8	(111.7)
Financing			
Proceeds from the excess tax benefit of options exercised	—	0.5	0.9
Net funding from (repayment of) credit facility	(54.5)	(261.7)	43.4
Funding from short-term note financing	—	42.5	—
Issuance of long-term debt	—	1.2	0.4
Repayment of long-term debt	(0.3)	(1.4)	—
Repayment of long-term capital lease obligations	(1.2)	(0.4)	(0.4)
Issuance of common stock	0.1	(0.4)	3.1
Repurchase of common stock	—	(0.2)	(0.6)
Payment of cash dividends	—	(6.5)	(19.4)
Net cash provided by (used for) financing activities of continuing operations	(55.9)	(226.4)	27.4
Effect of exchange rates on cash and cash equivalents of continuing operations	0.3	(0.9)	0.8
Net cash provided by (used for) operating activities of discontinued operations	0.8	(21.3)	(0.7)
Net cash used for investing activities of discontinued operations	—	(6.5)	(17.8)
Net cash used for financing activities of discontinued operations	—	—	(41.9)

(*continued*)

(CASE 11-5 CONTINUED)

	Fiscal Year Ended,		
	Jan. 30, 2010	Jan. 31, 2009	Feb. 2, 2008
Effect of exchange rates on cash and cash equivalents of discontinued operations	—	2.8	(0.2)
Net cash provided by (used for) discontinued operations	0.8	(25.0)	(60.6)
Net decrease in cash and cash equivalents	(16.6)	(4.9)	(39.1)
Cash and cash equivalents at beginning of year	53.6	58.5	97.6
Cash and cash equivalents at end of year	$ 37.0	$ 53.6	$ 58.5
Supplemental cash flow disclosures:			
Interest paid	$ 16.6	$ 36.3	$ 43.8
Net income taxes (received) paid	$ (42.5)	$ (34.6)	$ 12.4

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors and Stockholders of Borders Group, Inc.

We have audited the accompanying consolidated balance sheets of Borders Group, Inc. and subsidiaries as of January 30, 2010 and January 31, 2009 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended January 30, 2010. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Borders Group, Inc. and subsidiaries at January 30, 2010 and January 31, 2009 and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 30, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 7 to the consolidated financial statements, in 2007 the Company adopted the required provisions of the guidance originally issued in Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes (codified in FASB ASC Topic 740, Income Taxes).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Borders Group, Inc.'s internal control over financial reporting as of January 30, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 1, 2010 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Detroit, Michigan
April 1, 2010

Required

a. Perform a horizontal common-size analysis of the consolidated statements of operations using sales through gross margin for 2008, 2009, and 2010. Use the fiscal year ended February 2, 2008 as the base. Comment.

b. Perform a vertical common-size analysis of the consolidated statements of operations using sales through gross margin for 2008, 2009, and 2010. Use sales as the base. Comment.

c. For the years ended January 31, 2009 and January 30, 2010, compute the following ratios. Comment.

   1. Cash flow/total debt
   2. Net income/total assets (return on assets)
   3. Total debt/total assets (debt ratio)

   Note: These are the ratios that the Beaver study indicated were the best for forecasting failure (in the order of their predictive power).

d. For the consolidated statements of cash flows for the fiscal year ended February 2, 2008, January 31, 2009 and January 30, 2010, comment on the significance of the decrease in inventories on the net cash provided by operating activities of continuing operations.

e. Consolidated Statements of Cash Flows (dollars in millions) (In Part):

	Fiscal year ended		
	January 30, 2010	January 31, 2009	February 2, 2008
Supplemental cash flow disclosures:			
Interest paid	$ 16.6	$ 36.3	$43.8
Net income taxes (received) paid	$(42.5)	$(34.6)	$12.4

f. Comment on the audit report dated April 1, 2010.

CASE 11-6 VALUE—NIKE, INC.

Selected data from Nike's financial statements for the period 2007–2011 follow:

Item 6 Selected Financial Data (In Part)

Financial History

	2011	2010	2009	2008	2007
	(In millions, except per share data and financial ratios)				
Year Ended May 31,					
Revenues	$20,862	$19,014	$19,176	$18,627	$16,326
Gross margin	9,058	8,800	8,604	8,387	7,161
Gross margin %	45.6%	46.3%	44.9%	45.0%	43.9%
Restructuring charges	—	—	195	—	—
Goodwill impairment	—	—	199	—	—
Intangible and other asset impairment	—	—	202	—	—
Net income	2,133	1,907	1,487	1,883	1,492
Basic earnings per common share	4.48	3.93	3.07	3.80	2.96
Diluted earnings per common share	4.39	3.86	3.03	3.74	2.93
Weighted average common shares outstanding	475.5	485.5	484.9	495.6	503.8
Diluted weighted average common shares outstanding	485.7	493.9	490.7	504.1	509.9
Cash dividends declared per common share	1.20	1.06	0.98	0.875	0.71
Cash flow from operations	1,812	3,164	1,736	1,936	1,879
Price range of common stock					
High	92.30	78.55	70.28	70.60	57.12
Low	67.21	50.16	38.24	51.50	37.76

(*continued*)

Source: Nike, Inc. 2010 10-K