BUSINESS ETHICS PROGRAM

Taylor Construction Accessories Corporation Case

Accounting

This case was developed by Dr. Patricia Werhane, Dr. Gary Luoma and Mr. Howard Siers. Arthur Andersen & Co, SC thanks the authors for their substantial contributions to the Business Ethics Program.

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Arthur Andersen & Co, SC has sponsored and funded this project to promote discussion and awareness of ethical issues arising in the business world. Arthur Andersen & Co, SC takes no positions and expresses no views with respect to the myriad of ethical issues reflected in this case but hopes that users will facilitate and promote a dialogue on these important issues.

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TAYLOR CONSTRUCTION ACCESSORIES CORPORATION
SITUATION I

Overview

Bill Jones sat at his desk, contemplating the Lucite cube that has decorated his desk at Magic Fastener Company since its acquisition by Taylor Construction Accessories. Key Taylor personnel receive a Lucite cube at the beginning of each fiscal year containing coins representing the earnings goal for that year. The cube contains one silver dollar representing the forecast earnings per share for 1988. Bill wonders how he will contribute to this earning goal in his role as the new Controller of Magic.

Taylor Construction Accessories is a $65 million manufacturer of nails, brads, bolts, and related items used in the construction industry (Schedule A). It was founded in 1935 by Samuel J. Taylor. Three years earlier the company had gone public when Mr. Taylor, at the age of 75, decided to retire. His family retained 16 percent of the common shares, with Mr. Taylor acting as Chairman of the Board. The new President and CEO, Larry Langdon, is a 38-year-old MBA from a prestigious business school. Before joining Taylor, Langdon ran the toy division of a company that was acquired by a conglomerate. Langdon's goal at Taylor is to maintain its good earnings per share while increasing annual sales to $150 million.

With this in mind, Langdon oversaw the acquisition of the Magic Fastener Company in July of the previous year. Magic is a maker of cloth fasteners with annual sales of $20 million. Magic's founder was an inventor who, just before his death in 1986, had created a new fastening material similar to Velcro.

Taylor plans to name the new product "Magic Zip (it is currently referred to as 6214)." Unlike Velcro, it's quiet and sticks only to itself. This has led to the development of a unique "three-way" fastener-one that can hold together pants as well as a shirt, for example.

In the early days, Magic was the only major manufacturing facility in the Marion area and it maintained close ties with the local university. Now a division of Taylor, Magic employs 360 people, down from a high of 1,000 five years earlier. The company supports an additional 250 local jobs, 100 with the local shipping company. This figure is also down, from 850 five years earlier. Magic's button and zipper business peaked in 1982 and then began declining to current levels (Schedules B and C). The primary reasons for this decline were: (a) foreign competition, (b) declining U.S. prices, (c) increased competition from domestic manufacturers, (d) high local labor rate structures, and most important, (e) the declining health of the founder from 1981 until his death in 1986.

Magic's work force decline was softened from a cost standpoint by a number of factors. First, about 300 workers had been with the company from its earliest days and were ready to retire with no real cost impact on the company. Second, about 200 relatively young staff were highly trained, mobile, and willing to accept employment elsewhere. Third, because of the strong economic climate at that time, several local companies formed a partnership with the local university to provide job retraining. One hundred and forty Magic employees participated and eventually left Magic for other jobs in the area. Fourth, because of a history of community involvement and concern in Marion, there was a strong degree of acceptance for all Magic-related activities. With its new, potentially profitable product ("Magic Zip"), Magic might restore its good earnings. As

Taylor's President, Langdon hopes to increase sales through the introduction of Magic Zip and thereby expand the size of Taylor. At the same time, he is heavily focused on earnings per share. That is why the bonus system for top management links incentives to job expectations directly or indirectly for earnings per share (See Schedule D). Langdon feels that expanding Magic's sales will contribute to a proportionate increase in earnings as evidenced by the distribution of the Lucite cubes at the start of the fiscal year.

To achieve his goal at Magic, Langdon made Magic's Sales Vice President, Jackson Branch, Jr. head of sales for the entire Taylor organization. Branch is 46 years old and married with three children, two in college. He is from Marion and was the football hero at the local university there. At Branch's recommendation, Langdon made Magic's 27-year-old Assistant Controller, Bill Jones, the Controller for Magic Division. Recently married, Jones has an M.B.A. and had worked for a year in public accounting before joining Magic. He was with Magic for three years before the takeover. As Controller, Jones reports to the Vice President of Finance and to the Vice President of Production and Acquisitions. Since the Controller at Taylor has been ill, Jones has the added responsibility of checking the expense reports of key personnel at Taylor and at Magic.

Jones reports to Sarah Jensen, Taylor's Vice President of Finance and Administration. Jensen is 47 years old, a widow with two grown children. A CPA, she began her career with a large public accounting firm and then came to Taylor over 15 years ago. Before Taylor went public, .Tom Warren was hired as Vice President of Production and Acquisitions. Tom is an MBA who helped Taylor go public and knew about Magic Fastener. He brought the possibility of its acquisition to Langdon's attention. Langdon subsequently added the function of General Manager, Magic Division, to Warren's existing responsibilities.

The Assignment

Current machinery at Magic is outmoded and slow. If Magic Zip sales add even as little as 10 percent to total sales, production will not be able to meet the new demand. To meet the new demand, Magic would have to modernize and expand its present facilities. Langdon has told Warren to study the costs of modernization and to report his findings as soon as possible. Bill Jones must evaluate Warren's proposal from a fiscal point of view and present his evaluation to Jensen, who will make the financial presentation to Langdon. Jones must base his evaluation on two factors: (1) the net return on equity (with the goal of at least 10 percent net return on invested capital) and (2) the effect on present and future earnings per share.

Warren gives Jones two proposals: Plan 1, for modernization of present facilities; and Plan 2, for constructing a new plant at another location (Schedule E). Langdon is upset about the time taken to come up with the proposals and has told Warren he wants to see something immediately. Because of the age and condition of Magic's present facilities, Warren created a plan to build a new plant in the Southwest. This offers some tax advantages (Schedule F), and cheaper labor. Then, at the urging of Branch and other Magic personnel, Warren agreed to propose another plan, one for modernizing present facilities. Warren asked Branch to prepare that plan. Branch is vitally interested in the modernization approach because of his loyalty to Marion and because his bonus is linked to an increase in sales. Modernization will allow an increase of production to meet the sales demand more quickly than relocation.

Plan 1 recognizes that Magic's manufacturing is divided into five areas: Cutting, Molding, Fabrication, Curing, and Finishing. Warehouse and Distribution are under the Sales Division. Each area has its own budget. Branch's plan for modernization would entail spending $7 million over a two-year period, $2 million in the fabrication area and $1 million in each of the other

areas, including the Warehouse and Distribution area. At Taylor, individual projects over $500,000 must go to the Board of Directors for authorization. The plan suggested going to the Board for the initial $2 million for the Fabrication Area, then getting piecemeal authorization for funding smaller projects each quarter at a rate of $500,000 per year per area. This would avoid the necessity of seeking subsequent approval of the Board. Plan 1 contemplated either expensing or charging to the depreciation reserve a significant portion of the modernization cost. It also includes Branch's sales projections, based on modernization, which predicted an increase of more than 25 percent.

Branch argued persuasively for Plan 1. First, Magic Zip is an innovative product that can be marketed successfully. Therefore, modernization is essential to maintain existing product markets and to keep up with the projected sales of the new product. Second, modernization can be accomplished quicker and would allow the sales force to begin its campaign immediately. Third, Magic is a fixture in the community of Marion. It's been there for over 50 years. It has strong community ties, and its work force is loyal and productive. Fourth, Magic was purchased in the previous fiscal year. Despite the allegation that the plant and equipment are out-of-date, yield and unit cost reports are consistently positive. Thus, the present atmosphere at Magic suggests that modernization would be a good option (Schedules G and H).

Plan 2 would entail a $14 million capital project, moving Magic from its present antiquated factory to a new location in the Southwest. The plan would involve $3 million for land and site development and $11 million for a new plant, including $3 million for the building and $8 million for developing the five manufacturing areas. While this would cost more than Plan 1 and entail approval by the Board, Warren argued that the new location promises a "tax holiday" and labor costs are not as high as in Marion. Plus, the new plant would be state-of-the-art and prove better over the long-term. Some of the modernization planned is rather patchwork and won't permit future adaptation to new techniques.

Bill Jones has personal reasons for favoring Plan 1. He and his wife, Sandra, live in Marion. Sandra has just been promoted to an important position at a small, nearby software company and would be reluctant to relocate. Also, Jones is aware of how important Magic is to Marion. Long ago, Magic made a commitment to Marion, a commitment paid back by the loyalty and productivity of Magic's employees and the support of the community. Jones believes Taylor should honor this commitment and keep Magic in Marion.

Still, he can't help but wonder about Branch's sales projections in Plan 1. Historically, Branch has developed a reputation for exaggerated sales projections. But because sales have consistently increased (though at a rate lower than forecast), management (both in his past activities at Magic and now at Taylor) have looked on this as a sign of Branch's enthusiasm. Knowing the difficulties with Branch's projections, Jones asks himself whether these figures form a reliable basis for adopting Plan 1.

Jones also has some questions about Plan 2, the one developed by Warren. Warren is a very able manager, and Jones trusts his projections. But Jones isn't sure that Warren has taken into account all the variables in the proposed relocation. It's unclear if Warren has adequately factored in the costs of shutting down the Marion plant, severance pay for laid-off employees, employee transfers, training of new workers, etc. The economic climate in Marion and the composition of the work force at Magic have changed, and Jones doubts that dosing the plant will be as painless as previous work force reductions.

In addition to these questions, Jones is unsure about his responsibilities. He must decide if: (1) he should limit his assignment to evaluating the financial impact of data submitted by senior executives, without checking their assumptions and sources; or (2) he should assume broader management responsibility by satisfying himself beyond the mere computational accuracy of the two proposals. His instructions were vague, and Langdon is pressing for an answer. Questioning the work of Branch or Warren would probably irritate them.

Perhaps he should go to Jensen with his questions about these plans. But he's afraid she won't solve his problem.

Instead of telling him to rely on the figures given him, she will probably tell him to resolve his own doubts. Should he just drop the issue?

APPENDICES SITUATION I

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SCHEDULE A

FINANCIAL STATEMENTS
TAYLOR CONSTRUCTION ACCESSORIES CORPORATION
($ in thousands)

COMPARATIVE BALANCE SHEETS

ASSETS	1986	1987	(Proforma) 1988
CASH	$ 1,583	$ 1,661	$ 1,496
RECEIVABLES			
GROSS	12,800	14,000	24,500
LESS: RESERVE FOR BAD DEBTS	372	461	683
NET RECEIVABLES	12,428	13,539	23,817
INVENTORIES	8,248	8,676	13,885
PREPAYMENTS	1,876	1,954	3,341
TOTAL CURRENT ASSETS	$24,135	$25,830	$42,539
PLANT AND EQUIPMENT			
GROSS	$10,382	$11,856	$17,899
LESS: RESERVE FOR DEPRECIATION	4,012	4,324	5,298
NET PLANT & EQUIPMENT	6,370	7,532	12,601
OTHER ASSETS	1,475	1,500	3,800
TOTAL ASSETS	$31,980	$34,862	$58,940

LIABILITIES AND NET WORTH	1986	1987	(Proforma) 1988
NOTES PAYABLE	$ 995	$ 1,005	$ 2,315
CURRENT DEBT MATURITIES	195	205	212
ACCOUNTS PAYABLE	2,568	3,683	3,113
ACCRUALS	6,254	5,048	3,797
TOTAL CURRENT LIABILITIES	$1,012	$9,941	$9,437
LONG-TERM DEBT	7,174	8,492	18,108
DEFERRED INCOME TAX	914	996	1,082
TOTAL LIABILITIES	$18,100	$19,429	$28,627
COMMON STOCK			
PAR VALUE $1.00			
SHARES OUTSTANDING	$ 3,200	$ 3,200	$ 5,000
PAID-IN CAPITAL (in excess of par)	2,168	2,324	12,404
RETAINED EARNINGS	8,512	9,909	12,909
TOTAL LIABILITIES & NET WORTH	$31,980	$34,862	$58,940

SCHEDULE A

COMPARATIVE PROFIT AND LOSS STATEMENTS
($ in thousands)

	1986	1987	Tentative 1988	Projected 1989
GROSS SALES	$65,000	$ 68,000	$ 92,000	$100,000
LESS FRT,DISTR,EXP,DISCOUNTS	2,321	2.401	3.154	3.616
NET SALES	$62,679	$65,599	$ 88,846	$ 96,384
LESS COST OF SALES	$55,965	$ 57,641	$77,290	$ 84,531
SELLING & ADMINISTRATION	390	420	820	915
TOTAL	$ 56,355	$ 58,061	$ 78,110	$ 85,446
OPERATING INCOME	$ 6,324	$ 7,538	$10,736	$10,938
INTEREST INCOME	65	25	209	185
TOTAL	$ 6,389	$ 7,563	$10,945	$11,123
LESS DEPRECIATION/ AMORTIZATION	1,617	1,454	1,440	1,500
TOTAL	$ 4,772	$ 6,109	$ 9,505	$ 9,623
LESS INTEREST EXPENSE	2,951	2,322	2,430	2,813
TOTAL	$ 1,821	$ 3,887	$ 7,075	$ 6,810
LESS INCOME TAXES	163	1,210	2,075	1,700
NET INCOME	$ 1,658	$ 2,677	$ 5,000	$ 5,110
PER SHARE EARNINGS	$ .518	$ .837	$1.000	$1.022
DIVIDENDS	.375	.400	.400	.425
TOTAL DIVIDENDS	1,200	1,280	2,000	2,125
RETAINED EARNINGS	458	1,397	3,000	2,985

PERTINENT FINANCIAL DATA

LONG-TERM DEBT	OUTSTANDING
SECURED LOAN AGREEMENT	*$ 5,906,000
10-1/4% CONVERT SUBORD DEBENTURES, AUG 1, 2012	12,000,000
OTHER	414,000
TOTAL (INCL $212,000 CURRENT)	$18,320,000

*Issued under a credit facility providing up to $30,000,000 with interest 1 1/8% above prime.

STOCK	AUTHORIZED	OUTSTANDING
COMMON $1.00 PAR VALUE	12,500,000*	5,000,000

*Includes 1,600,000 for conversion of debentures, 1,248,500 for employee options.

CORPORATE BACKGROUND

Company designs, makes and distributes metal and cloth fasteners. Markets its products primarily in the U.S. through independent distributors, wholesalers, and retailers, using its own sales force. Major product lines include nails, bolts, brads, specialty metal fasteners, and cloth fasteners. Sells products under its own name.

International sales accounted for 5 percent of Company's sales in 1987 (projected 6% in 1988).

Plant and warehouse facilities are located in New England.

SUBSIDIARIES: Wholly owned Magic Fastener, Inc. (inactive; consolidated as a Division of Taylor Construction Accessories Corporation)

EMPLOYEES-December 31,1987: 915

INCORPORATED in Delaware, December 18,1935

> July 18, 1987, acquired Magic Fastener, Inc., a button, zipper, and cloth-fastener manufacturer. Simultaneously, button and zipper assets were sold to Ziplip Company. Amount of consideration paid to acquire Magic Fastener, Inc., net of assets sold to Ziplip Company, was $9,987,000 cash and certain additional amounts and actions.

CHAIRMAN - Samuel J. Taylor, Sr.
PRESIDENT AND CEO - Lawrence K. Langdon
VP - PRODUCTION AND ACQUISITIONS - Thomas B. Warren
VP - SALES - Jackson Branch, Jr.
VP FINANCE AND ADMINISTRATION - Sarah Jensen

DIRECTORS - Samuel J. Taylor Sr.; Lawrence K. Langdon; and four outside directors: president, local university; banker; local attorney; and president, local contractor

OFFICE: 326 Front St., Worcester, Massachusetts 01608

ANNUAL MEETING: As set by Board of Directors

Bond Descriptions (not pertinent to problem)

SCHEDULE A

STOCK DATA

Common offered (additional stock required to support working capital needs; Taylor family retained 16 percent share of total outstanding through exercise of preemptive rights).

Date	Shares	Net Price
1-19-88	1,800,000	$6.60*

*After commission

STOCKHOLDERS March 16, 1988: 371 of record

DIVIDENDS: 1986 - $0.375; 1987 - $0.40; 1988 - $0.40*

EARNINGS AND FINANCES

AUDITORS - ACCOUNTANTS ANONYMOUS, NYC

CONSOLIDATED EARNINGS, YEAR ENDING DECEMBER 31 ($ in thousands)

Year	Gross Sales	Generating Inc	Dept&Amort	Fixed Charges	Times Earnings
1988	$ 92,000*	$10,736*	$ 1,440*	$ 2,430*	3.91*
1987	68,000	7,538	1,454	2,322	2.63
1986	65,000	6,324	1,617	2,951	1.62
1985	48,435	5,100	1,380	2,820	1.31
1984	54,415	4,700	1,350	2,700	124

*Projected

	Inc Tax	Net Income	Earnings Per Share
1988	$2,075*	$ 5,000*	$1.00*
1987	1,210	2,677	.84
1986	163	1,658	.52
1985	158	1,425	.45
1984	147	1,250	N/A**

*Projected
**Private company until 1985

SCHEDULE B
(Page 1 of 2)

MAGIC FASTENER COMPANY

($ in thousands)

COMPARATIVE BALANCE SHEET

	1986	1987
ASSETS		
Cash	2,344	788
Receivables		
Gross	3,250	4,250
Less: Reserve for Bad Debt	48_7	356
Net Receivables	2,903	3,894
Inventories	5,340	6,320
Prepayments	92	81
Total Current Assets	10,679	11,083
Plant and Equipment	6,614	7,506
Less: Reserve for Depreciation	3.486	4.097
Net Plant and Equipment	3,128	3,409
Other Assets	1,174	980
Total Assets	14,981	15,472
LIABILITIES AND NET WORTH		
Current Debt Maturities	261	112
Loans Payable	-	900
Accounts Payable	2,720	4,592
Accruals	1,691	1,403
Total Current Liabilities	4,672	7,007
Other Liabilities	300	300
Long Term Debt	10,513	9,000
Common Stock	436	436
Paid-In Capital (in excess of par)	12,553	12,553
Retained Earnings	(13,493)	
	(13,824)	
Total Liabilities and Net Worth	14,981	15.472
Net Working Capital	6.007	4,894
Shares Outstanding 1,756,432		

EARNINGS AND FINANCE RECAP

	SALES			OPERATING INCOME			NET INC
	B/ZIP*	CLOTH	TOTAL	B/ZIP	CLOTH	TOTAL	
1978	39,011	-	39,011	1,582	-	1,582	869
1979	47,322	-	47,322	2,011	-	2,011	1,325
1980	51,392	-	51,392	2,745	-	2,745	1,739
1981	59,470	-	59,470	3,012	-	3,012	1,983
1982	61,233	-	61,233	2,985	(1,625)	1,360	(851)
1983	42,782	5,649	48,431	(5,755)	(2,482)	(8,237)	(10,101)
1984	20,001	8,882	28,883	(9,384)	1,001	(8,383)	(10,708)
1985	4,749	11,999	16,748	(2,221)	4,082	1,861	108
1986	4,383	13,119	17,502	(4,919)	4,551	(368)	(84)
1987	3,987	17,054	21,041	(3,848)	5,987	2,139	(331)

*Button & zipper business.

COMPARATIVE PROFIT AND LOSS STATEMENTS ($ in thousands)

	1985	1986	1987
Gross Sales	17,500	18,500	22,250
Less: Frt/Distr/Disc	752	998	1,209
Net Sales	16,748	17,022	1,041
Less: Cost of Sales	14,012	16,945	17,790
Selling/Admin.	875	925	1,112
Total Costs	14,887	17,870	18,902
Operating Income	1,861	(368)	2,139
Other Income	328	1,900*	114
Total Income	2,189	1,532	2,253
Depr/Amort	487	626	840
Interest Expense	1,287	990	866
Extraordinary Expense**	-	-	878
Income Tax	307	-	-
Net Income (Loss)	108	(84)	331
Earnings Per Share (EPS)	.061	(.048)	(.188)

*Includes gains ($1,500) on disposition of certain other assets carried at zero book value
**Costs related to sale of Magic Fastener Company, i.e., attorney fees, brokerage costs, consultants, public accountants, etc.

MAGIC DIVISION
($ and quantities in thousands)

1988 FORECAST

	FORECAST 1988		
	$	Units	Unit Cost
Gross Sales	25,000	25,000	1.00
1st Quality	25,000	25,000	1.00
2nd Quality	-	-	-
Less: Frt/Distr/Disc	750	25,000	.030
Net Sales	24,250	25,000	.970
Less: Cost of Sales	19,565	25,000	.783
Selling/Admin	270	25,000	.011
Total Costs	19,835	25,000	.793
Operating Income	4,415	25,000	.177
Interest Income	35	25,000	.001
Total	4,450	25,000	.178
Less: Deprec/Amort	850	25,000	.034
Total	3,600	25,000	.144
Less: Interest Expense	450	25,000	.018
Total	3,150	25,000	.126
Less Income Tax	650	25,000	.026
Net Income	2,500	25,000	.100
Receivables	7,800		
Inventories	6,000		
Plant and Equipment	8,100		
Reserve for Bad Debt	350		
Reserve for Depreciation	3,500		

SCHEDULE D

TAYLOR CONSTRUCTION ACCESSORIES CORPORATION
1988 SALARY AND BONUS DATA
($ in thousands)

COMPANY
CONFIDENTIAL

-	Annual Salary	Incentive Bonus Cash	Stock	Notes
President & CEO	$200	50%	50%	Maximum - 50% of Salary
		Base: If EPS = prior yr, qualifies for 10% bonus Additional=Increase in 1 % increments for each 1 % incr in EPS		
VP - Production and Acquisitions	150	50%	50%	Maximum - 30% of salary
		Base: Cost of Mfr not to exceed 90% of Net Sales=10% Additional=5% increments for each 1 % below 90% (net sales value based on forecast)		
VP - Sales	135	50%	50%	Maximum - 30% of salary
		Base: If sales=prior yr, qualifies for 10% bonus Additional: Incr in 1 % increments for each 1 % incr in Sales		
VP - Finance and Administration	125	50%	50%	Maximum - 30% of salary
		Base: If EPS = prior yr, qualifies for 10% bonus Additional: Increase in 1 % increments for each 1 % incr in EPS		

SCHEDULE E

SALES AND EARNINGS FORECAST COMPARISON OF MODERNIZATION VERSUS NEW PLANT SITE

MAGIC DIVISION

($ in thousands)

PROFIT AND LOSS DATA	1989	
	PLT/MOD	NEW PLT
GROSS SALES		
1ST QUALITY	24,000	17,520
2ND QUALITY	4,000	6,000
TOTAL SALES	28,000	23,520
LESS: FRT/DISTR/DISC	1,035	895
NET SALES	26,965	22,625
LESS: COST OF SALES	24,000	20,610
SELLING /ADMIN	300	300
TOTAL COSTS	24,300	20,910
OPERATING INCOME	2,665	1,715
INTEREST INCOME	40	40
TOTAL	2,705	1,755
LESS: INTEREST EXPENSE	475	475
TOTAL	2,230	1,280
LESS: DEPRECIATION	720	440
TOTAL	1,510	840
LESS: INCOME TAX	500	265
NET INCOME	1,010	575
PER SHARE EARNINGS	.202	.115
TOTAL DIVIDENDS (ASSIGNED)*	531	531
RETAINED EARNINGS	479	44

	1990		1991	
GROSS SALES	PLT/MOD	NEW PLT	PLT/MOD	NEW PLT
1ST QUALITY	27,801	65,503	1,880	22,700
2ND QUALITY	3,000	6,500	2,000	1,500
TOTAL SALES	30,800	23,050	338,802	4,200
LESS: FRT/DISTR/DISC	1,140	855	1,255	900
NET SALES	29,660	22,195	32,625	23,300
LESS: COST OF SALES	26,100	20,200	28,060	19,800
SELLING/ADMIN	325	400	375	415
TOTAL COSTS	26,425	20,600	28,435	20,215
OPERATING INCOME	3,235	1,595	4,190	3,085
INTEREST INCOME	45	45	50	50
TOTAL	3,280	1,640	4,240	3,135
LESS: INTEREST EXPENSE	450	530	450	550
TOTAL	2,830	1,110	3,790	2,585
LESS: DEPRECIATION	1,000	440	1,050	1,280
TOTAL	1,830	670	2,740	1,305
LESS: INCOME TAX	540	210	930	400
NET INCOME	1,290	460	1,810	905
TOTAL DIVIDENDS (ASSIGNED)*	619	619	713	713
RETAINED EARNINGS	671	1(59)	1,097	192

*See footnote (1) Schedule E pg 3 of 4.

ASSUMPTIONS

1. Modernization allows quicker product improvement.
2. There is faster market penetration through modernization.
3. New plant delays would result in loss of market share.
4.1989 reflects initial sales of Magic Zip; then 10% annual increase via plant modernization; 2% annual decrease via new plant because of delays.
5. Product improvement would involve smaller quantity of seconds.
6. No existing plant improvements would be made while new plant is being built.
7. New plant would start up in two years (1991).
8.Magic Division is expected to provide Earnings Per Share (EPS) coverage of $.106 in 1989 (25% of dividend total), $.124 in 1990 (27.5% of dividend total); $.143 in 1991 (30% of dividend total.) See footnote (1) Schedule E pg. 3 of 4.

BALANCE SHEET DATA	1989	
ASSETS	PLT/MOD	NEW PLT
CASH	400	400
RECEIVABLES - NET	8,500	7,800
INVENTORIES	7,000	6,500
PREPAYMENTS	825	825
TOTAL CURRENT ASSETS	16,725	15,525
PLANT AND EQUIPMENT	11,600	18,100
LESS: RESERVE FOR DEPRECIATION	3,600	3,300
NET PLANT AND EQUIPMENT	8,000	14,800
OTHER ASSETS	1,400	1,400
TOTAL ASSETS	26,125	31,725
LIABILITIES AND NET WORTH		
NOTES PAYABLE	3,600	9,635
CURRENT DEBT MATURITIES	75	75
ACCOUNTS PAYABLE	2,740	2,740
TOTAL CURRENT LIABILITIES	6,415	12,450
LONG-TERM DEBT	4,600	4,600
DEFERRED INCOME TAX	260	260
TOTAL LIABILITIES	11,275	17,310
COMMON STOCK	1,250	1,250
PAID-IN CAPITAL (IN EXCESS OF PAR)	10,000	10,000
RETAINED EARNINGS	3,600	3,165
TOTAL LIABILITIES AND NET WORTH	26,125	31,725
RETURN ON EQUITY		
NET WORTH	14,850	14,415
NET EARNINGS	1,010	575
RETURN ON EQUITY	6.8%	4.0%

SCHEDULE E
(Page 3 of 4)

ASSETS	1990 PLT MOD	1990 NEW PLT	1991 PLT/MOD	1991 NEW PLT
CASH	410	410	425	425
RECEIVABLES - NET	8,900	7,700	9,100	8,000
INVENTORIES	7,400	6,450	7,800	6,650
PREPAYMENTS	825	825	825	825
TOTAL CURRENT ASSETS	17,535	15,385	18,150	15,900
PLANT AND EQUIPMENT	15,100	22,100	15,250	16,000
LESS: RESERVE FOR DEPRECIATION	3,900	3350	4,600	650
NET PLANT AND EQUIPMENT	11,200	18,750	10,650	15,350
OTHER ASSETS	1,450	1,450	1,500	1,500
TOTAL ASSETS	30,185	35,585	30,300	32,750
LIABILITIES AND NET WORTH				
NOTES PAYABLE	5,794	12,059	4,502	8,822
CURRENT DEBT MATURITIES	100	100	100	100
ACCOUNTS PAYABLE	1,100	1,200	1,200	1,200
ACCRUALS	2,800	2,800	2,900	2,900
TOTAL CURRENT LIABILITIES	9.794	16,159	8,702	13,022
LONG-TERM DEBT	4,600	4,600	4,700	4,700
DEFERRED INCOME TAX	270	270	280	280
TOTAL LIABILITIES	14,664	21,029	13,682	18,002
COMMON STOCK	1,250	1,250	1,250	1,250
PAID-IN CAPITAL (IN EXCESS OF PAR)	10,000	10,000	10,000	10,000
RETAINED EARNINGS	4,271	3,306	5,368	3,498
TOTAL LIABILITIES AND NET WORTH	30,185	35,585	30,300	32,750
RETURN ON EQUITY				
NET WORTH	15,521	14,556	16,618	14,748
NET EARNINGS	1,290	460	1,810	905
RETURN ON EQUITY	8.3%	3.2%	10.9%	6.1%

Footnotes

(1) Since Taylor Construction Accessories Corporation must pay any dividends, i.e., not individual divisions, it is Taylor's practice to assign each division an arbitrary share of the anticipated dividend that the division is expected to provide.

(2) Proof year (defined in Accounting Policy excerpts - Schedule N) is 1990.

MAGIC DIVISION
EXPANSION ECONOMICS
($ in thousands)

MODERNIZATION PLAN

MANUFACTURING AREA	1989	1990
Cutting Area	500	500
Molding Area	500	500
Fabricating Area	1500*	500
Curing Area	500	500
Finishing Area	500	500
Totals	3,500	2,500
Finished Product Warehouse	500	500
Total Modernization Program Cost	4,000	3,000

*Will require Board of Director approval; all others authorized at VP level in projects of less than $500 thousand, i.e., $125 thousand each quarter.

NEW PLANT

	1989	1990
Land	3,000	-
Building	1,500	1,500
Equipment	5,500	2,500
Total New Plant Cost	10,000	4,000

Advanced technology will produce quality product 84% of forecast net sales price.

SCHEDULE F
(Page 1 of 1)

TAYLOR CONSTRUCTION ACCESSORIES CORPORATION
EFFECTIVE STATE TAX RATES

	INCOME	PROPERTY
Present Location	5 %	1 % on 50 % Plant & Equipment
Proposed Location	3-year tax holiday	6-year tax holiday from date of start-up
	6% after-tax holiday	1% on 75% of value of Plant & Equipment after tax holiday

TAYLOR CONSTRUCTION ACCESSORIES CORPORATION
MONTHLY REPORT EXCERPTS - JULY 1988

CEO TO BOARD OF DIRECTORS

1988 is expected to be a good year, better than either 1986 or 1987. In part, anticipated higher earnings in 1988 are attributed to our decision to acquire Magic Fastener Co., Inc., and to absorb the business into our company as an operating division.

Financial analysts continue to be upbeat on prospects for our company, and several "buy" recommendations have been issued in recent weeks. The Street is forecasting 1988 earnings in the range of our 1987 results. Although these appear to be a little low, based on our anticipated aggressive promotion of our cloth fastener business, we believe it is too early to try to influence these forecasters.

Employee morale is high, and all employees are committed to achieving our earnings forecast.

We are continuing to evaluate how best to develop our cloth fastener business and will report to you on this matter in the near future.

VP - SALES TO CEO

Cloth fastener sales continue at or above forecast. We continue to develop opportunistic sales to developing countries. We are using significant quantities of second-quality products in these markets, since their quality standards are less exacting than those in the U.S.

A number of domestic cloth-fastener customers have returned products with quality complaints in recent weeks. We are withholding judgment on the validity of these returns until we have had time to schedule a thorough review.

Extended terms were granted to several customers so we could preship next month's sales forecast to meet this month's projections.

VP - FINANCE AND ADMINISTRATION TO CEO

The Street continues to be positive about our company and is anticipating earnings growth in the range of 1987 EPS. There is some indication they are basing their predictions on information gained from someone in our organization. We have again cautioned our employees about public disclosure of confidential information.

Accounts receivable days sales outstanding (DSO) are up substantially. This reflects higher export sales with longer terms, some extended domestic terms to promote sales, and some withholding of remittances due to product quality complaints. We are working with Sales Division to resolve this problem.

Inventories are up over 1987, due in part to increases in second-quality product that has been segregated and withheld from sale. We are working with Production Division to resolve.

VP - PRODUCTION AND ACQUISITIONS TO CEO

All areas met production quotas. All employees continue to respond positively to our challenge to cut down maintenance costs and to improve EPS.

On the job, accidents were up somewhat, but we are working on programs to improve employee awareness.

As we all know, acquisition of Magic Fastener Co., Inc., was accomplished on schedule and within budget. Integration into our company has gone well and is on schedule. Employee morale appears high.

When we acquired Magic, we planned to spin off existing zipper and button facilities (accomplished), integrate Magic into our company as an operating division (accomplished), and aggressively promote their new product, Magic Zip. With respect to aggressive promotion of the new product, this appears to be lagging. There is considerable controversy over how to proceed, i.e., modernize the existing plant facility or establish a new plant facility. Although financial projections to date have been based on plant modernization, I believe the quickest way to achieve our corporate EPS goals is via a new plant facility.

PRODUCTION AREAS TO VP - PRODUCTION AND ACQUISITIONS

Cutting Area

Production quotas were met. The effect of the deferred maintenance program is impacting our operations; emergency overtime repairs were required on seven occasions during the month. The majority of our cutting jigs need repair or replacement. About 10 percent, versus normal standard of 3 percent, of all cutting operations have to be repeated, which is due to the quality of our cutting jigs. During the month, we experienced three safety incidents due to faulty equipment.

Molding Area

Production quotas were met. We have lowered our production specifications to the bottom of our acceptable range to meet our production quotas. About 50 percent of our molds have been in use three years, versus normal standard of one year. During the month, two employees were hurt when one of our older (five-year old) molds exploded unexpectedly. This was a mechanical fault, not an operator problem.

SCHEDULE G
(Page 3 of 3)

Fabricating Area

Production quotas were met, although a number of assemblies had to be returned to Molding Area for rework before we could use them. Two employees demanded transfer to another area because of concerns over condition of our equipment; we granted their requests. Emergency repairs were made to several drill presses, a dozen sewing machines, and our heat-exchanger equipment. We are really suffering from the ongoing deferred maintenance program.

Curing Area

Two of our Dowtherm boilers and one of our heat exchangers malfunctioned during the month causing rework of substantial quantities. Temporary repairs were made on an overtime basis, and we were able to meet our production quota, again using considerable overtime.

Finishing Area

Production quotas were met, although we had to use some second-quality assemblies to meet our goals. We are getting an increasing number of employee complaints about working conditions, particularly about substandard lighting, smoking in nonsmoking areas, and poor physical working conditions. We lowered our standards to minimum acceptable levels to achieve our production goals.

Engineering and Maintenance

Work continued at an all-time high, restricted primarily to emergency- type activity. Due to budgetary constraints, some repairs were limited to temporary rather than permanent repairs. We continue to classify a substantial part of our cost as Capital Spares replacements as a way to avoid budgetary ceilings.

MAGIC DIVISION
YIELD REPORTS

MANUFACTURING AREA

	Cutting	Molding	Fabricating	Curing	Finishing
1987	97%	98%	96%	99%	92%
January	97	98	96	99	94
February	97	98	96	99	91
March	97	98	96	99	95
April	97	98	96	99	92
May	97	98	96	99	89
June	97	98	96	99	97
July	97	98	96	99	92
August	97	98	96	99	94
September	97	98	96	99	98
October	97	98	96	99	91
November	97	98	96	99	93
December	97	98	96	99	95

TAYLOR CONSTRUCTION
ACCESSORIES CORPORATION

SITUATION II

Bill Jones sat in his office nervously playing with his Lucite cube. Two weeks earlier, he had sent his evaluation to Jensen favoring Plan 1. Although building a new plant had many attractions, Plan 1 seemed less costly and faster to execute. Moreover, the positive unit cost and yield reports and sales projections favored staying at Marion. In evaluating Plan 1, Jones did not mention Magic's commitment to its labor force and the community, and he tried to set aside his personal desires. But these considerations had probably influenced his thinking. Jensen's reaction to Jones' report had been favorable. In general, she agreed that given the facts as Jones had evaluated them, Plan 1 appeared to be the better option.

Two weeks after Jones submitted his report to Jensen, a number of events occurred to change the situation. First, Jones received the midyear update on Magic's sales and earnings, which was down from earlier projections (Schedule I). The first internal audit report on Magic since the acquisition expressed reservations about the impact of the deferred maintenance program and using the split-project procedure for capital improvements rather than recognizing the full cost required by the capital budget process for large items, such as the warehouse-distribution project budget. Along with that audit report was a second one questioning the expense reports of some officers, particularly those of Jackson Branch (Schedules J and K).

A second problem arose concerning the monthly reports of the Sales Vice President. These reports, previously always positive, conflicted with what Jones had learned in meetings with the Sales Division. There was growing customer dissatisfaction with some of Magic's products (Schedule L). Jones was faced with other issues as well:

- Recently he had noticed that Branch's expense reports contained some strange items, including dry cleaning and barber shop expenses and some very high entertainment charges (Schedule M). This was confirmed by the recent internal audit report. Yet Branch is a good sales manager and a long-time friend. Jones fears that calling attention to the expense report problem will hamper Magic's progress. Moreover, Branch appears to have cultivated a good relationship with Langdon, who did not question the expense reports when he signed off on them. Perhaps Jones should let the matter drop. After all, Langdon seems unconcerned, and Jones wouldn't want this issue to cloud Langdon's decision on the plans.

- The manager of Magic's Warehouse and Distribution facilities had asked for an additional $600,000 to complete improvements that had been started during the last fiscal year. His request assumed charging $200,000 to the reserve for depreciation as cost of removal, with most of the remaining $400,000 to be treated as maintenance expense. When Jones objected, the manager pointed out that Jones had not disagreed with a similar treatment of the initial $600,000 spent on the project the previous year. Further, the manager argued that this treatment was consistent with the way Magic had traditionally handled such costs. Although Jones had to acknowledge the accuracy of what the manager said, he was concerned about perpetuating procedures that ran contrary to good accounting practice, as well as to the written policy that had been finalized after the acquisition by Taylor (Schedule N).

- This incident reminded Jones of the piecemeal expenditure authorization proposed for Plan 1. In his evaluation, Jones had noted that Branch's approach not only avoided Board approval

but also reflected "creative" accounting. Although certain costs could be expensed as maintenance for financial reporting and tax purposes, the proposal seems to stretch too far in that direction. Charging as much of the cost as proposed to the reserve for depreciation, thereby not hitting earnings immediately, appears questionable. And yet, Jones feels trapped in objecting.

Can he continue accepting these practices in face of the questions by the internal auditor, Jensen, and his own professional standards. Is it his job to challenge them?

In light of these problems, Jones decided to reexamine Plan 1 and look carefully at the figures he had accepted from Branch in particular, the sales projections. Jones discovered that Branch had again been overly optimistic. Despite clear evidence of a declining market for Magic's products and only vague plans for a full-scale introduction of Magic Zip, Branch had forecast a substantial sales increase. Furthermore, a careful evaluation of these figures revealed that unless Magic started running 24-hour shifts, 7 days a week, it would be impossible, even after modernization, to meet the production the demand for Magic Zip would be as demands required by these projections. And even if production could be geared up to capacity, Jones questioned whether the demand the demand for Magic Zip would be as great as Branch predicted.

This re-evaluation led Jones to reconsider Plan 2. The promise of a tax holiday and cheaper labor seemed inviting. Although the project would cost almost twice as much and would depress earnings for then next couple of years, in the long term it might pay off. He decided to revise the analyses of both plans, using the more current information on Plan 1 and updated data from Warren on Plan 2. He did this quietly to avoid upsetting people and because he wasn't sure how he would use the results-if at all. The outcome (Schedule O) was startling, showing an apparent reversal of the comparative plan economics. Perhaps Jones should go to Jensen now. Is he sure enough about the new figures, which haven't been checked or reviewed by anyone, to stick his neck out? How can he present his new thinking—his concerns—best? It's not a pleasant prospect, since Jensen has already gone to Langdon with the recommendation to adopt Plan 1.

APPENDICES SITUATION II

SCHEDULE I	1988 FORECAST UPDATE - MAGIC DIVISION
SCHEDULE J	EXCERPTS - INTERNAL AUDIT REPORTS - CAPITAL EXPENDITURES VERSUS MAINTENANCE AND REPAIR
SCHEDULE K	EXCERPTS - INTERNAL AUDIT REPORTS - EXPENSE ACCOUNTS
SCHEDULE L	MONTHLY REPORT EXCERPTS/AUGUST 1988
SCHEDULE M	VP - SALES TRAVEL EXPENSE REPORT/EXCERPTS
SCHEDULE N	ACCOUNTING POLICY EXCERPTS - MAGIC DIVISION
SCHEDULE O	EXPANSION PROPOSAL/PLANT MODERNIZATION VERSUS NEW PLANT

SCHEDULE I
(Page 1 of 1)

MAGIC DIVISION
($ and quantities in thousands)

1988 FORECAST UPDATE

	UPDATE MID-YEAR 88 FORECAST		
	$	Unit	Unit Cost
Gross Sales	25,500	25,875	.986
First Quality	24,000	24,000	1.00
Second Quality	1,500	1,875	.80
Less: Frt/Distr/Disc	800	25,875	.031
Net Sales	24,700	75,875	.955
Less: Cost of Sales	20,650	25,875	.798
Selling/Admin	270	25,875	.011
Total Costs	20,920	25,875	.809
Operating Income	3,780	25,875	.146
Interest Income	35	25,875	.001
Total	3,815	25,875	.147
Less: Deprec/Amort	700	25,875	.027
Total	3,115	25,875	.120
Less: Interest Expense	450	25,875	.017
Total	2,665	25,875	.103
Less: Income Tax	500	25,875	.019
Net Income	2,165	25,875	.084
Receivables	8,000		
Inventories	6,300		
Plant and Equipment	8,000		
Reserve for Bad Debt	350		
Reserve for Depreciation	3,250		

TAYLOR CONSTRUCTION ACCESSORIES CORPORATION
EXCERPTS - INTERNAL AUDIT REPORTS

COMPANY
CONFIDENTIAL

JULY 1988

MAINTENANCE AND REPAIR VS CAPITAL EXPENDITURES

1. Review of current maintenance and repair expense indicated that repairs are made only on an emergency basis. Most are performed during overtime, raising questions on the cost-effectiveness of this policy. Almost all routine and preventive maintenance programs have been canceled over the last three years. Many expenditures that appear on the surface to be of a repair nature are combined and capitalized, although company policy is to expense items of $5,000 or less. Also, many items that appear to be expansion or improvement of existing facilities are charged against the depreciation reserve.

   We recommend that the deferred maintenance program be reviewed to ascertain the most cost-effective approach. Items of an expense nature should not be combined and capitalized. Improvement or expansion projects should be capitalized and not charged against the depreciation reserve.

   Production management acknowledge that current maintenance and repair policies may not be cost-effective, but they have to live with limited budgets. Because of the length of the deferred maintenance program, they have insufficient funds to do both emergency repairs and re-institute preventive maintenance programs. Although they would prefer to adopt all our recommendations, they can not do so because of budgetary constraints.

2. During the past three years, only two capital projects have been submitted to the Board of Directors for authorization. Because projects of $500 thousand or more require Board authorization, it appears that several projects have been segregated into small increments to avoid submission to the Board of Directors for approval.

   Production management acknowledge that a case could be made for requiring Board authorization of cited projects. However, they contend that the Board was aware of these activities and submission of formal projects would have constituted unnecessary paperwork and a nuisance to the Board.

TAYLOR CONSTRUCTION ACCESSORIES CORPORATION
EXCERPTS - INTERNAL AUDIT REPORTS

COMPANY
CONFIDENTIAL

JULY 1988

EXPENSE REPORTS

Review of VP - Sales expense reports indicates laxity in complying with company travel and entertainment policy. Although expense reports have been reviewed by Finance Division and approved for reimbursement, we noted the following:

1. There seems to be a general tendency to have numerous expense items just below the $25 level requiring receipts in support of the expenditure. In at least three instances, it appears that the same expenditure has been split into three items under $25 for reporting purposes.

   VP - Sales acknowledges that our findings are correct. However, he argues that this is established practice and the expenditures in question have been approved by the CEO. He stated that he has instructed staff members to follow the same policy to avoid the nuisance of obtaining receipts.

2. On several occasions, first-class air travel was used. Company policy states that tourist travel is customary; first-class travel must be approved in advance by the employee's supervisor.

   VP - Sales stated that it was his policy to use first-class if he was tired or wanted to be relaxed on arrival. He saw no reason to get advance approval by the CEO since the CEO approved his expense reports. (Note: The Secretary to the CEO reviews expense reports for mathematical accuracy and gives to CEO for approval signature; no detailed review is conducted.)

3. VP - Sales spouse accompanied him on several trips. No indication of written approval or business purpose of trip.

   Company policy requires such travel to be approved in writing in advance and business purpose of trip indicated (to determine if it is appropriate to deduct for tax purposes).

VP - Sales indicated he was entitled to spouse travel because of his heavy travel schedule and that we could assume she was acting in company capacity if he reported the expense. He sees no reason to check with the CEO, since he is aware that the CEO's wife travels with him routinely. Also, he encourages staff members to take their spouses along on business trips when they feel it is appropriate; he routinely approves such expenditures after the fact when he reviews their expense reports.

4. Entertained various company employees at lunch - including CEO and other VPs, plus staff members - so often that all lunches are reimbursed when he is in the home office. When he did not report lunch, he was entertained by a fellow VP or the CEO. No business purpose indicated for any of these lunches.

   Company policy prohibits cross-entertaining and business luncheons involving only Company employees unless business purpose is stated.

   VP - Sales stated that policy applies only to levels below him; considered by all VPs and CEO to be a company “perk.”

TAYLOR CONSTRUCTION ACCESSORIES CORPORATION
MONTHLY REPORT EXCERPTS - AUGUST 1988

CEO TO BOARD OF DIRECTORS

Prospects for 1988 are down somewhat from my last report. Primary reason for decline from our earlier projections is the higher cost of sales-a result of increased labor costs and some inefficiencies in the Magic Division. We are taking a closer look to determine whether we should proceed with plant modernization or development of a new plant facility. This will involve some tough technical and personnel decisions. We expect to reach agreement and proceed on our program in the next few months. You will be kept informed.

Financial analysts continue to be positive and “buy recommendations” continue in force. Forecast earnings on the Street continue to be at or higher than our internal forecasts. I am still optimistic that we can exceed our current earnings forecast.

Employee morale continues high, although bonuses will be adversely affected for some members of higher management. All of us are committed to improving our current EPS targets.

VP - SALES TO CEO

Cloth fastener sales continue on forecast. We sense a growing customer concern about our ability to deliver quality products, and also our rumored “new product.” We are being innovative by meeting competitive prices, extending terms, and seeking new outlets to replace several of those lost in recent weeks.

Returned products continue to be a problem. We are still organizing our efforts so we can focus on this problem. We are developing criteria for returns and quality-inspection procedures. We expect to initiate inspection programs shortly which will allow us to issue credits. In the meantime, due to the indicated customer dissatisfaction, we are granting extended terms or limited moratoriums on obligations to remit for this allegedly faulty product. Staff is concerned that issuance of credits will impact annual bonuses.

VP - FINANCE AND ADMINISTRATION TO CEO

The Street continues to be enthusiastic about our earnings prospects. I am concerned that the current EPS being used on the Street by several analysts substantially exceeds our current projections. I recommend that you meet with a cross-section of analysts and downplay their estimates.

Accounts Receivable Days Sales Outstanding (DSO) continues to increase in excess of industry standards. As indicated, this reflects a greater proportion of long-term export receivables and extended terms granted by the Sales Division to domestic customers. Several customers have contacted me directly to say they have no intention of remitting open balances until our quality problems are resolved.

Inventories continue to be above standard due to previously cited quality problems. These have been referred to the production area for resolution.

We are working closely with the Production Area to reevaluate the pros and cons of plant modernization versus new plant facilities.

VP - PRODUCTION AND ACQUISITIONS TO CEO

All areas, except the Finishing Area, met production quotas. Finishing Area shortfall was modest and created no problems. Although our employees continue to respond positively to our economic challenges, we are beginning to experience maintenance problems that must be resolved.

Unfortunately, we experienced one fatality during the month. The employee was overcome by a faulty exhaust system and failed to respond to medical treatment. Emergency repairs were made, and the entire area is being carefully reviewed to prevent future accidents.

In view of the increasing concern over our maintenance program, I have scheduled a meeting of production staff to discuss this problem at an early date. This could require significant expense and impact unfavorably on forecast EPS.

New information on the status of cloth-fastener production facilities has caused us to reconsider plans to proceed with modernization of existing plant facilities. Revised economics favor the establishment of new plant facilities capable of producing all of our existing products plus anticipated new products (G-214 Magic Zip). This would enable us to solve serious labor problems at our existing facilities and position us to achieve higher EPS goals in the future.

Our competition is evaluating expansion to try to gain a portion of our market share in existing products. It is critical that we make our internal decisions and announce expansion plans to forestall any effort by our competition to exploit the void being created by our indecision.

PRODUCTION AREAS TO VP - PRODUCTION AND ACQUISITIONS

Cutting Area

We extended our cutoff by 12 hours, despite protests by the Finance Division, to achieve our production goals. Despite valiant efforts by our work force, we are increasingly hampered by the poor condition of our equipment. Unless we upgrade the quality of our equipment promptly, we will be unable to meet our production quota. Rework operations now account for 15 percent of our total operations.

During the month, we had five safety accidents, two requiring hospitalization—all due to equipment problems, not operator error. This is eroding employee morale and needs prompt attention. Engineering is sympathetic but indicates they cannot respond unless they receive additional dollars and personnel.

Molding Area

Production quotas were met. We had to add a second shift for the last week of the month—(overtime premiums were paid to all second shift operators; 30 temporary employees were added for one week). The extended age of most of our molds, beyond company safety standards, continues to be a problem. We had to take seven out of operation this week pending temporary repairs by Engineering; no time commitment yet from Engineering. We need early re-institution of a sound maintenance program to meet our goals.

Fabricating Area

Production quotas were met. We agreed to take back a number of assemblies for rework next month since they did not meet minimum quality standards. Maintenance continues to be a problem; we are existing on the basis of emergency repairs. Due to a failure of Engineering to respond to our work orders, we are considering going to outside contractors. We had three safety accidents (none serious), all attributed to mechanical failure, not operator fault.

Curing Area

Production quotas were met despite a serious incident in midmonth. One of our operators was overcome because of a faulty exhaust system (age 57 and in ill health, he died without recovering consciousness). To meet our quotas, we hired five temporary employees for a two-week period.

Finishing Area

For the first time in 23 months, we failed to meet production quotas. However, this is not a serious problems since finished product levels continue above standard. Primary reason for failure to meet our production quota is poor quality of assemblies being transferred from Curing Area. Problem is not only related to Curing Area, but reflects quality problems in every area of production.

Engineering and Maintenance

Backlog of work orders continues to grow. We are now using a minimum 95-hour response, except in extreme emergency. Unless budgetary restrictions are lifted, we will be unable to respond on a timely basis. We believe the deferred maintenance program has gone well beyond practical limitations and must be rescinded. Approximately two-thirds of all expenditures are being classified as part of our Capital Spares Replacement program and charged against the Depreciation Reserve rather than against Current Expense.

TAYLOR CONSTRUCTION ACCESSORIES CORPORATION
EXPENSE REPORT EXCERPTS

VP - SALES
January 1988

- Includes 10 lunches, all involving other company VPs, CEO, or other Sales Div. staff - no outside guests. No business purpose stated.

- Includes (1) wife, VP - Prod. and Acquis. and wife, (2) wife, three customers (no wives); (3) wife, VP - Prod. and Acquis. and wife; (4) CEO and wife. No business purpose stated.

- Includes six valet charges; six laundry charges; flowers; three haircuts and manicures; donations to Girl Scout troop and local sports booster club; shoe shine; newspapers and magazines; local telephone calls-no receipts. All items in range of $23-24.50.

- Includes first-class air fare on three occasions

February 1988

- Includes seven lunches, all involving other company VPs, CEO, or other
- Sales Div. staff-no outside guests. No business purpose stated.

- Includes (1) wife, VP - Prod. and wife, (2) wife, two customers (no wives); (3) wife, VP - Finance; (4) wife, CEO and wife; (5) wife, three local travel agents. No business purpose stated.

- Includes eight valet charges, seven laundry charges; flowers; candy; three haircuts w/manicure; donations to local Lions Club and local beauty contest; nine shoe shines; local newspaper and magazines; local telephone calls-no receipts.

- Includes first-class air fare on three occasions

March 1988

- Includes ten lunches, all involving other company VPs, CEO, or other Sales Div. staff personnel. No business purpose stated.

- Includes (1) wife, VP - Prod. and Acquis.; (2) wife, VP - Prod. and Acquis.; (3) wife and two customers w/wives; (4) wife and three customers (no wives); (5) wife, CEO and wife; (6) wife, three staff members and wives; (7) names of guests not indicated for one dinner. No business purpose stated.

- Includes eight valet charges, nine laundry charges; flowers; candy; tickets to local high school football game; donations to several local charities, shoe shines, four haircuts w/manicure; newspapers, magazine, movies, local telephone calls-no receipts.

- Includes first class air fare on two occasions.

SCHEDULE M
(Page 3 of 4)

TAYLOR CONSTRUCTION ACCESSORIES CORPORATION
TRAVEL EXPENSE REPORT

TRAVELLER: JACKSON BRANCH. VP - SALES

DATE	LOCATION	TRANSP	HOTEL	MEALS	ENT/EX	MISC	ENT/COMMENT
1/4	Marion/ St. Louis	(L) 30 1,400		18	185	(1)18	M/M Branch M/M Baker-cust. (dinner/drinks)
1/5	St. Louis	(L)40	185*	40	215	(V)23 (L)18 (H)18 (N)6 M14 (G)85	M/M Branch M/M Zipper-cust. (dinner/basket ball game) M/M Branch: local sales mgr.
1/6	St. Louis	(L)35	185*	52	265	(V)23 (S/S)2 (N)6 (T)14	M/M Branch Local staff and wives (dinner/bowling)
1/7	St. Louis	(L)37	185*	84		(M)12 (N)6 (S/S)2 M15 (G)114	M/M Branch; M/M Cook, cust.
1/8	St. Louis/ Marion	(L)6l	185*	61	134	(T)9 (N)6 (s/s)2	MM/Branch M/M Cook-Cust. (lunch/drinks)
1/11	Marion				23	(D)24	Branch/ Langdon(lunch)
1/12	Marion				24	(D)23	Branch/Taylor(lunch)
1/13	Marion				23	(D)24	Branch/Warren(lunch)
1/14	Marion				24	(D)23	Branch/Jensen(lunch)

*No extra charge for extra person in room, per Branch; rents suite as general practice to be able to entertain customers.

Legend (T) telephone; (V) valet; (L) laundry; (H) haircut w/manicure; (N) newspapers/magazine; (s/s) shoe shine; (M) movies; (D) donations; (G) golf fees

1/15	Marion				23		Branch/Jones(lunch)
1/18	Marion/ Akron	(L)30 580		22	180	(T)16 (V)23 (L)24 (N)6 (H)18 (s/s)4	M/M Branch M/M Baechler-cust. (dinner/drinks)
1/19	Akron Cleveland	(L)45 60	188*	60	205	(T)4 (N)6 (s/s)3 (M)12	M/M Branch M/M Tinon
1/20	Cleveland Indianapolis	(L)64 215	195*	64	247 (v)21	(1715 M/M (N)6 (s/s)3 (G)92	M/M Branch Taylor (dinner/basketball game) M/M Branch; local sales mgr
1/21 '	Indianapolis/ Columbus	(L)71 220	185*	68	174	M16 (N)6 (s/s)4 (M)12 (G)141	M/M Branch M/M Jones-cust. (dinner/drinks) M/M Branch; M/M Jones, cust.
1/22	Columbus/ Marion	(L)62	190*	110		M12 (N)6 (s/s)3 (M)12	
1/25	Marion				23	(D)23	Branch/Langdon
1/26	Marion				24		Branch/Taylor
1/27	Marion				23		Branch/ Warren
1/28	Marion				127		Branch/sales staff
1/29	Marion				24	(D)23	Branch/ Warren

*No extra charge for extra person in room, per Branch; rents suite as general practice to be able to entertain customers.

Legend (T) telephone; (V) valet; (L) laundry; (H) haircut w/manicure; (N) newspapers/magazine; (s/s) shoe shine; (M) movies; (D) donations; (G) golf fee

MAGIC DIVISION
ACCOUNTING POLICY EXCERPTS

YIELD ACCOUNTING

Cutting Area

Standard anticipated yield loss of 3 percent applied against quantity received from Raw Material Area. After provision for yield loss, quantity completed determined by difference and transferred to Molding Area. Anticipated yield loss based on 1975 Engineering studies prepared in preparation for 1978 expansion.

Molding Area

Standard anticipated yield loss of 2 percent applied against quantity received from Cutting Area. After provision for yield loss, quantity completed determined by difference and transferred to Fabricating Area. Anticipated yield loss based on a sampling technique that is reviewed every five years or when a significant change of 10 percent or more occurs in productive capacity.

Fabricating Area

Standard anticipated yield loss of 4 Percent applied against quantity received from Molding Area. After provision for yield loss, quantity completed determined by difference and transferred to Curing Area. Anticipated yield loss based on Engineering studies prepared for each major piece of equipment as installed. Equipment age ranges from 1 to 18 years.

Curing Area

Standard anticipated yield loss of 1 percent applied against quantity received from Fabricating Area. After provision for yield loss, quantity completed determined by difference and transferred to Finishing Area. Anticipated yield loss based on Engineering studies, adjusted to reflect actual experience determined by periodic test sampling.

Finishing Area

Actual yield loss determined by comparing finished units against total units placed in production. Calculated monthly and reflected in quantity transferred to finished product.

Maintenance and Repair Costs

All maintenance and repair costs of $5,000 or less treated as current expense. Other than for major renovations, maintenance and repair costs in excess of $5,000 that do not materially change productive capacity are charged against the Depreciation Reserve.

Depreciation Policy

It is company policy to maintain average composite rates of depreciation ranging between 6 1/2 and 7 1/2 percent. New facilities are depreciated at an approximate 8 percent rate, with other rates on older equipment and buildings ranging as low as 1 1/2 to 2 percent.

Capital Projects

Capital projects of less than $500,000 may be approved by the responsible vice president. Projects of $500,000 or more must be approved by the Board of Directors before incurring any expenditure related to the project (excluding planning costs to prepare project for submission to the Board of Directors).

All new product or expansion capital projects must have minimum ROI of 10 percent; necessity projects will be authorized based on facts and circumstances.

All capital projects are subject to measurement against project economics in the first calendar year of operations after project completion. This is known as the “proof” year.

TRAVEL AND ENTERTAINMENT

Employees are expected to be conservative and accountable for all company funds. Although not expected to travel in luxury, employees are expected to stay in first-class hotel facilities, eat in good restaurants, etc. Travel by air is expected to be tourist or economy class unless supervisor gives prior approval for first class. Travelers are expected to use good judgment and not schedule trips or alter itineraries to generate travel awards or premiums offered by the travel industry. However, to the extent that such awards or premiums are earned in the course of travel on company business, such awards or premiums are considered the property of the traveler and can be used for his/her personal benefit.

The practice of spouses or dependents accompanying employees on company business is strictly prohibited unless approved in writing in advance by the employee's supervisor.

All expenses in excess of $25 must be supported by valid receipts.

If entertainment involves more than one employee, the senior official present is expected to pay the bill and report it on his or her expense report.

The company uses American Express credit cards; employees report expenses to the company for reimbursement; employees pay American Express directly using reimbursed funds received from the company. Employees are allowed to charge personal items on their company credit card, but it is their responsibility to stay current on all amounts owed to American Express. Since reimbursements from the company are always available in advance of billing from American Express, the employee. enjoys a float in his or her favor. Accordingly, advances from the company should be kept to a minimum and used primarily to cover small miscellaneous expenses not susceptible to charging on the credit card, i.e., local transportation, phone calls, etc.

SCHEDULE O
(Page 1 of 2)

MAGIC DIVISION
($ in thousands)

PROFIT/LOSS DATA	1989 PLT/MOD	1989 NEW PLT	1990 PLT/MOD	1990 NEW/PLT	1991 PLT/NOD	1991 NEW PLT
GROSS SALES						
FIRST QUALITY	2500	25,000	28,300	29,360	31,880	34,125
SECOND QUALITY	3.000	3.000	2 00	2.000	2.000	1.000
TOTAL SALES	28.000	28.000	30.800	31	33.880	35.125
LESS: FRT/DISTR	1,035	1,035	1,140	920	1,255	700
NET SALES	26965	26.965	29.660	30.440	32b25	34.425
LESS: COST/SALES	25,000	25,000	27,100	26,500	29,060	29,260
SELLING/ADM	300	350	325	400	375	415
TOTAL COSTS	25,300	25.350	27.425	26.900	29.435	29.675
OPERATING INC	1 665	1.615	2.235	3 40	3.190	4.750
INTEREST INC	40	40	45	45	50	50
TOTAL	1.705	1.655	2.280	3.58,5	3.240	4.800
LESS: INT EXP	525	525	550	__750	600	1 00
TOTAL	1,180	1,130	1,730	2,835	2,640	3,600
LESS: DEPREC	800	800	1.160	1,220	1_200	1.280
TOTAL	380	330	570	1,615	1,440	2,320
LESS INC TAX	480 120	110	190		460	700
NET INCOME	6260	220	380	1 1	980	1.620
PER SH/EARNINGS	.052	.044	.076	.227	.196	.324
TOTAL DIV(ASSGD)*	531	3.31	619	619	713	713
RETAINED EARNINGS	(27-1	(311)	(239)	516	267	907

ASSUMPTIONS

1. Existing plant needs repairs plus additional equipment.
2 New plant economics-sales not penalized as much as reflected in Case #1.
3. Equal market penetration in both cases.
4. Will be able to maintain and improve market share with new plant.
5. 1989 increase equal for both cases.
6. Fewer seconds for new plant case.
7. New plant start-up in 18 months rather than 2 years as in Case #1.
8. Greater plant production cost efficiency to be realized in new plant.
9. EPS goals remain the same.

* Since Taylor Construction Accessories Corporation must pay any dividends (i.e., not individual divisions), it is Taylor's practice to assign each division an arbitrary share of the anticipated dividend.

SCHEDULE O
(Page 2 of 2)

	1989		1990		1991	
BAL/SHT DATA	PLT/MOD	NEW PLT	PLT/MOD	NEW/PLT	PLT/MOD	NEW PLT
ASSETS						
CASH	400	400	410	410	425	425
RECEIVABLES - NET	8,700	8,700	8,900	8,900	9,100	9,400
INVENTORIES	7,200	7,200	7,400	7,500	7,800	8,000
PREPAYMENTS	825	825	825	825	825	825
TOTAL CURB/ASSET	17,125	17,125	17,535	17,635	18,150	18,650
PLT & EQUIP	14,100	24,100	18,100	38,100	18,200	16,000
LESS: RES/DEPR	3,600	3,600	4,000	4,000	5,000	650
NET: PLT/EQUIP	10,500	20,500	14,100	34,100	13,200	15,350
OTHER ASSETS	1,400	1,400	1,450	1,450	1,500	1,500
TOTAL ASSETS	29,025	39,025	33,085	53,185	32,850	35,500
LIABILITIES & NET WORTH						
NOTES PAYABLE	5,900	13,950	9,044	25,194	8,332	6,592
CURRENT DEBT MAT	125	125	110	155	110	155
ACCTS PAYABLE	1,000	1,000	1,100	1,300	1,200	1,200
ACCRUALS	2,740	2,740	2,800	2,800	2,900	2,900
TOTAL CURR/LIAB	9,765	17,815	13,054	29,449	12,542	10,847
LONG-TERM DEBT	4,600	6,600	5,600	8,600	5,600	8,600
DEF INC TAX	260	260	270	270	280	280
TOTAL LIABILITIES	14,675	24,675	18,924	38,319	18,422	19,727
COMMON STOCK	1,250	1,250	1,250	1,250	1,250	1,250
PD-IN CAPITAL	10,000	10,000	10,000	10,000	10,000	10,000
RET'D EARNINGS	3,150	3,100	2,911	3,616	3,178	4,523
TOTAL LIAB/NET W	29,025	39,025	33,085	53,185	32,850	35,500
RETURN ON EQUITY						
NET WORTH	14,400	14,350	14,161	14,866	14,428	15,773
NET EARNINGS	260	220	380	1,135	980	1,620
RETURN/EQUITY	1.89'0	1.5%	27%	7.6%	6.8%	103%

TAYLOR CONSTRUCTION ACCESSORIES CORPORATION

SITUATION III

Jones decided not to go to Jensen with a reversal of his first position supporting Plan 1. After all, the plan had been proposed by a member of top management and was justified by a number of factors. Langdon would be livid about any delays in resolving the issue. Besides, his questions about Plan 1 were hard to answer, and the ethical implications were better left to the CEO. Moreover, without data that firmly supported Plan 2, Jones thought it best to say nothing.

In the meantime, it had become apparent from the latest reports (Schedule P) that there was an increasing level of slow-moving stock, second-quality production, and customer returns. Internal audit reports on Production were critical of the yield accounting presented in monthly reports and showed significant inventory shortages not reported previously (Schedule Q). Magic's 1988 forecast update showed a further downward revision of sales and a significant decrease in projected income (Schedule R). Worse, new reports confirmed that Production had been deferring maintenance and repairs were needed immediately to meet OSHA and EPA standards. The Magic plant was in terrible condition due to safety problems and obsolete equipment. It would have to be closed if these repairs weren't made immediately (Schedule S). As the last straw, the external auditors were questioning the adequacy of the depreciation reserve (Schedule T).

In the midst of these crises, Jones was faced with the latest report on expense accounts. At Taylor, and thus at Magic, personnel with company credit cards are reimbursed for expenses charged to that card, and the employee is responsible for settling the bill with the credit card company. According to the latest internal audit report, the credit card company had called in regard to Branch's unpaid bills (Schedule U). Yet sales at Taylor had increased during the last quarter, and Langdon had publicly praised Branch's fine work. Jones was beginning to recognize his error of not having confronted the expense account issue with Branch (and ultimately with Langdon) earlier.

In the face of these problems, Jones began to reexamine carefully the option of Plan 2. He wanted to be sure of his figures before confronting Jensen with a new position. First, he gathered information on the market development costs of mounting a campaign to sell Magic Zip. Capturing a substantial market share would require a very expensive campaign. Would the costs of this market development program and the costs of modernization or a new plant be recovered with increased sales from such a competitive product? Jones' study of a market development program was not promising. The cost of marketing Magic Zip would be at least $500,000 a year for the next few years, and there was no guarantee that sales would increase more than 15 percent as a result (Schedule V).

Jones then turned to the questions that had originally concerned him about Plan 2. What would it cost to shut down the Marion plant and lay off its employees (Schedule W)? What about Magic's commitment to the town of Marion? Would there be unrecognized dollar costs? Had anyone considered this aspect?

Although Marion depends on Magic less than in the past, a shutdown would have a significant impact. Magic accounts for about 10 percent of the 4,000 industrial jobs in the community. Magic's taxes, including income, franchise, and property taxes, total $200,000 annually and account for about 12 percent of Marion's annual budget. If one counts the businesses supporting

Magic, the employment factor exceeds 15 percent and the budget support factor grows closer to 20 percent. Plus, Magic's temporary employees belong to a work-study program conducted by the local university; reducing or eliminating this program would seriously affect the university's financial aid recipients.

Many factors in Magic's past work force reductions and good employment relationships no longer exist in 1988. Only a small group is eligible for retirement, and the remaining work force is much less flexible than earlier groups that left the company. These workers have been trained to work on equipment that was custom-designed by Magic's founder. This equipment is not common to the industry and has not been modernized.

Contrary to the time when the earlier work force reductions took place, the economy in Marion area is at a standstill. Companies are holding work force levels even or reducing them. The university's retraining program has been discontinued due to lack of funds, and even if Taylor were to fund it, employment prospects would not be promising.

Finally, since Taylor has acquired Magic, the company's aura in the community has disappeared. The community sees Taylor as an absentee owner with little interest in Magic's employees or the general public.

Looking at labor costs for the new location, Jones was faced with some tough questions. What would it cost to start the new plant: to transport some of the Marion workers to the new site, to hire and train new workers? What about transportation costs at the new location, environmental problems, and so on?

Jones asked Production why these items were not included in the original Plan 2 proposal and discovered that Production had prepared them but no one, not even Warren, had asked for them. The projected figures for these factors raised the cost of Plan 2 by $4.5 million (See Schedules X and Y).

Given these facts, Jones began to study again the financial consequences of adopting each plan. He was starting to trust his figures and could see that either plan would hurt Magic's earnings per share for some years to come.

Jones recognized that he had no choice but to report what he knows. But how? Should he go to Branch and Warren first? Or should he give his revised analysis to Jensen and leave it up to her? What would she expect him to do? Should he present his revised figures on both plans, or should he bring up the problems of the expense reports and questionable accounting procedures as well? Should he acknowledge his fault in not catching some of the errors earlier or should he wait to be questioned on that, and how would he answer? Should he bring up the safety problems at the plant?

Should he mention Taylor's moral obligation to the people of Marion? Jones knew that a dollars-and-cents-oriented management would probably brush the issue aside and resent his raising it.

Would he be helping anyone or winning any points for himself?

Finally, how would Langdon, given his ego and ambition, receive the bad news about his cherished acquisition and the gloomy prospects for increased earnings?

Now Jones understood why he was presented with a Lucite cube as Controller of Magic. His controllership responsibilities are obviously broader than simply ensuring accounting accuracy.

APPENDICES
SITUATION III

SCHEDULE P	MONTHLY REPORT EXCERPTS, INCLUDING YIELD REPORTS
SCHEDULE Q	EXCERPTS, INTERNAL AUDIT REPORTS - YIELD ACCOUNTING AND INVENTORIES
SCHEDULER	1988 FORECAST/UPDATE - MAGIC DIVISION
SCHEDULES	PRODUCTION PROGRAM - MAGIC DIVISION
SCHEDULE T	LETTER FROM OUTSIDE ACCOUNTANTS AND RESERVE FOR DEPRECIATION - MAGIC DIVISION
SCHEDULE U	EXPENSE REPORT EXCERPTS AND EXCERPTS - INTERNAL AUDIT REPORTS/EXPENSE ACCOUNT'S
SCHEDULE V	NEW PRODUCT DEVELOPMENT - MAGIC DIVISION
SCHEDULE W	SHUT DOWN ECONOMICS - MAGIC DIVISION
SCHEDULE X	NEW FACILITIES START UP - MAGIC DIVISION
SCHEDULE Y	EXPANSION PROPOSAL/UPDATE ECONOMICS

TAYLOR CONSTRUCTION ACCESSORIES CORPORATION
MONTHLY REPORT EXCERPTS - SEPTEMBER 1986

CEO TO BOARD OF DIRECTORS

Projections for 1988 EPS have dropped significantly due to some production problems. At an appropriate time, I plan to hold a press conference to alert the financial analysts that follow our company closely to this revised earnings outlook.

Employee morale has been impacted by (1) prospects for lower bonuses for some our management personnel and elimination of wage incentives tied to production quotas and (2) recent production problems. .

VP - SALES TO CEO

Cloth-fastener sales, although currently on forecast, may be adversely impacted by the increased backlog of customer returns. Delay in marketing our "new product" will also adversely affect our ability to meet sales quotas. Failure to meet sales quotas will reduce anticipated annual bonuses and lower employee morale.

Due to the substantial delivery costs of export returns, we are reevaluating our decision to supply these markets with second-quality material. New export programs should be implemented by year-end 1988. We will face a serious problem and a major cost burden if we are unable to dispose of second-quality material in export markets, particularly given the current high level of second-quality production.

VP - FINANCE AND ADMINISTRATION TO CEO

The Street estimates of our 1988 EPS projections are being challenged on the basis of rumors reaching the Street from sources within our company as well as from dissatisfied customers.

Accounts Receivable DSO has continued to increase in excess of industry standards for previously reported reasons. The Sales Division has agreed to focus on this problem and work with us to reverse this trend. As part of this program, extended terms will not be granted without the approval of this office.

Inventory problems, created primarily by Production Division quality problems, have become serious. Efforts are underway by the Production Division to implement programs to cope with this problem. They have agreed to work with this office to develop accounting procedures to recognize valuation problems of poor quality inventory.

Internal audit reports critical of expense reporting procedures and practices, yield accounting, inventory accounting procedures of the Production Division, and maintenance and repair expense vs capitalization policies have recently been issued.

We have completed our review of these internal audit reports and disagree with responses given to our Internal Audit organization. We have scheduled follow-up meetings with responsible managers. If we are unable to reach satisfactory agreements, these matters will be referred to your office for resolution.

We have just learned of significant economic factors ignored in economic projections of both current operations and production of the new product (G-214 Magic Zip). Inclusion of these factors could significantly influence previously reported EPS targets. We are working with responsible managers for early resolution. Note that any of the expansion projects being studied, when coupled with the problems with our existing manufacturing operations, will strain our financial resources severely. Therefore, we must proceed cautiously and make the right decision to insure the long-term financial health of our company.

Our public accountants have alerted us to a potentially serious problem related to our practice of charging capital spares replacements against the Depreciation Reserve rather than treating these costs as current expense. This could involve reclassification of up to one million dollars to current expense in 1988 and will adversely impact future earnings projections. We have initiated meetings with our public accountants and Production Division management.

VP - PRODUCTION AND ACQUISITIONS

For the first time since acquiring Magic Fastener Co., Inc., the Division failed to meet production quotas. This is due to poor quality of production equipment caused by our extended deferred maintenance program. We can no longer defer essential maintenance and must re-institute a preventive maintenance program to continue operation of our present facilities.

Before making any decision on maintenance programs, we need to make decisions related to modernizing the existing facilities or establishing costly new production facilities or to consider disposing of this questionable business (which is proving to be a major earnings deterrent). It is imperative that all factors in these decisions be recognized. Either course of action will entail significant adverse impact on reported EPS. An early decision is critical to solution of current and future problems.

Revised economics related to current and expanded production plans have caused us to schedule a complete review of all relevant facts pertaining to the project. This will further delay our decisions to expand, and we are concerned that this plays into the hands of our competitors. We are urging all divisions to reach prompt decisions so we can publicize our plans and short-circuit competitors' plans.

PRODUCTION AREAS TO VP - PRODUCTION AND ACQUISITIONS

Cutting Area

We failed to meet production quotas by 5 percent; excluding second quality assemblies, our shortfall was approximately 11 percent. Failure to maintain our production facilities has reached a crisis. Rework operations now account for 18 percent of our production.

Although we avoided any safety incidents this month, employee morale is very low-due to failure to achieve production wage incentive quotas.

Molding Area

We experienced a production quota shortfall of 8 percent due to 16 percent rework of assemblies transferred from Cutting Area and 12 percent of assemblies transferred to Fabricating Area. We achieved indicated production levels only through temporary help and 7 percent overtime of the regular force.

Unless we improve the operating condition of all molding equipment (estimated cost in excess of $20,000), we can no longer achieve required production quotas. More important, we can not guarantee safe operations for our employees. Employee morale has been severely hurt by loss of wage incentive production bonuses and the unsafe operating environment.

Fabricating Area

Production quotas were not achieved; in part, due to rework of last month's and current month's sub-standard assemblies to meet minimum production quality standards. We have secured quotes from outside contractors to perform minimum required maintenance on essential equipment. We can no longer tolerate delay of this work. Although this will cost $175,000, we have requested permission to proceed and are awaiting response from your office. Employee morale is at an all-time low due to loss of wage production incentives and unsafe working conditions. Also, rumors abound that we plan to shut down the plant; employees are organizing to plan a militant response to any such action. Management is blamed by the employees for our current problems.

Curing Area

We failed to meet production quotas because of a lack of satisfactory quality assemblies and extended curing cycles caused by malfunctioning equipment. A minimum of $275,000 must be spent to upgrade facilities if we are to stay in production at current levels.

Finishing Area

We were unable to meet production quotas because of quality problems in all areas of the plant. Although we would have preferred to meet our quota, we would have had to lease off-plant warehouse storage due to the congested state of our finished product warehouse. We have asked Sales Division to specify those categories in short supply so we can concentrate on meeting market demand. We anticipate operating at least 10 percent under forecasted production levels for the foreseeable future unless critical repairs are made.

Engineering and Maintenance

All production areas are reporting crisis situations. We can no longer meet our basic obligations unless we are allowed to expand budgeted manpower and cost levels substantially-a detailed program involving significant expense. We have scheduled a Production staff meeting to consider minimum requirements to (1) maintain existing plant facilities, (2) maintain current and expanded plant facilities, or (3) embark on a short-term program to eliminate existing facilities in favor of a new plant location.

MAGIC DIVISION YIELD REPORTS

MANUFACTURING AREA

	Cutting	Molding	Fabricating	Curing	Finishing
1988					
January	97	98	%	99	94
February	97	98	%	99	91
March	97	98	%	99	93
April	97	98	%	99	89
May	97	98	%	99	95
June	97	98	%	99	101
July	97	98	96	99	90
August	97	98	96	99	92

TAYLOR CONSTRUCTION ACCESSORIES CORPORATION
EXCERPTS - INTERNAL AUDIT REPORTS

COMPANY
CONFIDENTIAL

JULY 1988

YIELD ACCOUNTING

We recently completed a review of current yield accounting practice of the Cloth-Fastener Division. Our findings are as follows:

Cutting Area

A standard 3 percent yield loss is applied against all raw material quantities received into the area. Production quantities are determined by subtracting yield losses from raw material quantities. No effort is made to physically verify quantities of raw materials transferred in or actual quantities transferred out. Yield loss factors are based on Engineering studies conducted in 1975 for the anticipated 1978 expansion, which was subsequently canceled. As a result, almost half the equipment upon which the Engineering study was based was never installed. In addition, much of the equipment is deficient because of deferred maintenance, and Engineering statistics are based on first-quality working conditions. As a result, yield calculations in this area are suspect.

Molding Area

A standard 2 percent yield loss factor is applied in the same manner as described above for the Cutting Area. Yield loss factors have been established based on sampling techniques, which are to be conducted every five years. The last documented sampling was conducted in 1970, although area supervision has assured us that more recent informal sampling tests have been conducted to confirm the ongoing reliability of this factor. No effort is made to physically verify quantities transferred in and out.

Fabricating Area

A standard 4 percent yield loss factor is applied in the same manner as described above for the Cutting Area. Yield loss factors are based on Engineering studies prepared at the time each major piece of equipment was installed. Although significant modifications have been made to most of the major pieces of equipment, no effort has been made to modify these yield factors to reflect these changes. No effort is made to physically verify quantities transferred in and out.

Curing Area

A standard yield loss factor of 1 percent is applied in the same manner as described for the Cutting Area. Yield loss factors are based on Engineering studies from the early 1970s that have been adjusted to reflect actual experience, as determined by periodic test sampling (documentation limited to the 1970 Engineering studies). About half the equipment has been replaced or modified since the Engineering studies. No effort is made to physically verify quantities transferred in and out.

Finishing Area

Yield losses are calculated monthly based on physical verification of quantities transferred in and out of the Finishing Area.

From our review, we conclude that current yield accounting policies are totally inadequate to measure actual yields and could result in obscuring serious mechanical or process problems by failing to recognize actual yield factors. Due to the difference in the level and quality of process equipment being used and the passage of time since many of the studies were conducted, we recommend that yield losses in each area be determined through physical verification of quantities transferred in and out. If feasible, updated Engineering studies should be developed and kept current to provide validity for the factors and to serve as target yield ranges. Any significant variation should be investigated.

Production management rejected our recommendation, claiming that everyone is satisfied with the current procedure and that it would not be cost-effective to adopt our recommendations. Also, they felt labor would not be receptive because any unfavorable yields could partially or totally reduce current production wage incentives.

INVENTORIES

In-Process Inventories

Annual physical inventories revealed substantial shortages in every Production Area. Inventory was hampered by plant congestion and the need to segregate items as usable product and product being held for “further review.”

No effort is made to physically verify and confirm transfers between Production Areas. There is no inventory accountability established for each area. Annual physical inventories are too infrequent to allow accurate determination of reasons for inventory shortage.

Production management should establish accounting procedures for each Production Area to follow monthly. This should include prompt investigation of inventory differences. A special effort should be made to review segregated inventories of questionable quality and steps should be taken to write these off or write them down to appropriate fair market value.

Production management rejected our recommendation to establish inventory accounting procedures for each manufacturing area but did agree to survey questionable inventory segregations and take appropriate steps to re-introduce into Production. They stated that implementing new inventory procedures would be disruptive to employee morale and not cost-effective. They believe that yield factors are reasonably accurate and that we are overstating our concern in regard to questionable quality of minuscule quantities of in-process inventories.

Finished Product Inventories

Annual physical inventory indicated significant quantity and dollar valuation differences. Warehouse areas are extremely congested for the reasons that follow:

1. Product with estimated sales value of $850,000 has been returned from 67 customers due to quality problems. Credit has not been issued pending approval of Sales Division to accept for credit. Sales Division indicated they plan to accept but want to determine whether sales forecasts will be met if credit is issued.

2. Product with sales value of $378,000 was returned from a developing country due to poor quality. Sales Division acknowledges that product is second quality but has delayed issuing credit while they attempt to negotiate resale to another developing country.

3. Finished product has been segregated among first, second and poor quality. About 15 percent of total inventory is either second or poor quality. However, this inventory is still carried at first quality cost (generally above net realizable value). Warehouse management attributes the buildup of nonfirst quality products to the deferred maintenance programs that have been in force the last three years.

4. Almost all finished product categories have indicated shortages. Shortages are attributed to shortfalls between quantities reported as transferred from Finishing Area versus quantities actually received. However, no effort is made to verify quantities received, and there was no indication that product is being lost off plant.

We conclude that physical inventories should be appropriately valued and reflected in the books of account, including establishing reserves or write-downs for second-quality product. Customer returns should be booked promptly-Sales Division should not be allowed to balance credit versus forecast sales. The economics of shipping second quality product to export markets should be reevaluated.

Warehouse management agreed to proceed with required inventory adjustments to reflect physical differences. However, they rejected our recommendation to write-down or establish reserves for non-first-quality valuations. They prefer to recognize such valuation adjustments only at time of disposition. As to customer returns, they indicated this is a Sales Division responsibility. Sales management indicated that inspection of customer returns is a low-priority item for them, one they schedule “when they can get to it.” They refuse to issue credit until after completion of their inspection routines.

SCHEDULE R
(Page 1 of 1)

MAGIC DIVISION
($ and quantities in thousands)

1988 FORECAST UPDATE

	PROTECTION 3RD QTR 88 FCST		
	$	Units	Unit Cost
Gross Sales	24,000	24,500	.9796
1st Quality	22,000	22,000	1.00
2nd Quality	2,000	2,500	.80
Less: Frt/Distr/Disc	887	24,500	.036
Net Sales	23,113	24,500	.943
Less: Cost of Sales	21,324	24,500	.870
Selling/Admin	270	24,500	.011
. Total Costs	21,594	24,500	.881
Operating Income	1,519	24,500	.062
Interest Income	40	24,500	.002
Total	1,559	24,500	.064
Less: Deprec/Amort	440	24,500	.018
Total	1,119	24,500	.046
Less: Interest Expense	430	24,000	.018
Total	689	24,500	.028
Less: Income Tax	207	24,500	.008
Net Income	482	24,500	.020
Receivables	8,350		
Inventories	6,540		
Plant and Equipment	8,108		
Reserve for B/D	350		
Reserve for Depreciation	4,097		

MAGIC DIVISION
PRODUCTION PROGRAM*

COMPANY CONFIDENTIAL - CURRENT OPERATIONS

Confidential consideration has been given during the past year to future operations at the Magic Fastener Co. plant facilities. Contrary to our understanding prior to acquisition, the facilities are inadequate to sustain existing operations and would seriously jeopardize the proposed market development program for our new product (G-214 Magic Zip).

During the two years prior to sale of Magic facilities, Magic management decided to defer all but essential maintenance and repair expenses. We have also deferred all but essential maintenance and repairs. As a result, we have had three years with little or no maintenance expense. Plant operations are in jeopardy unless significant funds are committed promptly to make the necessary repairs and improvements. Aside from our own concerns, recent OHSA and EPA inspection teams have visited. Although their reports have yet to be received, we expect them to be critical and require emergency expenditures before we are allowed to continue operations.

Proposed three-year programs to (1) make minimum emergency repairs, (2) install new equipment considered essential to upgrade our product technology to meet competitive product standards, and (3) position the plant to produce the proposed new product (Magic Zip) are as follows ($ in thousands):

	1990	1991	1992
1. Minimum repairs and replacements to meet anticipated OHSA and EPA criticism.	650	500	350
2. New equipment required to upgrade production operations to meet competitive technological standards.	350	500	450
3. Equipment upgrade, primarily in manufacturing services and support areas (boilers, electrical, heat exchangers, water purification, etc.) to allow for expanded operations for existing or new products.	-	250	750
TOTAL	1,000	250	1,550

*Excerpts from an internal document prepared by Production staff for Vice President of Production and Acquisitions.

ACCOUNTANTS ANONYMOUS

To: VP - Finance and Administration

Subject: Accounting for
Depreciation Reserve

In reviewing your plant and equipment investment accounts and related reserves preliminary to our year-end audit, we are concerned that despite reasonable accrual rates (consistent with industry standards), the level of the Reserve for Depreciation is inadequate for the age and condition of the related facilities. This is particularly true of the cloth-fastener division production facilities. It should be noted that all of your major competitors, despite operating much newer plants, have significantly higher Reserve ratios.

This problem is caused by what appears to be a consistent policy of charging Capital Spares replacement against the Depreciation Reserve. In a substantial number of instances, the decision to charge the Depreciation Reserve is very questionable. Production management has indicated that they are following these policies primarily because of budgetary constraints.

We would like an early meeting with you and Production management so that this matter can be resolved prior to our year-end audit.

Sincerely,

Partner

9/1/88

MAGIC DIVISION
RESERVE FOR DEPRECIATION
($ in thousands)

	1988	1989	1990	1991
Beginning Balance	2,910	3,097	3,600	4,000
Accruals	440	800	1,220	1,280
Total	3,350	3,897	4,820	5,280
Charges Against Reserve (Capital Spares)	253	297	820	120
Disposition of Existing Plant				4,510
Ending Balance	3,097	3,600	4,000	650

SCHEDULE U
(Page 1 or 3)

TAYLOR CONSTRUCTION ACCESSORIES CORPORATION
EXCERPTS - INTERNAL AUDIT REPORTS

COMPANY
CONFIDENTIAL

SEPTEMBER 1988

EXPENSE REPORTS

Review of VP - Sales expense reports indicate general laxity in complying with company travel and entertainment policy. Although all expense reports have been reviewed by Finance Division and approved for reimbursement, we noted the following:

1. An expenditure of $2,830 covering a local restaurant bill was not properly documented. Indicated participants involved eight other Sales Division staff members and their spouses. No business purpose was indicated on any of the documentation. Company policy requires that the business purpose of such functions be properly stated.

   Although the VP - Sales had hosted the event, it was reported on the Director - Sales expense report, which had been approved for reimbursement by the VP - Sales. Company policy requires that the senior person present report the expense, which would then be approved by his superior (in this instance, requires CEO approval).

   The VP - Sales indicated that the party was arranged to boost morale of his staff because many of them had not fared too well in the recent Sales Division reorganization. Inclusion of spouses seemed appropriate because the staff travels heavily. As to approval authority level, he preferred to do this on his own and avoid involving the CEO for something that was essentially a Sales Division matter.

2. VP - Sales has visited his wife's hometown several times in the past year (all over extended weekends) to discuss potential distributorships with local businessmen.

   Company is is precluded from giving out distributorship in his wife's hometown due to proximity to existing dealership covering these territorial rights.

   VP - Sales acknowledged that our facts are correct. He considers visits of this nature to be "kicking the tires." He acknowledged that indicated business purpose was probably not valid. He indicated that he would have to "think up" a new business reason for this type of trip. He believes that the company CEO recognizes this trip as a "perk" to a major - contributor to the success of the company.

3. A $3,500 advance drawn in May 1988 had not been accounted for in the current report, although current fund advance exceeds $3,500. Company policy is to provide Amex credit cards to all employees; expenses charged on the Amex card are reported for reimbursement to the employee who has responsibility for paying Amex. Since “float” favors the employee, company policy is to limit advances to minor amounts to cover miscellaneous expenditures. All advances are to be short-term and accounted for in the next reporting period. Since this had not been done, this was violation of company policy.

   VP - Sales stated that he had drawn the advance to get his credit card bills current and that he had anticipated availability of some other funds to make restitution to the company. These had been delayed, and he had not been able to handle this to date, but he expected to be able to reimburse the company when he received his next bonus. He stated that he had not discussed this with the CEO but was sure that he would agree since it was really a type of “perk” that should be available to senior officers who contributed as much as he does to the success of the company.

TAYLOR CONSTRUCTION ACCESSORIES CORPORATION
EXPENSE REPORT EXCERPTS

VP - SALES

May 1988

- 18 instances involving miscellaneous expenditures of $23-24.75 each-not supported by receipts.
- Local restaurant bill for $2,830 covering dinner and drinks for VP - Sales and eight staff members and their spouses-business purpose not stated.
- Wife accompanied VP on two trips; no evidence of prior written approval; business purpose not indicated.
- Traveled first-class air on three separate occasions.
- Trip to home town to discuss potential distributorship with local businessman; fourth trip in year, but no distributorship awarded-major distributor located in much larger town only 15 miles away.
- Entertained CEO at lunch five times; business purpose not stated.
- Expense reports properly approved by CEO.

June 1988

- $3,500 advance drawn in May accounted for in current report; however, unexpended funds exceed $4,000.
- Spouse accompanied VP on two business trips; no written advance approval; no indicated business purpose.
- Traveled first-class air on three occasions
- 16 instances involving miscellaneous expenditures of $23-24.75 each; not supported by receipts.
- Expense reports properly approved by CEO.

SCHEDULE V
(Page 1 of 2)

MAGIC DIVISION
NEW PRODUCT DEVELOPMENT TEAM

COMPANY
CONFIDENTIAL

Our new product (G-214 Magic Zip) should be an instant success in the relatively small high-fashion market and a limited number of other specialty markets. However, if we expect to achieve our projected growth rate, we will have to implement a substantial market development program aimed primarily at a much broader market.

The following reflects (1) minimum essential program, (2) optimum level program, and (3) maximum saturation programs appropriate to market. this new product.

	Minimum	Optimum ($ in thousands)	Saturation
1. Publication campaign-radio, TV, magazine, newspaper advertising	100	250	500
2. Participation in national conferences, seminars, etc.	75	100	150
3. Promotional literature, distributor programs	100	150	225
Total Annual Costs	275	500	875

Each of the above programs is considered a minimum annual expenditure program for the first three years of our marketing campaign.

Since none of this expense has been included in current earnings projections, inclusion could delay achieving target ROI goals in the 1991 proof* year until at least 1992-which is permissible only if approved in advance by the Board of Directors.

* "Proof year" is used to compare project economics versus first full calendar year results of normal operation after completion of the project.

SCHEDULE W
(Page 1 of 4)

MAGIC DIVISION
SHUT DOWN EXISTING FACILITIES

COMPANY
CONFIDENTIAL

Our existing plant facilities, particularly the newly acquired Magic Division plant, are obsolete and can only be maintained with significant near- and long-term capital expenditures. Even then, they will not compare favorably with competitive facilities. Maintenance of these facilities is considered the most serious obstacle to meeting projected corporate earnings targets.

Even if the company is willing to spend considerable funds to modernize existing Magic Division facilities (including state-of-the-art equipment that would enable us to match competitive technology), we are left with significant obligations to our largely unskilled labor force. Our present labor contracts meet the highest local pay standards and are a major detriment to achieving competitive parity.

This memorandum summarizes costs to shut down the obsolete Magic Division plant facilities in favor of relocating our operations to newly constructed facilities in a different location with a more favorable labor climate.

FACILITIES DISPOSITION

Existing facilities have not been maintained. Local business and real estate authorities indicate that greatest salvage value can be obtained by (1) selling the equipment to salvage dealers at approximately 30 percent of net book value; (2) selling the buildings to a salvage dealer for $300,000 and dismantlement at no cost to the company, and (3) selling the land, which has appreciated substantially because of its location, at approximately five times present book value. This can be summarized, as follows: ($ in thousands)

Facilities Description	Net Book Value	Anticipated Sale Value
Land	750	3,750
Equipment	3,400	1,021
Buildings	850	300
Totals	5,000	5,071

Miscellaneous additional shutdown expenses, including legal costs, permits, contract, terminations, etc., are expected to range between $200,000 and $300,000.

EMPLOYEE TERMINATIONS

The Cloth-Fastener Production facilities are staffed as follows:

Management and supervision	15		
Skilled labor crafts	45		
Subtotal			60
Unskilled labor-			
Less than 2 years		25	
2-5 years service		50	
5-10 years		64	
More than 10 years but less than 55 yrs old		111	
More than 10 years service and over 55		19	
Total Unskilled Labor			269
Temporary employees that can be terminated without notice			31
Total			360

ANTICIPATED RELOCATION OR TERMINATION COST ($ in thousands)

1. All management, supervision, and skilled labor craftsmen would be offered transfers; average cost of transfer would be $30,000 each (60 $30,000)	1,800
2. Unskilled labor termination costs:	
a. Less than two years-two weeks' notice no cost to the company	-
b. 2-5 years of service-one week's pay for each year of service (average service = 3.2 years x average weekly pay of $440 x 50 employees)	70
c 5-10 years of service-one week's pay for each year of service (average service = 7.1 years x average weekly pay of $510 x 64 employees)	232
d. Employees with more than 10 years of service but not eligible for immediate retirement-one week's pay for each year of service plus vested deferred pension (average service of 18.7 years x average weekly pay of $642 x 111 employees)	1,333
e. More than 10 years of service and over age 55--one week's pay for each year of service and immediate retirement with reduced actuarial reduction in pension (average service of 20.2 years x average weekly pay of $645 x 19 employees)	248
Contribution to pension fund for early retirement with actuarial reduction for early retirement	380
Total Cost	4,063

The foregoing indicates estimated shutdown cost to the company if the decision is made to eliminate the existing Magic Division manufacturing facilities. It assumes that we will take a hard-nosed approach to anticipated employee objections related to transfers or early retirement. It also assumes that local suppliers will not be given any significant compensation for abrupt termination despite long-term relationships, including allegations that they have staffed at our request or even built facilities to better service our needs.*

From a cash-flow standpoint (excluding tax considerations), gain on disposition of our facilities ($1,278 thousand) would partially offset cost of employee relocation and/or termination.

*Union contracts would limit payments to two weeks' notice; 55-65 year old personnel would qualify for actuarially reduced pensions. Also, people that refuse transfers would fall under termination schedule; termination costs would not be expected to exceed the cost of transfer.

9/1/88

SCHEDULE X
(Page 1 of 1)

MAGIC DIVISION
START UP NEW FACILITIES

COMPANY
CONFIDENTIAL

Consideration is being given to establishing a new state-of-the-art manufacturing facility. Although we plan to transfer management and supervision plus a nucleus of skilled labor, training costs will be incurred to train this part of the organization in the sophisticated new production machinery at the new location.

These costs are estimated as follows: ($ in thousands)

Management and supervision (15 $2 each)	30
Skilled labor crafts (45 $3.5)	158
Total	188

In addition, we anticipate hiring approximately 162 unskilled labor employees. Training costs will vary based on job craft, as follows: ($ in thousands)

	# of Empl	Cost per Empl	Total Cost	
Cutting Area	12	1.5	$18	
Molding Area	15	2.2	13	
Fabricating Area	25	3.1	77	
Curing Area	10	2.8	28	
Finishing Area (including warehouse)	100	0.9	90	
Subtotal				246
Total Training Costs to Be Incurred				434

Miscellaneous additional costs related to scrap material, overtime, training manuals, customized videos, and lost production are estimated at $266 thousand for total start-up costs in the range of $700,000, none of which has been included in any earnings projections to-date.

EXPANSION PROPOSAL UPDATE
MAGIC DIVISION
($ in thousands)

PROFIT/LOSS DATA	1989	1990	1991
GROSS SALES			
FIRST QUALITY	26,700	30,550	35,700
SECOND QUALITY	2,000	1,500	1,000
TOTAL SALES	28,700	32,050	36,700
LESS: FRT/DISTR	1,050	640	735
NET SALES	27,650	31,410	35,965
LESS: COST OF SALES	25,600	26,385	30,210
MARKET DEVELOPMENT	500	500	500
SHUTDOWN COSTS	2,125	2,125	475
START-UP COSTS		435	265
SELLING/ADMIN	350	400	415
TOTAL COSTS	28,575	29,845	31,865
OPERATING INCOME (LOSS)	925	165	4.100
INTEREST INCOME	40	45	50
TOTAL	885	1,610	4,150
LESS: INTEREST EXPENSE	750	800	1,200
TOTAL	(1,635)	810	2,950
LESS: DEPRECIATION	800	1,220	1,280
TOTAL	2,435	410	1,670
LESS INCOME TAX	850*	110*	535*
NET INCOME	1,585	300	1,135
PER SHARE EARNINGS (LOSS)	.317	.060	.227
TOTAL DIVIDENDS (ASSIGNED)**	531	619	713
RETAINED EARNINGS	2116	919	422

*Prorata share of income taxes (positive or negative) is assigned to each division for purposes of determining current net contribution to the business.

**Since Taylor Construction Accessories Corporation must pay any dividends, i.e., not Magic Division, it is practice to assign an arbitrary share of projected earnings to each division.

SCHEDULE Y
(Page 2 of 2)

BALANCE/SHEET DATA	1989	1990	1991
ASSETS			
CASH	400	410	425
RECEIVABLES - NET	8.500	8.900	9.500
INVENTORIES	7,000	7,500	8,100
PREPAYMENTS	825	825	825
TOTAL CURRENT ASSETS	16,725	17,635	18,850
PLANT AND EQUIPMENT	24,100	38,100	16,000
LESS: RESERVE FOR DEPRECIATION	3,600	4,000	650
NET: PLANT AND EQUIPMENT	20,500 ~	34,100	15,350
OTHER ASSETS	1,400	1,450	1,500
TOTAL ASSETS	38,625	53,185	35,700
LIABILITIES AND NET WORTH			
NOTES PAYABLE	15,355	28,424	10,507
CURRENT DEBT MATURITIES	115	155	155
ACCTS PAYABLE	1,000	1,300	1,200
ACCRUALS	2,740	2,800	2 ,900
TOTAL CURRENT LIABILITIES	19,210	32,679	14,762
LONG TERM DEBT	6,600	8,600	8,600
DEFERRED INCOME TAX	260	270	280
TOTAL LIABILITIES	26,070	41,549	23,642
COMMON STOCK	1,250	1,250	1,250
PAID IN CAPITAL (IN EXCESS OF PAR)	10,000	10,000	10,000
RETAINED EARNINGS	1.305	386	808
TOTAL LIABILITIES AND NET WORTH	38;625	53,185	35,700