I. INFORMATION SUMMARY PAGE:

FIRM: ELGIN SHOE COMPANY, INC.
ADDRESS: 1234 ANY STREET
          ANYPLACE, USA 56789
OFFICER: GEORGE C. ELGIN, PRESIDENT
PHONE: 123-456-7890

TAAC PROJECT MANAGER: ALBERT D. SMITH

CERTIFICATION DATE: MARCH 14, 2007

SIC CODE: 3144

NAFTA IMPACT: No

PRINCIPAL PRODUCTS: MEN’S & WOMEN’S SHOES

PERFORMANCE:

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<td>124</td>
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<td>125</td>
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<td>SALES</td>
<td>$4,362,773</td>
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<td>$6,482,000</td>
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ASSISTANCE:

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<th>TOTAL</th>
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<td>PROPPOSED CONSULTING</td>
<td>$11,990.00</td>
<td>75%</td>
<td>25%</td>
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<td>MARKETING/Sales</td>
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<td>NEW PRODUCT DEV.</td>
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<td>SYSTEMS</td>
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<td>Consulting</td>
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<td>TOTAL ASSISTANCE</td>
<td>$151,990.00</td>
<td>52%</td>
<td>48%</td>
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1 YTD 2Q’06
II. INDUSTRY INFORMATION

Both apparel and footwear makers enjoyed strong demand for their products in 2005, and this trend is lasting into 2006. Women are snapping up trendy embellished clothing and a variety of new boot styles, while men are buying more suits and formal wear – suggesting changes from the casual styles of a few years back. It is also expected that M&A among retailers will continue into 2006.

The US footwear industry is mature and fragmented, and its manufacturing base is declining. Total footwear sales in 2005 rose 8.8% to $41.8 billion. Casual shoes made up 26% of that volume, followed by dress casual (18%), running shoes (12%), other leisure shoes (11%) and basketball shoes (7%). Other shoe categories include hiking, evening, and tennis.


Domestic shoe production stood at 35.2 million pairs in 2004, down from 39.8 million in 2003. These totals represented a significant decline from the immediately preceding years: 61.4 million pairs in 2002, 79.7 million in 2001, and 86.6 million in 2000. In 1978, domestic production totaled 418.9 million pairs – nearly seven times the level of 2002. Although US production accounted for less than 2.0% of domestic shoe purchases in 2004, it should be noted that US producers have a higher share of the market (about 15%) for men’s work footwear. While the United States imports most of its soft-sole footwear, it is particularly strong in the manufacture of protective or safety footwear (most of which feature steel safety toes). Interestingly, domestic footwear producers often import shoes to offer a diversified catalog.

The footwear market can be divided into athletic and nonathletic footwear. Each category has its own set of manufacturing companies (with some overlap) and often sales are through distinct retail channels. Athletic footwear spending totaled $11.2 billion in 2004, up 2.8%, year over year. Within the athletic footwear segment, running shoes had the greatest share of sales (44%) in 2005, followed by basketball (26%), other performance (15%), and cross-training (10%).

Today, the footwear industry is truly global in nature, with large manufacturers sourcing products from and selling them in different countries over several continents. This multinational

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2 NPD Group

3 NPD Fashionworld
approach allows manufacturers facing a slow economy in one country to keep expanding revenues by focusing on selling in the faster-growing economy of another.

Although overall total dollar sales of footwear have risen since 1999, average selling prices have declined. Contributing factors include the continued influx of imports, retail promotions, and market share gains by discounters. This pressure has threatened margins, spurring firms to seek new ways to boost profitability.

Relying on a single product line, market segment, or sales channel can lead to failure – true for virtually any manufacturer in any industry. To survive, they must come up with new designs to expand their product portfolios, either as product line extensions or as wholly new lines. And this must be done on a more or less continuous basis. Manufacturers can develop these new products internally – a process requiring investment in time, research and development, engineering, and a formal marketing business process – or they may obtain them externally through strategic alliances, licensing agreements with, or even through the acquisition of, another entity – a process requiring robust and sophisticated due diligence that can be just as demanding as any internal process. Most very successful enterprises pursue both.

At their most basic level, these industries supply people with utilitarian attire that is affordable and unlikely to change drastically in style from year to year. For more fashion-conscious consumers, the industries strive to update their assortments to reflect changing trends or to offer innovative styles or features that command a price premium.

While individual companies’ sales trends depend on the specific products they offer, overall industry demand is driven by general economic trends, including changes in disposable personal income, consumer confidence, and consumer spending. Demand also is driven by population growth and demographic trends. Obviously, when the number of people rises, so does overall demand for footwear. However, with the US population growing by only 1% per year, firms are looking overseas for growth opportunities. According to the US Department of Commerce, the world’s developing countries will grow much more rapidly than developed countries. In 1950, approximately two-thirds of the world’s population lived in developing countries. By 1990, that percentage had grown to 78% and by 2005 to 81%, and is expected to rise further (to 86%) by 2050.

Footwear styles include athletic, casual, dress, sandal, and sport/hiking; however, any given shoe design may combine categories. Footwear can be made out of leather, canvas, or other materials that are either natural or manmade. A footwear manufacturer must determine what is most important to its customers: fashion or function. Producers of athletic and sport/hiking footwear also develop technology to improve comfort and performance. According to the American Apparel & Footwear Association, total US footwear purchases increased 7.5% in 2004, to 2.16 billion pairs. Imports from China accounted for about 82.1% of that, with all imports accounting for 98.4% of all footwear purchased. Women’s and men’s categories comprised about 38% and 11%, respectively, of the total US footwear market. The athletic category garnered a 17% share of units, and children’s footwear claimed 12%. The remainder was allocated among rubber footwear (15%), slippers (6%), and work shoes (2%). (Note: figures do not add due to rounding).

Despite years of consolidation activity, the footwear industry is still extremely competitive and highly fragmented – most likely caused by the low barriers to entry. Although getting into the business may be relatively painless, staying in can be much more difficult. Typically, small start-ups are undercapitalized and lack broad-based global sourcing. Many don’t have the technology
and systems infrastructure now being demanded by the major retailers. They also generally lack marketing muscle to give their products the exposure needed to build brand loyalty. Often these entrepreneurs will seek to be purchased by larger companies as a way to expand the sales of their designs.

The power of big retailers is also a major challenge. As they shrink their inventories and order closer to the time that merchandise will be needed, manufacturers are forced to assume more inventory risk. Their sheer size puts big retailers in a strong position to negotiate favorable terms for pricing, shipping, co-advertising (in which retailers and manufacturers share the cost of advertising), and product labeling. Consumers also wield considerable power over manufacturers, as they can switch readily from one product or brand to another. To dissuade them from doing so, well run producers attempt to raise brand awareness and build brand loyalty. A strong brand image typically gives a firm more pricing flexibility by creating perceived switching costs for the consumer. Of course, some segments, such as the “popular-price” segment (read commodities) compete strictly on price, and consumers tend to purchase the cheapest. Manufacturers choosing to compete in this segment are forced almost exclusively to focus on low-cost manufacturing as their primary (and perilous) means of survival.

Of course, manufacturing a great product isn’t enough – it has to be successfully distributed. Retail distribution channels include department stores, specialty stores, general merchandise chains, discount stores, and a direct-to-consumer approach: e-mail blasts, catalog and the Internet. Consumer trends and attitudes differ with each. It is not at all unusual for manufacturers to pursue a multi-channel strategy. In the past decade, many have opened their own stores, reducing their dependence on retailers while potentially increasing sales, and providing a platform to move older inventory. This also permits manufacturers to showcase an entire line, enhance brand awareness, test new products, and directly collect customer feedback. However, absent thorough advance planning, there can be the risk of alienating retailers who carry the same merchandise. In the footwear industry discount stores/mass merchants are the single largest venue for sales, representing 16% of dollar volume in 2005 and 33% of all units sold. Specialty stores are a significant factor, accounting for 40% of footwear dollar sales in 2005 and 29% of units sold. Department stores had 14% of dollar sales and 9% of unit volume in 2005, while national chains came in at 7% and 9% respectively. Other retailers (off-price, catalog/direct mail, factory outlets, online/Internet, pro shops, warehouse clubs, and other) accounted for the balance of sales.

The Internet accounted for about 5% of total apparel sales (including shoes) in 2005. The technology permits consumers to shop from anywhere at any time; conveniences that shoppers appreciate. Producers use their sites for marketing, sales, and the gathering of customer intelligence that is vital for planning effectiveness. The Internet enables footwear brands to customize merchandise to consumers’ specific needs, promoting the development of an emotional bond critical to brand loyalty. Both Nike Inc. and Polo Ralph Lauren are examples of firms at the forefront in this functionality.

At present, however, shopping for footwear on the Internet faces several challenges, including consumer concerns regarding the speed, quality, security, and cost. The fact that consumers can’t see, touch, or try on products they are considering is also another barrier. Also those who sell directly to consumers on the Internet must be mindful not to alienate their bricks-and-mortar retail customers. Likely advances in hardware, software, and data pipelines will make the
experience faster and more secure going forward. Shopping for apparel and footwear on the Internet should continue to gain in popularity.

Prior to the advent of the Internet, catalogs were the only shop-at-home channel. Today most enterprises combine them with e-commerce capabilities as part of their “direct to consumer” tactic. This is part of an overall branding strategy to meet consumer needs 24/7 and thereby strengthen that emotional bond referred to earlier. Catalogs are a form of advertising or direct marketing, bringing the product to the consumer. Done well, the cross promotional opportunities resultant from the bundling of e-commerce (i.e. both an effective Internet site and the use of email blasts), catalogs, and bricks-and-mortar platforms markedly enhances the probability of a purchase. The catalog and/or email blast spurs shoppers to the Internet or to the bricks-and-mortar location, and the probability of an ultimate sale is amplified. Increasingly, the boundaries between these channels are becoming blurred, as retailers become multichannel distributors and cross-promote their channels. For instance, The Neiman Marcus Group Inc. began to use e-mail to communicate with its customers during the 2003 holiday season. Continuous refinement of this integrated approach has been pursued to successfully enhance brand performance re: category/style selling, and sales/promotions. Brands have become increasingly significant to footwear sales. Many consumers have less time to shop than previously, and they are spending their disposable income more carefully. For manufacturers, brands build consumer loyalty, which translates into repeat business. All of these dynamics point towards increased utilization of digital channels going forward.

Manufacturers must support their brands through advertising campaigns and by delivering the right product in an appropriate retail setting. They also must establish and maintain good relationships with retailers and help them to effectively present and sell their goods. Some manufacturers supply retailers with an in-store shop – from concept to display, including fixtures – which allow the retailer to create an environment consistent with the brand’s image. It also increases consumer product recognition and loyalty as consumers become familiar with a product’s in-store presentation and location.

III. FIRM INFORMATION

A. CURRENT STATUS

1. HISTORY:

(1) Its current President, George C. Elgin in Anywhere, USA, founded Elgin Shoe Company in 1984. The firm’s administrative headquarters and sales offices are located there as well as its non-government warehouse in a 68,000 sq. ft. building. Its 90,000 sq. ft. production plant and government warehouse are located in Someplace, USA. Retail stores are being launched at each location at this writing. The company was formed out of the asset purchase of Acme Shoe Corporation following that firm’s closure. In 1997 Mr. Elgin purchased the Ogonze production facility in Someplace, USA to commence with the domestic manufacture of shoes.
2. **Owners, Directors & Officers:**
   
a) Shareholders and Ownership:
   
   (1) George C. Elgin 52.23%
   (2) Michael B. Smithy 20.89%
   (3) W. Rounder 20.89%
   (4) John C. Jones 3.00%
   (5) J. Painter 3.00%

b) Officers

   (1) George C. Elgin President
   (2) John C. Jones Vice President Administration
   (3) J. Painter Vice President of Manufacturing
   (4) Ashby Bainert Controller
   (5) William Ward Production Manager

3. **Changes Since Certification**

   a) None.

4. **Management Review**

   a) Organization:

   ![Organization Chart]

   b) Responsibilities & Backgrounds

   (1) Name: George C. Elgin

   Responsibilities: President

   Prior Experience: Mr. Elgin began his business career in 1973 as a Salesman for the Ogonze Shoe Corporation of Anywhere, USA. He held subsequent positions of increasing responsibility in the shoe manufacturing industry
during the ensuing two decades prior to forming Elgin Shoe Company in 1994. He holds a BA from Penn State University having graduated in 1973.

(2) Name: John C. Jones

Responsibilities: Vice President – Administration
Prior Experience: Mr. Jones began his career as Director of Distribution with the Ogonze Shoe Corporation in 1981. In 1987 he joined Ajax Manufacturing Company as Distribution Manager, and then served as Merchandise Manager for Ogonze, his previous employer. In 1997 he was appointed Vice President – Administration for Elgin Shoe Co. Mr. Jones is a 1980 graduate of California State University and holds a BA in Business Administration and Computer Sciences from that institution.

(3) Name: James Painter

Responsibilities: Vice President – Manufacturing
Prior Experience: Mr. Painter began his business career in 1963 with Leeland Shoe Corporation as Making Room Supervisor. In 1966 he joined General Shoe Corporation as a chemical salesman to the shoe industry, and in 1970 the United Mine Machinery Company as salesman of shoe machinery. In 1981 he joined Wilder Shoe Company as Quality Control Coordinator and became Vice President of Sales and Marketing for the Adelphi Machinery Company in 1983. In 1988 he was appointed Manufacturing Vice President at the Elgin Shoe Company, his current position.

(4) Name: Ashby Bainert

Responsibilities: Controller
Prior Experience: Mr. Bainert began his business career in 1978 with the Ogonze Shoe Company. His first assignment at the firm was to perform time study within the Engineering Department. He was then appointed Cost Accounting Manager and Defense Contract Administrator before leaving in 1987 to join the Armstrong Furniture Company as Plant Accountant within its Carysbrook Division. In 1988 Mr. Bainert returned to Ogonze, and in

(5) Name: William Ward

Responsibilities: Production Manager

Prior Experience: Mr. Ward began his career in 1978 with Ogonze Shoe Corporation as a Production Scheduler and Manager for nine plants. In 1987 he joined Clements Manufacturing Company as its Customer Service Manager, returning to Ogonze the following year as Production Scheduler. In 1997 he joined Elgin Shoe as Production Manager and Scheduler, his current position.
## CONSOLIDATED BALANCE SHEETS

**ELGIN SHOE COMPANY, INC.**  
Months
December 31, 2002 through June 30, 2006

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<td><strong>ASSETS</strong></td>
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<td>Current Assets</td>
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<td>Inventory</td>
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<td>Prepaid Expenses</td>
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<td>25,356</td>
<td>23,636</td>
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<td>Other</td>
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<td><strong>Total Current Assets</strong></td>
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<td>Fixed Assets</td>
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<td>2,004,492</td>
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<tr>
<td><strong>Total Assets</strong></td>
<td>4,872,744</td>
<td>4,134,212</td>
<td>4,000,086</td>
<td>3,459,942</td>
<td>3,417,916</td>
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<td><strong>LIABILITIES AND EQUITY</strong></td>
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<tr>
<td>Current Liabilities</td>
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<td>Accounts Payable</td>
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<td>217,797</td>
<td>493,058</td>
<td>360,830</td>
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<td>Accruals</td>
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<td>25,333</td>
<td>50,090</td>
<td>54,324</td>
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<td>Notes Payable</td>
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<td>968,015</td>
<td>654,552</td>
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<td>103,256</td>
<td>98,890</td>
<td>31,712</td>
<td>131,086</td>
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<td><strong>Total Current Liabilities</strong></td>
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<td>1,271,833</td>
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<td>Long Term Liabilities</td>
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<td>Bank Loans</td>
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<td>777,715</td>
<td>515,703</td>
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<td>Officer Loans</td>
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<td>511,775</td>
<td>508,961</td>
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<tr>
<td><strong>Total Long Term Liabilities</strong></td>
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<td>1,131,471</td>
<td>1,289,491</td>
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<tr>
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<td>Retained Earnings</td>
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<td>1,498,238</td>
<td>1,258,762</td>
<td>929,416</td>
<td>585,668</td>
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<td><strong>Total Stockholder's Equity</strong></td>
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<td>1,678,238</td>
<td>1,438,762</td>
<td>1,109,416</td>
<td>765,668</td>
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<td><strong>TOTAL LIABILITIES &amp; EQUITY</strong></td>
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<td>4,134,212</td>
<td>4,000,086</td>
<td>3,459,942</td>
<td>3,417,916</td>
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</tbody>
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6. **Financial Condition**: 

a) **Cash**: Per Balance Sheet the firm’s cash position declined by more than 80% since 2002. However the company’s Free Cash Flow over the same period has been positive, while its Cash Flow Ratio remained consistently north of 1.25 suggesting substantial room for improvement in the company’s Cash Management systems.

b) **Sales**: Revenues have declined by 2% since 2002; indeed by more than 5% since ’03. However a straight-line projection of this year’s first half would suggest a 7.6% improvement over last year. Should this come to pass, it would represent a more than 5.5% reversal since ’02.

c) **Operating Earnings**: Driven by a 23% improvement in Gross profits, at a time when Sales declined by 2% and Operating Expenses grew by more than 8%, Elgin Shoe’s Operating Earnings grew by 79%. However profitability averaged only 7.7% as compared to the firm’s Best Demonstrated Performance (BDP) of almost twice that amount over the same operating period. This suggests that the opportunity cost associated with not upgrading the company’s systems of managerial finance could be substantial. Indeed, the argument could be made that more than $1million in potential Operating Earnings have been left on the table since 2002. Had these missing earnings materialized, the effects upon Free Cash Flow and Working Capital would have been compelling.

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4 Unless otherwise noted, all findings are based upon the full-year period from 2002 through 2005

5 Operating Cash Flow minus investments in Plant & Equipment

6 (Current Assets not including Cash or Marketable Securities) ÷ (Current Liabilities not including Short Term Debt)

= a measure of a firm’s ability to control & conserve its cash. Upper quartile performance usually yields results below 1.25

7 For the purposes of this document, Operating Earnings are expressed after Interest Expense

8 Operating Profits (after Interest) ÷ Sales

9 \[13.8\% \text{ (BDP ’02 thru ’05)} \times \$25.7 \text{ million (combined Sales ’02 thru ’05)} – \$1.9 \text{ million (actual Operating Earnings)}\]
d) **Gross Profit Margin:** As mentioned just previously, this metric has improved over the past 4 years, contributing to the firm’s operating performance.

e) **Inventories:** During the period all three elements of the company’s Inventory have grown, substantially depressing turns, tying up Working Capital, and negatively impacting Free Cash Flow. An increase in Finished Goods exceeding 35% suggests that the company may not be producing what it has been selling, while the more than 17% growth in WIP suggests needed controls on the shop floor.

f) **Total Debt:** Since 2002 the total burden of debt on the company has declined by 7%.

g) **Accruals:** Payroll taxes and other accruals are current. There is no IRS agreement in force.

h) **Net Worth:** Driven primarily by a 156% increase in Retained Earnings, Stockholder’s Equity improved by more than 119% during the period.

i) **Working Capital:** Although positive for the last two years, the company’s accumulated Net Working Capital\(^\text{10}\) since ’02 has been less than “0” and is sharply negative for the first half of this year. The company may have difficulty internally funding its growth plans going forward absent improvement.

\(^{10}\) The difference between actual WC and that required by a current ratio or 2:1
j) Growth: Equity has grown substantially without Sales growth, driven by growth in Retained Earnings, in turn driven by growth at the Gross Margin line in excess of growth of the firm’s operating expenses during the period. All three elements within COGS declined with the largest contributory reduction being in the costs of Employee Benefits. Net WC declined substantially.
k) Viability: Because of its strong Balance Sheet (especially the near doubling of the firm’s Solvency over the period) Elgin Shoe’s viability has improved over the last four years. Analysis of the firm’s liquidity\textsuperscript{11}, solvency\textsuperscript{12}, profitability\textsuperscript{13} and cash flow\textsuperscript{14} since 2002 suggests long-term strength, provided that the observed negative trends in profitability and free cash flow are reversed. 2005 saw a decline in these two metrics. A decline that, in combination, has begun to overcome the effects of Balance Sheet strength that had previously sustained the firm’s Viability.

\begin{center}
\begin{tabular}{|c|c|c|c|c|}
\hline
\hline
CASH & 841 & 1,000 & 8,174 & 9,384 \\
CURR. LIAB & 1,324,503 & 1,271,833 & 1,325,861 & 1,734,679 \\
LIQUIDITY & 0.08% & 0.08% & 0.82% & 0.54% \\
EQUITY & 1,678,238 & 1,438,762 & 1,108,416 & 769,688 \\
TOT ASSETS & 4,134,212 & 4,000,086 & 3,459,942 & 3,417,916 \\
SOLVENCY & 40.59% & 35.97% & 32.06% & 22.40% \\
NET ERNGS & 545,914 & 689,385 & 478,457 & 305,426 \\
SALES & 6,251,135 & 6,482,000 & 6,603,867 & 6,373,697 \\
PROFITABILITY & 8.73% & 10.64% & 7.25% & 4.79% \\
STD FREE C.F & 2.41% & 4.89% & 4.32% & 1.41% \\
VIABILITY & 51.80% & 51.57% & 44.24% & 28.39% \\
\hline
\end{tabular}
\end{center}

11 The firm’s ability to meet short term obligations
12 The firm’s ability to meet long term obligations
13 The firm’s ability to make a profit
14 The firm’s ability to generate free cash flow
# CONSOLIDATED BALANCE SHEETS

ELGIN SHOE COMPANY, INC.

|--------|------|------|------|------|------|

## ASSETS

### Current Assets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.2%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>14.9%</td>
<td>13.4%</td>
<td>15.3%</td>
<td>14.7%</td>
<td>19.5%</td>
</tr>
<tr>
<td>Notes Receivable</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Inventory</td>
<td>52.7%</td>
<td>56.0%</td>
<td>50.3%</td>
<td>60.1%</td>
<td>56.1%</td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td>0.5%</td>
<td>0.6%</td>
<td>0.6%</td>
<td>0.5%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Other</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>68.1%</td>
<td>70.0%</td>
<td>66.3%</td>
<td>75.4%</td>
<td>76.9%</td>
</tr>
</tbody>
</table>

### Fixed Assets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated Depreciation</td>
<td>17.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total Fixed Assets</strong></td>
<td>31.9%</td>
<td>30.0%</td>
<td>33.7%</td>
<td>24.6%</td>
<td>23.1%</td>
</tr>
</tbody>
</table>

### Other Assets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Assets</strong></td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

## LIABILITIES AND EQUITY

### Current Liabilities

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>9.7%</td>
<td>5.3%</td>
<td>12.3%</td>
<td>10.4%</td>
<td>12.0%</td>
</tr>
<tr>
<td>Accruals</td>
<td>1.8%</td>
<td>0.9%</td>
<td>0.6%</td>
<td>1.4%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>26.7%</td>
<td>23.4%</td>
<td>16.4%</td>
<td>25.5%</td>
<td>33.3%</td>
</tr>
<tr>
<td>Other Payables</td>
<td>2.2%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>0.9%</td>
<td>3.8%</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>40.5%</td>
<td>32.0%</td>
<td>31.8%</td>
<td>38.3%</td>
<td>50.8%</td>
</tr>
</tbody>
</table>

### Long Term Liabilities

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Loans</td>
<td>13.7%</td>
<td>14.9%</td>
<td>19.4%</td>
<td>14.9%</td>
<td>8.9%</td>
</tr>
<tr>
<td>Officer Loans</td>
<td>10.6%</td>
<td>12.4%</td>
<td>12.8%</td>
<td>14.7%</td>
<td>18.0%</td>
</tr>
<tr>
<td>Other Loans</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total Long Term Liabilities</strong></td>
<td>24.3%</td>
<td>27.4%</td>
<td>32.2%</td>
<td>29.6%</td>
<td>26.8%</td>
</tr>
</tbody>
</table>

### Stockholder’s Equity

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Stock</td>
<td>3.7%</td>
<td>4.4%</td>
<td>4.5%</td>
<td>5.2%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Preferred Stock</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Additional Paid in Capital</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>31.5%</td>
<td>36.2%</td>
<td>31.5%</td>
<td>26.9%</td>
<td>17.1%</td>
</tr>
<tr>
<td><strong>Total Stockholder’s Equity</strong></td>
<td>35.2%</td>
<td>40.6%</td>
<td>36.0%</td>
<td>32.1%</td>
<td>22.4%</td>
</tr>
</tbody>
</table>

### TOTAL LIABILITIES & EQUITY

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOTAL LIABILITIES &amp; EQUITY</strong></td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
### ELGIN SHOE COMPANY, INC.

**CONSOLIDATED CASH FLOW**

6 MONTHS

December 31, 2002 through June 30, 2006

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Flows From Operating Activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>n/a</td>
<td>545,914</td>
<td>689,385</td>
<td>478,457</td>
<td>305,426</td>
</tr>
<tr>
<td>Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization and depreciation</td>
<td>n/a</td>
<td>157,719</td>
<td>121,288</td>
<td>117,078</td>
<td>111,746</td>
</tr>
<tr>
<td>Changes in assets and liabilities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>n/a</td>
<td>58,816</td>
<td>(105,495)</td>
<td>158,254</td>
<td>(180,458)</td>
</tr>
<tr>
<td>Inventories</td>
<td>n/a</td>
<td>(302,323)</td>
<td>65,204</td>
<td>(161,270)</td>
<td>(72,696)</td>
</tr>
<tr>
<td>Prepaid expenses and advances</td>
<td>n/a</td>
<td>(1,720)</td>
<td>(7,220)</td>
<td>22,181</td>
<td>16,306</td>
</tr>
<tr>
<td>Accounts payable and uncleared checks</td>
<td>n/a</td>
<td>(269,586)</td>
<td>197,113</td>
<td>(146,846)</td>
<td>43,007</td>
</tr>
<tr>
<td>Payroll taxes payable</td>
<td>n/a</td>
<td>(1,309)</td>
<td>2,293</td>
<td>(2,615)</td>
<td>1,573</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>n/a</td>
<td>10,101</td>
<td>(24,757)</td>
<td>(4,233)</td>
<td>1,681</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>n/a</td>
<td>197,613</td>
<td>937,811</td>
<td>461,006</td>
<td>226,586</td>
</tr>
</tbody>
</table>

| **Cash Flows From Investing Activities** |         |         |         |         |         |
| Purchases of property and equipment | n/a     | (46,778)| (621,095)| (175,980)| (136,410)|
| **Net cash from (used for) investing activities** | n/a     | (46,778) | (621,095) | (175,980) | (136,410) | |

| **FREE CASH FLOW** | n/a     | 150,835 | 316,716 | 285,026 | 90,176  |
| **STANDARDIZED FREE CASH FLOW** | n/a | 2.41%  | 4.89%  | 4.32%  | 1.41%  |
| **CASH FLOW RATIO (1.25 max)** | n/a     | 8.12    | 4.29    | 5.88    | 4.40    |

| **Cash Flows From Financing Activities** |         |         |         |         |         |
| Payment of dividends | n/a     | (306,438)| (360,039)| (134,709)| -       |
| Decrease in short-term bank debt | n/a     | 440,437 | (206,437) | (458,000) | (112,000) |
| Proceeds of long-term debt | n/a     | -       | 545,000  | 660,000  | 100,000 |
| Repayment of long-term notes | n/a     | (287,631)| (305,228) | -       | -       |
| Proceeds of stockholder notes | n/a     | -       | -       | 73,961  | 29,400  |
| Repayment of long-term debt | n/a     | -       | -       | (245,189) | (117,811) |
| Change in stockholder notes | n/a     | 2,638   | 2,814   | -       | -       |
| Repayment of stockholder notes | n/a     | -       | -       | (178,800) | (6,200) |
| **Net cash provided by financing activities** | n/a     | (150,994) | (323,890) | (282,736) | (106,611) |

| Net increase (decrease) in cash | n/a     | (159)   | (7,174) | 2,290   | (16,436) |
| Cash & equivalents at beginning of year | n/a     | 1,000   | 8,174   | 5,884   | 22,320   |
| Cash & equivalents balance at year end | n/a     | 841     | 1,000   | 8,174   | 5,884    |
## ELGIN SHOE COMPANY, INC.

### CONSOLIDATED SALES GROWTH

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
<th>2002</th>
<th>BDP*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SALES GROWTH</strong></td>
<td>7.6%</td>
<td>-3.6%</td>
<td>-1.8%</td>
<td>3.6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>COSTS OF SALES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Labor</td>
<td>0.0%</td>
<td>24.5%</td>
<td>23.5%</td>
<td>25.1%</td>
<td>25.4%</td>
<td>23.6%</td>
</tr>
<tr>
<td>Materials</td>
<td>0.0%</td>
<td>39.3%</td>
<td>41.5%</td>
<td>42.6%</td>
<td>41.1%</td>
<td>39.3%</td>
</tr>
<tr>
<td>Other COGS</td>
<td>77.4%</td>
<td>12.9%</td>
<td>11.0%</td>
<td>12.0%</td>
<td>14.9%</td>
<td>11.0%</td>
</tr>
<tr>
<td><strong>Total Costs of Sales</strong></td>
<td>77.4%</td>
<td>76.6%</td>
<td>76.1%</td>
<td>79.6%</td>
<td>81.4%</td>
<td>73.9%</td>
</tr>
<tr>
<td><strong>GROSS PROFIT</strong></td>
<td>22.6%</td>
<td>23.4%</td>
<td>23.9%</td>
<td>20.4%</td>
<td>18.6%</td>
<td>26.1%</td>
</tr>
<tr>
<td><strong>OPERATING EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selling Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commissions &amp; Sales Salaries</td>
<td>0.0%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.9%</td>
<td>1.0%</td>
<td></td>
</tr>
<tr>
<td>Advertising Expense</td>
<td>0.1%</td>
<td>0.9%</td>
<td>0.0%</td>
<td>0.1%</td>
<td>0.3%</td>
<td></td>
</tr>
<tr>
<td>Other Selling Expenses</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td><strong>Total Selling Expenses</strong></td>
<td>0.1%</td>
<td>0.9%</td>
<td>0.1%</td>
<td>1.0%</td>
<td>1.3%</td>
<td>0.1%</td>
</tr>
<tr>
<td>General and Administrative</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Officer's Salaries</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td>Administrative Salaries</td>
<td>6.6%</td>
<td>7.0%</td>
<td>6.7%</td>
<td>6.8%</td>
<td>6.4%</td>
<td></td>
</tr>
<tr>
<td>Other Operating Expenses</td>
<td>6.4%</td>
<td>4.8%</td>
<td>5.1%</td>
<td>3.3%</td>
<td>3.9%</td>
<td></td>
</tr>
<tr>
<td><strong>Total G&amp;A Expenses</strong></td>
<td>13.0%</td>
<td>11.8%</td>
<td>11.9%</td>
<td>10.1%</td>
<td>10.2%</td>
<td>10.1%</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>13.1%</td>
<td>12.8%</td>
<td>12.0%</td>
<td>11.1%</td>
<td>11.5%</td>
<td>10.2%</td>
</tr>
<tr>
<td>Interest</td>
<td>2.4%</td>
<td>2.0%</td>
<td>1.5%</td>
<td>2.2%</td>
<td>2.4%</td>
<td>2.0%</td>
</tr>
<tr>
<td><strong>OPERATING PROFIT</strong></td>
<td>7.1%</td>
<td>8.6%</td>
<td>10.5%</td>
<td>7.1%</td>
<td>4.7%</td>
<td>13.8%</td>
</tr>
<tr>
<td>Extraordinary Gain or Loss</td>
<td>0.1%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.1%</td>
<td></td>
</tr>
<tr>
<td>Other Gain or Loss</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td><strong>Net Income Before Tax</strong></td>
<td>7.2%</td>
<td>8.7%</td>
<td>10.6%</td>
<td>7.2%</td>
<td>4.8%</td>
<td></td>
</tr>
<tr>
<td>Income Tax</td>
<td>3.1%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td><strong>NET INCOME</strong></td>
<td>4.1%</td>
<td>8.7%</td>
<td>10.6%</td>
<td>7.2%</td>
<td>4.8%</td>
<td></td>
</tr>
</tbody>
</table>

### OTHER TRENDS

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working Capital</td>
<td>$1,345,048</td>
<td>1,571,324</td>
<td>1,378,927</td>
<td>1,284,562</td>
<td>892,620</td>
<td></td>
</tr>
<tr>
<td>Working Capital as % of Sales</td>
<td>20.0%</td>
<td>46.7%</td>
<td>22.1%</td>
<td>19.8%</td>
<td>13.5%</td>
<td></td>
</tr>
<tr>
<td>Working Capital % Increase</td>
<td>-14.4%</td>
<td>14.0%</td>
<td>7.3%</td>
<td>43.9%</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td>Working Capital Required</td>
<td>$1,974,078</td>
<td>1,324,503</td>
<td>1,271,833</td>
<td>1,325,861</td>
<td>1,734,679</td>
<td></td>
</tr>
<tr>
<td>Net Working Capital</td>
<td>-$629,030</td>
<td>246,821</td>
<td>107,094</td>
<td>-41,299</td>
<td>-842,060</td>
<td></td>
</tr>
</tbody>
</table>

*Best Demonstrated Performance (should be a corporate objective)
## CONSOLIDATED INCOME STATEMENT

**ELGIN SHOE COMPANY, INC.**

**MONTHS**

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td><strong>REVENUE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Sales</td>
<td>3,362,773</td>
<td>6,251,135</td>
<td>6,482,000</td>
<td>6,603,867</td>
<td>6,373,697</td>
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<tr>
<td><strong>COSTS OF SALES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Direct Labor</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Materials</td>
<td>-</td>
<td>1,528,853</td>
<td>1,532,071</td>
<td>1,657,466</td>
<td>1,616,145</td>
</tr>
<tr>
<td>Other COGS</td>
<td>2,602,560</td>
<td>803,504</td>
<td>710,203</td>
<td>789,351</td>
<td>949,449</td>
</tr>
<tr>
<td><strong>Total Costs of Sales</strong></td>
<td>2,602,560</td>
<td>4,789,571</td>
<td>4,931,135</td>
<td>5,259,216</td>
<td>5,186,360</td>
</tr>
<tr>
<td><strong>GROSS PROFIT</strong></td>
<td>760,213</td>
<td>1,461,564</td>
<td>1,550,865</td>
<td>1,344,651</td>
<td>1,187,337</td>
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<tr>
<td><strong>OPERATING EXPENSES</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Selling Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commissions &amp; Sales Salaries</td>
<td>952</td>
<td>3,146</td>
<td>8,725</td>
<td>59,978</td>
<td>63,312</td>
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<tr>
<td>Advertising Expense</td>
<td>3,741</td>
<td>54,306</td>
<td>-</td>
<td>8,408</td>
<td>19,659</td>
</tr>
<tr>
<td>Other Selling Expenses</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Selling Expenses</strong></td>
<td>4,692</td>
<td>57,452</td>
<td>8,725</td>
<td>68,386</td>
<td>82,971</td>
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<tr>
<td>General and Administrative</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Officer's Salaries</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Administrative Salaries</td>
<td>221,139</td>
<td>440,585</td>
<td>436,176</td>
<td>451,226</td>
<td>405,762</td>
</tr>
<tr>
<td>Other Operating Expenses</td>
<td>216,098</td>
<td>299,534</td>
<td>333,627</td>
<td>216,282</td>
<td>246,338</td>
</tr>
<tr>
<td><strong>Total G&amp;A Expenses</strong></td>
<td>437,236</td>
<td>740,119</td>
<td>769,802</td>
<td>667,509</td>
<td>652,100</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>441,928</td>
<td>797,571</td>
<td>778,528</td>
<td>735,894</td>
<td>735,071</td>
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<tr>
<td>Interest</td>
<td>80,959</td>
<td>127,854</td>
<td>94,964</td>
<td>143,002</td>
<td>152,921</td>
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<tr>
<td><strong>OPERATING PROFIT</strong></td>
<td>237,326</td>
<td>536,139</td>
<td>677,373</td>
<td>465,755</td>
<td>299,345</td>
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<tr>
<td>Extraordinary Gain or Loss</td>
<td>3,700</td>
<td>9,775</td>
<td>12,012</td>
<td>12,702</td>
<td>6,081</td>
</tr>
<tr>
<td>Other Gain or Loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net Income Before Tax</strong></td>
<td>241,026</td>
<td>545,914</td>
<td>689,385</td>
<td>478,457</td>
<td>305,426</td>
</tr>
<tr>
<td>Income Tax</td>
<td>103,641</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>NET INCOME</strong></td>
<td>137,385</td>
<td>545,914</td>
<td>689,385</td>
<td>478,457</td>
<td>305,426</td>
</tr>
</tbody>
</table>
## COMPANY OPERATING RATIOS

**ELGIN SHOE COMPANY, INC.**

**6 MONTHS**

December 31, 2002 through June 30, 2006

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>SOLVENCY</strong></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Acid Test</td>
<td>0.38</td>
<td>0.44</td>
<td>0.50</td>
<td>0.40</td>
<td>0.41</td>
</tr>
<tr>
<td>Current Ratio</td>
<td>1.68</td>
<td>2.19</td>
<td>2.08</td>
<td>1.97</td>
<td>1.51</td>
</tr>
<tr>
<td>Current Liabilities to Equity</td>
<td>115.04</td>
<td>78.92</td>
<td>88.40</td>
<td>119.51</td>
<td>226.56</td>
</tr>
<tr>
<td>Current Liabilities to Inventory</td>
<td>76.93</td>
<td>57.20</td>
<td>63.17</td>
<td>63.79</td>
<td>90.48</td>
</tr>
<tr>
<td>Debt to Equity Ratio (%)</td>
<td>183.95</td>
<td>146.34</td>
<td>178.02</td>
<td>211.87</td>
<td>346.40</td>
</tr>
<tr>
<td>Fixed Assets to Equity</td>
<td>90.53</td>
<td>73.79</td>
<td>93.78</td>
<td>76.57</td>
<td>103.26</td>
</tr>
<tr>
<td><strong>EFFICIENCY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collection Period (Days)</td>
<td>39.45</td>
<td>32.35</td>
<td>34.51</td>
<td>28.05</td>
<td>38.12</td>
</tr>
<tr>
<td>Sales to Inventory</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Assets to Sales</td>
<td>$72.45</td>
<td>$66.14</td>
<td>$61.71</td>
<td>$52.39</td>
<td>$53.63</td>
</tr>
<tr>
<td>Sales to Net Working Capital</td>
<td>$5.00</td>
<td>$3.98</td>
<td>$4.70</td>
<td>$5.14</td>
<td>$7.14</td>
</tr>
<tr>
<td>Accounts Payable to Sales (%)</td>
<td>14.09</td>
<td>3.48</td>
<td>7.61</td>
<td>5.46</td>
<td>6.45</td>
</tr>
<tr>
<td><strong>PROFITABILITY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on Sales (%)</td>
<td>4.09</td>
<td>8.73</td>
<td>10.64</td>
<td>7.25</td>
<td>4.79</td>
</tr>
<tr>
<td>Return on Assets (%)</td>
<td>5.64</td>
<td>13.20</td>
<td>17.23</td>
<td>13.83</td>
<td>8.94</td>
</tr>
<tr>
<td>Return on Equity (%)</td>
<td>16.01</td>
<td>32.53</td>
<td>47.92</td>
<td>43.13</td>
<td>39.89</td>
</tr>
</tbody>
</table>

- Inventory Turns: 1.01, 2.07, 2.45, 2.53, 2.71
- Working Capital on Assets (%): 0.28, 0.38, 0.34, 0.37, 0.26
- Cost of Goods Sold as a % of Sales: 0.77, 0.77, 0.76, 0.80, 0.81
- Gross Profit Margin (%): 0.23, 0.23, 0.24, 0.20, 0.19
- Payable Period (Days): 33.22, 16.60, 36.50, 25.04, 28.92
- Inventory to Working Capital (%): 1.91, 1.47, 1.46, 1.62, 2.15
- Current Assets to Total Assets: 0.68, 0.70, 0.66, 0.75, 0.77
- Operating Profit to Equity: 0.28, 0.32, 0.47, 0.42, 0.39
- Interest Coverage: 3.93, 5.19, 8.13, 4.26, 2.96
ACID TEST
A ratio of Current Assets (less Inventories) to Current Liabilities. A measurement of a company's ability to meet its obligations under stress. Should be 1 or more if the market is cyclical.

CURRENT RATIO
A ratio of Current Assets to Current Liabilities. A measurement of a company's ability to meet its obligations under normal conditions. Should be 2 or more if the market is cyclical.
DEBT TO EQUITY
A ratio of total debt to shareholder's equity. Should be no more than 50%. A measurement of creditor ownership of the company. Values above 100% indicate that the Firm is actually owned by its creditors and not its shareholders.

COLLECTION PERIOD
A measurement of the length of time the Firm's customers take to make payment in full. A high collection period is a constraint on Working Capital.
**ASSETS TO SALES ($)**

Measures the investment in assets to generate sales. A high ratio is an indication of poor asset utilization and poor sales management.

**ACCOUNTS PAYABLE TO SALES (%)**

A measure of the relationship between a company's bill-paying practice and its volume. High and increasing ratios are an indication that the firm is not self-funding but using its suppliers to finance its operations.
RETURN ON SALES (%)
Measures the profit in each dollar of sales. How does this compare with management's original plans? Is it consistent with industry standards?

RETURN ON ASSETS (%)
Measures the productivity of the firm's assets - the profit generated by each dollar invested in plant and equipment. A low ratio indicates management's failure to maximize the capabilities of the company's asset base.
RETURN ON EQUITY (%)
Measures the efficiency of a company's equity. This should be higher than prevailing Treasury Bill rates since stockholders would earn that return with no risk.

INVENTORY TURNOVER (turns)
Measures the ability of management to orchestrate its purchasing, manufacturing, and customer service functions in such a way as to minimize its inventory investment.
**WORKING CAPITAL TO ASSETS (%)**

Measures the money available to expand after current obligations are met. Declining ratios indicate a firm's decreasing ability to grow the business with its own funds.

**COST OF GOODS SOLD AS A % OF SALES**

Measures the direct costs residing in each dollar of sales. Increasing values are an indication of poor control of costs or product mix or both.
**GROSS PROFIT MARGIN**
This "inverse" of COGS measures the gross operating profit after all direct costs are paid. At a minimum this value should remain stable over time. Improvements in productivity should yield steady increases.

**PAYABLES PERIOD (days)**
Measures how long the firm takes to pay its suppliers. An increasing value indicates an increase in cash flow. Effective cash management enables the company to balance this with discounts taken.
INVENTORY TO WORKING CAPITAL
Measures the efficiency of inventory and purchasing control. In general, the relationship should not exceed .75.
THE EFFECTS OF IMPORTS ON THE FIRM:

a) Elgin’s product line, most especially its branded shoes, is easily copied by Chinese manufacturers and other producers globally. The effects have been a dramatic reduction in Elgin’s share of the domestic (non-uniform) dress and casual markets, significant price erosion, and a fundamental shift in the behavior patterns of the buying public, i.e. consumers have become accustomed to limited size selection:

(1) Before the advent of heavy importation, American manufacturers had established an extensive array of standard shoe sizes to choose from. For example, women’s sizes ranged from 4 to 12 in widths from 4A to EEEE while men’s ranged from 7 thru 16 in widths of 2A thru EEEEE. From the outset Chinese manufacturers elected to produce and ship shoes in fewer size categories – at prices significantly below what the U.S. market was accustomed to. The tactic worked very well. It worked so well that the typical American consumer, especially those that purchase footwear having outer soles of rubber, plastic or composition leather, has modified their behavior. They have concluded that a loss of choice is more than offset by the reduction in price.

b) Imports have also directly impacted the company’s future. It must consider whether or not it will expand its branded lines or retreat to markets where American-sourced product may be a statutory requirement (selected uniform/military markets).

c) Exports: Elgin Shoe Company has no export sales.
7. MARKETING AND SALES REVIEW:

a) ORGANIZATION:

(1) Elgin Shoe Company does not have a formal marketing business process. Sales and merchandising processes are managed by the firm’s President with support from his direct reports. There is no “sales force” in the traditional sense.

b) DISTRIBUTION CHANNELS:

(1) The company sells through three major and three sub distribution channels:

(a) Military procurement is pursued primarily through an infrequent bidding process at specialized government web sites. Once a bid is awarded in this market, it could be years before another RFP is issued.

(b) Retail Direct-to-Consumer

(i) Company-owned retail stores

(ii) Internet

(iii) Direct-mail Catalog

(c) Specialized wholesale distributors including department stores

(2) A majority of the company’s volume goes to the U.S. Military: DSCP (Defense Supply Center – Philadelphia), AAFES (Army & Air Force Exchange Services), and NEXCOM (Navy Exchange Service Command). However management realizes that for it to dramatically enhance its competitiveness it must increased its commercial footprint thereby reducing its dependence on government contracts.

(a) Contract Uniform sales 58.4%

(b) Men’s and Women’s Uniform sales 34.8%

(c) Women’s fashion 3.7%

(d) Specialty Manufacture 3.0%

(3) The company has watched its military procurement channel shrink primarily because of the war. For instance, battle fatigues are now approved for personnel while off base – but Elgin manufactures “dress” shoes. Similarly, demand for dress shoes of all kinds has weakened as part of an ongoing move towards more casual attire in the American workplace generally. The strengthening of this sub-
market noted earlier is a recent occurrence.
(4) Absent substantial improvement in the way Elgin Shoe addresses its chosen markets, the firm will continue to experience significant difficulty in expanding its commercial footprint. Imports primarily from China, with their much lower pricing (implying disposable footwear), will be a primary issue going forward.

c) **COMPETITION:**

(1) The company’s single largest competitor for branded casual and dress footwear is The Peoples Republic of China.

(2) In the Military Uniform market Elgin Shoe competes directly with DYNO World Wide, a billion dollar publicly traded manufacturer with global reach (developer of Hush Puppies and Docksides). Management estimates that its market share is easily one-tenth DYNO’s – evidenced by the fact that while Elgin sells 15,000 pairs of its Men’s Oxford annually to AAFES, DYNO sells 120,000 pairs.

(3) In the Women’s Wholesale Market, Elgin Shoe has numerous competitors (the largest being China): Easy Spirit (offering sizes from narrow to double-wide and selling globally), Easy Street, Magdesians, SAS, and others.

(4) In the Retail Catalog Market the firm’s largest competitor is the Regal Shoe Company. Similar to Elgin, Regal offers more than 500 styles in sizes 4 to 17 and widths AAAA to EEEEE.

d) **MARKETING PROCESS:**

(1) As previously stated, the company lacks a formal marketing business process. A significant weakness, given the large number of sub-markets addressed by the firm. Precise understanding of several elements (all of which could be considered moving targets – hence the need for a vigorous continuous approach) is required:

(a) “Customer Intelligence,” i.e. customer\(^1\) and consumer\(^2\) demographics in each market (indeed in each distribution channel), and the determinants of buying behavior,

(b) “Competitive Intelligence,” i.e. clarity regarding both the

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\(^{1}\) For the purposes of this analysis, this is defined as a wholesale business entity that re-sells Elgin Shoe products.

\(^{2}\) For the purposes of this analysis, this is defined as the ultimate consumer of the product for personal use.
global and domestic positions and trends of each major player – relative to the firm’s current and planned positions, (c) and “Market Dynamics Intelligence,” i.e. an in-depth understanding of the sometimes-subtle shifts in style, design, features, channel adjustments, and innovations in footwear technology as well as an understanding of the expansion and contraction of each submarket occurring continuously both domestically and globally.

(2) A market segmentation study might be considered a first step in acquiring the needed intel to identify buying segments and evaluate the company’s potential for capture within each. This would drive subsequent efforts at evaluation of the company’s effectiveness in advertising, promotion, merchandising, etc. and its chances at maximizing its performance within the four major sales process platforms illustrated below.

(3) Consistent with the dynamics thus identified, Elgin Shoe must consider the vigorous development of a marketing business process, distinct from its sales process and focused on the rapid expansion within all of its various operating markets as the primary corporate objective going forward. And, importantly, any plans should not ignore export opportunities.

e) **SALES PROCESS:**

   (1) As previously mentioned there is no sales force, in the traditional sense. The company’s primary salesman is its Chief Executive, George Elgin. He addresses sales to the military sub-market with assistance provided by John Jones, Vice President of Administration, sales to the wholesale sub-market with assistance provided by J. Painter, Vice President of Manufacturing, and sales to the wholesale and retail women’s fashion sub-markets with assistance from the company’s office staff as needed.

   (2) Military sales are through a periodic RFP process. Sales to non-military wholesale markets rely heavily upon Mr. Elgin’s personal relationships with the firm’s major customers. And consumer sales are dependent upon the company’s effectiveness at: web site and catalog design, the reach of its direct mailing lists, the extent to which its retail outlets communicate the company’s intended brand
strategy, and the vigor of its advertising and promotion campaigns.  

(3) The probability of the firm successfully selling more existing products to existing customers is considered good. Substantial e-commerce upgrades including pricing and the development of the ability for previous purchasers to acquire product directly online would be helpful in this effort, predicated on the statistical argument that a previously satisfied customer does not have as high a need to visit bricks & mortar as a new customer might, in order to make a buying decision. It is in the retailer’s interest, therefore to assemble whatever combination of systems might be necessary to encourage a strong digital relationship with the consumer.

(4) The probability of the firm successfully selling more existing products to new customers is limited only by the distribution channel bandwidth that Elgin Shoe can effectively manage. Increased physical and digital traffic, driven through advertising, promotion, merchandising, brand management, sponsorship activities, events, etc. would be essential in this effort as would an increased number of physical outlets, using an effective due diligence methodology for selection. Building or acquiring additional channels to facilitate an export strategy might also be considered. Several elements should be evaluated:

(a) The company is devoid of e-commerce capabilities. A primitive web site is all that provides its digital presence to the world.

(b) The company’s attempts at the development of an internal retail strategy are just beginning. Evaluation of its effectiveness would be premature. Retail success, for any business, is immensely dependent upon a variety of elements: store location, interior design/layout, the level of staff training, point-of-sale methodologies, the effectiveness of “feeder” tactics (i.e. advertising media and its timing), the mirrored images (the same “look & feel”) presented simultaneously by the web site and the bricks and mortar establishment, and a clear understanding that retail shopping

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17 During the 4 years, ’02 thru ’05, Elgin Shoe’s advertising expense averaged 0.33% of sales
in 21st century America has evolved into another form of entertainment. At minimum all of these must be orchestrated continuously to achieve corporate objectives.

(c) Direct mail advertising and catalog campaigns must be maximized such that they too effectively feed either the web site, company-owned retail outlets or re-seller sites.

(5) The probability of the company successfully selling new products to existing customers is considered good provided that the firm upgrades its understanding of this most important sub-group’s established behavior and buying patterns. The use of existing-customer intelligence to drive a new product development process such that it can consistently deliver the right mix of designs and styles that reflect that group’s preferences as they inevitably shift with time would be essential.

(6) The probability of the firm successfully selling new products to new customers is considered good. This is the toughest of all efforts, and should be attempted only after success is achieved in (3) through (5) above. It requires mastery of a professional marketing business process with commanding knowledge of: competitive intelligence, customer intelligence, consumer intelligence, and market dynamics that can drive an agile new product development process while providing guidance to the firm on distribution channel and supply chain decisions going forward. Success at this ultimate step in the sales continuum is essential if Elgin Shoe is serious about executing a quantum leap in its global competitiveness.

f) PRODUCT LINE:

(1) Elgin Shoe Company is a manufacturer of men and women’s dress and uniform/military footwear, traditionally offering a high level of quality and size variation to American consumers. The precipitous drop in domestic shoe production and the advancing march of imports clearly indicates low barriers to entry. Reinforcing this conclusion is the thoroughness with which domestic consumers have accepted the proposition that substantial restriction in size availability is a fair price to pay for access to cheap shoes. These developments suggest the commoditization of whole market segments, in turn suggesting that if a firm intends to stay and grow in
the branded American footwear manufacturing business it would do well to implement a corporate migration to focus upon market segments characterized by agile product innovation, design sophistication, and world-class distribution channel management.

g) ADVERTISING & PROMOTION
(1) As a proportion of total revenues during the past 4 years, the company has spent an average of one third of one percent on this business function. The largest chunk is in support of the women’s retail sector.
(2) Catalog releases are distributed via rented mailing lists. Ads have been placed in AARP magazine to secure additional lists of addresses. The corporate-owned retail stores have been advertised in local newspapers and radio, and the firm’s web site is promoted on E-bay.

h) NEW PRODUCT DEVELOPMENT
(1) Responsibility for this function falls to the firm’s Chief Executive. Those NPD activities that do exist are primarily evolutionary. The process is passive, dependent upon a customer requesting a change to an existing product or inquiring as to the feasibility of an alternative design. With the request in-hand, Mr. Elgin and colleagues will collaborate on the design of an item meeting the specifications as well as pricing requirements and submit these to the customer for approval.
(2) Following the achievement of its immediate short-term objective, i.e. increasing volume by increasing sales of existing products to both existing and new customers/consumers, the diversification of its markets through the development of new products is arguably the single most important management imperative facing Elgin Shoe. How the organization addresses this critical business process will have a powerful and lasting impact on its future. Unfortunately its current efforts are not market-driven to the extent necessary to assure success. The process does not originate from a thorough understanding of market segment dynamics, competitive intelligence, customer intelligence, or consumer intelligence. Without these basics

A “request” may consist of documentation and/or a prototype
it’s difficult, if not impossible, for the firm to produce a list of holes in its chosen markets\(^{19}\) to be addressed by the design, manufacturing, engineering, quality, sales, and financial organizations to turn out a prototype chain throughout the year at quick enough intervals to assure consistent and varied launches of multiple new products in a “style forward” fashion.

(3) There is no reason to believe that the markets currently addressed by this company (and any other markets that it might choose to address in the future) are fundamentally any different in their basic dynamics than markets in general. That is to say, in a free market economy, one should expect a normal distribution of success vs. failure with the launch of new products. Consequently, we should not be surprised to learn that fully 80% of all new product launches are either mediocre at best or miserable failures. Hence the impetus for maximizing the frequency, swiftness, and technical sophistication of new product development outcomes, i.e. speed to market with hard to make products.

(4) Such a migration is quite possible for Elgin Shoe Company. The journey will be of some length and not without its setbacks but the firm has the asset most critical for success – a top management that “get’s it.”

i) **PRICING TERMS & CONDITIONS**

(1) Pricing for all merchandise begins with a factory cost, taking into consideration the materials and labor involved in production. Additionally, the expected volume is folded into these calculations to ascertain overhead absorption rates that can be expected and competitive pricing is reviewed. Once all the information is at hand the President/CEO, Vice President/Administration, and Controller review it. A consensus is reached, and the price set.

\(^{19}\) i.e. a list of problems that customers and/or consumers are trying to solve that the firm may be able to solve for them
j) **Market Size & Growth**

The value of domestic shipments between 2002 and 2004 of men’s and women’s non-athletic footwear grew by 3.8%. During the same period exports declined by 11% and imports grew by 7.4%. The domestic U.S. market\(^{20}\) therefore grew some 7.7% to just under $17 billion. It’s important to note that imports represent $16.2 billion or 95% of that number.

7. **Manufacturing Review:**

a) **Facilities & Equipment**

(1) J. Painter, as Vice President of Manufacturing, is accountable for Elgin Shoe Company’s production operations. The firm is a fully integrated maker and seller of men’s and women’s shoes to the domestic U.S. market. It maintains corporate offices and a manufacturing/distribution facility in Anywhere, USA and Someplace, USA respectively. Retail stores, stocking both branded and non-branded products, are located within each facility. Buildings and equipment are very well maintained. Production machinery is unique. Most of it is designed and assembled specifically for each major operation in the manufacturing process. Although robotics is not utilized, a fare amount of automation has been introduced over the years to assure the company’s reputation for consistently high quality.

b) **Workforce**

(1) Elgin’ employees are highly skilled, producing a world-class product. But because of the effects of imports, the company’s ability to offer employment between

\(^{20}\) Domestic Shipments ($) – Exports ($) + Imports ($) = Domestic Market Size ($)
2002, and 2005 declined by 16.8%. Nevertheless, upper quartile performers in most industries are characterized by simultaneous performance improvements in sales volume, productivity, and employment over the longer horizon. This is because they understand the equality between a consistent increase in productivity and the consistent increase in productive capacity ... capacity subsequently to be filled by more products to be made and sold. Increases in productivity not coincident with attendant increases in employment are generally viewed as a marketing failure. If productivity growth is not sustained, substantial improvement in market share will be difficult since the only way to achieve it will be through the acquisition of more physical (and not human) assets. It would appear that management’s concerns about the firm’s track record in the development of quantities of new products that can be produced to expand and diversify its markets are well founded. And because of the equivalency of productivity and capacity, management is aware of the marketing failure signaled by increasing operating efficiencies, absent concomitant increases in employment. The initiatives planned will reverse that situation over time as the firm’s ability to capture share improves.

c) Supervision

(1) The company has dedicated well qualified and passionate people. The company continues to invest in its productivity with favorable results apparent. Indeed, its Total Cost of Sales, expressed as a percentage of Sales, has declined by almost 5 points since 2002 producing a 23% improvement in Elgin’ Gross Profit Margin.

d) Customer Service

(1) Elgin Shoe has been awarded “exceptional” ratings, but other than strong anecdotal evidence, the firm does not formally measure or track its performance in this area consistent with globally competitive requirements. This weakness will grow in importance as
the firm implements expansion plans for its branded product lines.

(2) Most consumers do not know their shoe size. The company is vulnerable to the growth of “sent-backs” – the practice of consumers initially ordering several shoes at one time in different sizes, trying them on and then returning those that don’t fit, for a refund. An argument could be made that the practice is inevitable – a direct result of on-line and/or catalogue sales capabilities, and that it is a cost of doing business. This could be right. But absent control methodologies, it will grow as the firm increases its non-military footprint.

e) OPERATIONS/PRODUCTION

(1) The company’s production processes have a variety of elements that are traditional within its industry. The sequence of transactions involves specialized labor beginning with virgin materials that must be cut such as to optimize material usage21, i.e. uppers of leather, plastic, or composition material and soles of rubber or leather, through to multi-level finishing operations. Planning and scheduling are manually performed. Orders are split into case quantities of 12 pairs each. Each case is then identified by its unique case number. Each case number is then assigned a “tag” listing all pertinent production information for that case. The tag’s progress through each manufacturing step is then tracked. As each completes its final step, the date of completion is listed on the case by the planning manager. The Vice President of Administration then records this fact in the firm’s Office Master System (OMS). This final step relieves the production order and updates available inventory in Elgin’ financial system.

f) TECHNOLOGY

(1) The company does not have an IT function in the traditional sense. Elgin Shoe employs a PC-based network with Windows-based software for its IT needs. The firm uses a mix of manual and automated methodologies to control its supply chain. Its approach to

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21 As with the apparel industry (but more complex because the geometry of each piece of raw material used in the footwear industry is unique), the production operation’s challenge is to maximize the number of patterns that can be cut from each unique hide.
MRP (Materials Requirements Planning) is a hybrid but primarily manual. Production planning is essentially manual and driven by replenishment requirements. QuickBooks Pro (accounting systems), Office Master System (inventory tracking), and SATRASumm (material usage tracking) are utilized.

(2) The firm’s information technology system will undergo increasing stress as the volume, complexity, and speed of change to its product mix grows, consistent with the various marketing and sales upgrades planned.

g) **PROCUREMENT**

(1) Replenishment triggers for raw materials, i.e. leather, leather/plastic compositions, rubber, etc. are straightforward. The nature and variety of the materials consumed dictates that the firm maintains an extensive array in-house. When orders are received, requirements are allocated from existing inventory. A purchase order is generated to cover any shortfalls. Procurement can also be driven by a favorable material price variance as a result of quantity buys, the need to produce NPD prototypes or variations in inventory levels as determined by physical count.

8. **SUPPORT SYSTEMS REVIEW**

a) **QUALITY ASSURANCE**

(1) The manufacturing organization assures the quality of its own output. Quality standard MIL-I-45208 is followed throughout the factory. Entitled "An Inspection System," this quality specification pertaining to military items sets forth the objectives and essential elements of an inspection system. DoD canceled it a few years ago (along with the calibration standard MIL-STD-45662). However many contracting officers still require its elements be in place. It requires the manufacturer to thoroughly document its inspection system to assure continuity.

(2) Management is satisfied with the results.

b) **MIS**

(1) The company has networked PCs but no IT-based Management Information System and business process consistent with global competition. Consequently, it may find itself vulnerable in several areas as it grows: materials requirements planning, standard cost
reduction, retail inventory controls, managerial finance, business planning, budgeting, market planning, brand management, customer intelligence, customer service, consumer intelligence, market dynamics intelligence, etc.

(2) Elgin Shoe plans enhancements to its web presence for the collection, and analysis of intelligence (market, consumer and customer), and the facilitation of e-commerce.
### IV. ANALYSIS OF STRENGTHS, WEAKNESSES AND SOLUTIONS:

#### MANAGEMENT

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
<th>SOLUTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passionate</td>
<td>Evolving retail experience</td>
<td>Implement management training process re: managerial finance, marketing,</td>
</tr>
<tr>
<td>Reliable &amp; hardworking</td>
<td>Minimal turnover</td>
<td>retail systems, new product development, standard cost reduction, e-commerce,</td>
</tr>
<tr>
<td>Minimal turnover</td>
<td>Limited marketing orientation</td>
<td>customer relationship management, etc.</td>
</tr>
<tr>
<td>Excellent technical skills</td>
<td>Limited new product development capabilities</td>
<td>Establish a formal &amp; distinct retail management business process</td>
</tr>
<tr>
<td>Decades of experience in the</td>
<td>Limited “systems” orientation</td>
<td>Develop and implement a marketing business process</td>
</tr>
<tr>
<td>shoe industry</td>
<td>No business planning process</td>
<td>Develop and implement business planning &amp; budgetary management processes</td>
</tr>
<tr>
<td></td>
<td>No budgetary process</td>
<td>Implement a market-driven new product development process</td>
</tr>
</tbody>
</table>
PRODUCT LINE & INDUSTRY

**STRENGTHS**
- Relative stability of the military/uniform market
- Statutory requirement for domestically sourced materials in the military market
- The market’s high end is currently not addressed by Chinese imports

**WEAKNESSES**
- Mature markets
- Market fragmentation
- Significant level of import share of domestic market
- The power of high volume re-sellers
- Constrained retail distribution channel
- Level of share owned by non-Chinese importers at the high end
- Relatively low barrier to entry in high volume lines
- Consumer buying behavior shift to accommodate limited import size range
- Commoditization of market low end
- Style shifts at the market’s high end that can be frequent and swift
- Agile & market-driven NPD required to play in the high end of the market
- Infrequent bidding opportunities in military market
- Shift in military dress regs to public battle dress
- Increased market demand for “total quality” product, i.e. simultaneously the lowest price + highest intrinsic quality + highest degree of speed to market

**SOLUTIONS**
- Planned migration from commoditized low end to market-driven, design sensitive high end
- Corporate brand development & management
- Market-driven new product development
- Expansion of military/uniform distribution channel
- Expansion of wholesale distribution channel
- Expansion of digital distribution channels
- Accelerate corporate integration of retail (catalogue and bricks & mortar), wholesale, and digital channels (e-commerce capabilities)
- Develop consumer intel gathering capabilities such that NPD efforts can overtake style curve & not react to it
## MARKETING & SALES

### STRENGTHS
- Experienced sales leadership
- Consistently excellent ratings from military procurement office re: quality & responsiveness

### WEAKNESSES
- No marketing process
- Limited sales force
- No retail strengths
- Vulnerability to wholesalers
- No brand management
- No merchandising management
- No product management
- Limited customer intelligence
- Limited consumer intelligence
- Limited market dynamics intelligence
- Passive new product development
- Limited sales planning
- No market planning
- Constrained distribution channels
- No e-commerce capabilities
- Primitive web site
- Primitive digital customer relationship
- Limited CRM capabilities
- Limited catalogue distribution effectiveness

### SOLUTIONS
- Establish a formal marketing business process distinct from Elgin Shoe’s sales process
- Identify long-term industry trends, customer & consumer demands, and technical innovations as well as recommend economical market demands that impact customer & consumer decisions.
- Review the company’s current marketing and sales activities for their effectiveness at increasing market intelligence (both customer & competitive), increasing sales, increasing profits, and increasing share.
- Establish a formal product management process
- Perform formal market research
- Perform formal customer focus group analysis
- Assess the company based on innovative designs, pricing, cost, intrinsic quality, delivery speed, design & production capabilities, customer service, etc. & compare these attributes with global market requirements.
- Integrate formal new product...
development methodologies with all corporate functions

- Upgrade both customer and competitor intelligence methodologies
- Upgrade web & e-commerce capabilities making the web site the primary consumer portal
- Perform benchmarking and gap analysis to distinguish Elgin Shoe from its competitors
- Develop plans to dramatically expand both corporate-owned and wholesale retail channels
- Develop and implement a formal, market-driven new product development business process

MANUFACTURING

STRENGTHS

- Knowledgeable, experienced, hardworking operations management & workforce
- Well maintained facilities & equipment
- Improved COGS
- SATRA systems usage

WEAKNESSES

- Manual planning & inventory control capabilities
- Defense business capacity planning & level loading systems vs. customer service levels
- 21% inventory growth during a period of 2% sales decline
- excess capacity

SOLUTIONS

- Evaluate current approach to planning & scheduling and their influences upon inventory investment & customer service as growth in branded lines materializes
FINANCIAL

STRENGTHS
• Internally generated monthly statements
• Standard costing system
• Metrics frequently reviewed
• Financial accountability
• Office Master System (OMS) for inventory control
• QuickBooks Pro & ADP for accounting & payroll management respectively

WEAKNESSES
• Limited tracking & control of free cash flows
• Limited budgetary process
• Limited business planning process
• Limited retail financial systems
• Financial skill sets of key management

SOLUTIONS
• Develop & implement formal cash flow analysis as a standard element in financial control process
• Evaluate current approaches to business planning & budgeting processes vs. that required by planned growth
• Train key managers as financial managers

COMPUTER SYSTEMS/TECHNOLOGY/MIS

STRENGTHS
• DSL internet access
• Inventory control systems
• Accounting systems
• Leather optimization system

WEAKNESSES
• No e-commerce
• Limited web presence & functionality
• Retail POS systems
• CRM systems

SOLUTIONS
• Evaluate current approach to e-commerce vs. that required by growth plans
• Evaluate current web site functionality vs. that required by growth plans
• Evaluate current approach to CRM, & retail POS systems
V. **RECOVERY PLAN**

A. **Strategy** – Elgin Shoe Company has much strength, a management with substantial experience in the industry, production capabilities, and capacity adequate to the challenge, a willingness to explore the retail arena, and a strong balance sheet – critical assets if it is to dramatically strengthen its presence in its industry. In order to significantly strengthen its global competitiveness, Elgin Shoe Company plans to develop and implement a formalized marketing business process to enable its “direct to customer” strategy going forward, the penetration and diversification of its markets, and the development of a market-directed new product development effort. Additionally, and in full support of this plan, the firm will evaluate and enhance its systems (and associated training) for: MIS, financial management, manufacturing planning, and inventory control as growth occurs.

- Develop a formal marketing business process
- Upgrade market research capabilities
- Upgrade retail data management systems
- Refine systems of customer/consumer/competitive/market dynamics intel
- Upgrade web site, retail & wholesale e-commerce, POS functionality
- Upgrade New Product Development process
- Upgrade related internal support systems as required
- Implement related training as required

This program will strengthen overall business practices, lead to higher levels of competitiveness, and accelerate the firm’s speed along its competitive pathway thereby strengthening its ability to offer employment opportunities within the region.

1. **SPECIFIC FUNCTIONAL OBJECTIVES** - To strengthen its competitive position, the firm intends to implement major projects in the areas of Marketing/Sales, New Product Development, and related Systems.

a) **MARKETING/SALES:**
   - Develop marketing and sales plans fully integrated with Elgin’ business planning process.
   - Upgrade corporate web site
   - Develop e-commerce capabilities
- Strengthen Elgin Shoe’s catalogue re: design, distribution bandwidth, and its linkage to both web and e-commerce efforts
- Perform market research to broaden management’s understanding of:
  - Current industry and sub-market trends and the company’s role to identify realistic market share targets with attainment strategies consistent with the business planning process
  - Customer buying decision-making process
  - Consumer buying decision-making process
  - Strategies for market diversification given existing corporate capabilities
  - To ascertain the gap between existing corporate capabilities and those needed for planned expansion
  - Develop critical factors for marketing and sales success and tracking methodologies for those factors vs. corporate objectives
- Evaluate the effectiveness of existing sales planning process, skill sets, management process, organizational development, and performance against corporate objectives established in the Marketing plan.
- Perform gap analysis of the sales capabilities that exist with those required for newer strategies and market share growth objectives
- Evaluate current retail systems re:
  - Store design
  - Staff skills & training needs
  - Point-of-sale systems
  - Consumer experience
  - Merchandising and promotional campaigns
- Profitability & inventory controls
- Consumer intel data capture
- Train as necessary

b) **NEW PRODUCT DEVELOPMENT**

- Evaluate the effectiveness of existing NPD efforts.
- Perform gap analysis of existing NPD capabilities and those required by the vision outlined in the Marketing Plan.
- Develop optimal operational and tracking methodologies integrating all business processes in the effort
- Develop optimal metrics addressing: launch velocity and frequency, payload sophistication, investment payback, ROI, share achievement, profitability, standardized free cash flow achievement, etc.
- Develop specific critical factors for NPD success and appropriate tracking mechanisms for their achievement

c) **SYSTEMS**

- Evaluate current systems vis-à-vis their appropriateness in support of planned upgrades to marketing, sales, and new product development initiatives:
  - Consumer demographics intel data capture
  - Customer intel data capture
  - Market dynamics intel data capture
  - Customer relationship management
  - Customer service levels
  - Retail profitability
  - Production planning & inventory control
  - NPD investment performance tracking
2. **MILESTONES:**

This proposal, adjunct to the investments already planned by the firm in addressing its objectives, is reasonably calculated to materially contribute to the economic adjustment of Elgin Shoe Company, Inc. Obtaining technical assistance for the above four (4) business processes will be the key factor in the implementation phase of this Adjustment Plan. Additional strategies will most likely be identified as the initiatives outlined here are implemented. The company will implement those too, as natural steps on its path toward stronger global competitiveness in its chosen markets.
3. **Use of Own Resources:**

The use of the firm's available resources to carry out this Adjustment Plan will be substantial. The table below displays an estimate of the partial cost to implement an Adjustment Plan for the firm over the next two to three years.

It is anticipated that Elgin Shoe Company’s contribution to its economic recovery over the next five years will be substantial and consistent with its history of re-investing as follows:

<table>
<thead>
<tr>
<th>Activity</th>
<th>TAA Expense</th>
<th>Other Expenses</th>
<th>Fixed Assets</th>
<th>Total Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diagnostic &amp; AP</td>
<td>$2,997.50</td>
<td>$0</td>
<td>$0</td>
<td>$2,997.50</td>
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<tr>
<td>Marketing/Sales Upgrade</td>
<td>$42,000.00</td>
<td>$85,000.00</td>
<td>$20,000.00</td>
<td>$147,000.00</td>
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<tr>
<td>NPD Upgrade</td>
<td>$14,000.00</td>
<td>$60,000.00</td>
<td>$0</td>
<td>$74,000.00</td>
</tr>
<tr>
<td>Systems Upgrade</td>
<td>$14,000.00</td>
<td>$0</td>
<td>$60,000.00</td>
<td>$74,000.00</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$72,997.50</strong></td>
<td><strong>$145,000.00</strong></td>
<td><strong>$80,000.00</strong></td>
<td><strong>$297,997.50</strong></td>
</tr>
</tbody>
</table>

4. **Interests of Employees**

Elgin Shoe Company’s current employee relations practices demonstrate an ongoing concern for their welfare. The company plans to train and promote from within into first line supervisory and management positions where possible as growth occurs. The severe impact on the firm from imports has precluded its ability to aggressively pursue this policy and is a primary reason for ownership’s desire to become a part of the TAA program. The firm will hire and train new employees as the anticipated increase in sales and production activities continues to create a demand for talented personnel. Former employees subjected to a reduction in force will be given preference in rehiring activities. The proposed Adjustment Plan is consistent with the firm's concern for its workforce. The firm’s sales expansion efforts will first stabilize the current level of employment, and ultimately increase it.

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22 Sales force ramp up
23 Measurement & prototype equip.
24 Support equip
25 Related hardware & software
SCOPE OF WORK

1. MARKETING & SALES

ESTIMATED COST: $84,000.00

OBJECTIVE:
To support the company’s efforts to grow its product lines (thru greater market penetration, breadth, and diversity), provide for the development of newer methodologies and technologies for the gathering and assessment of customer, consumer, competitive and related market dynamics intelligence and to develop Elgin Shoe’s approach to a digital relationship with its customer base.

- Implement a formal Marketing process, distinct from the firm’s sales process to direct its new product development efforts and diversify its markets
- Assess current marketing process and performance
- Assess marketing plan development
- Conduct gap analysis of current informal marketing function and that formally required by global competition
- Conduct market research as appropriate
- Implement training and organizational adjustments to close the gaps thus identified
- Develop and implement Product Management function and process
- Upgrade existing methodologies for both customer and competitive intelligence: focus groups, exit interviews, consumer polling, etc.
- Determine proper margins by product category and mix
- Analyze and develop a critical understanding of the various markets in which Elgin Shoe currently participates
- Develop critical understanding of the footwear sub-markets and the company’s niche in its customer’s and consumer’s buying process
- Market research to confirm the company’s approach to retail floor plan design concepts, customer experience profiles, point-of-sale methodologies, etc.
- Geographically-based market research to ascertain Elgin Shoe’s most profitable consumer demographics with a focus on the nuances that
might differentiate geographic areas, genders or age cohorts

- Compare Elgin Shoe’s performance profile to global market requirements with an emphasis on the degree of appropriateness of the firm’s stated corporate objectives re: price, quality and delivery

- Compare the company’s web presence to global market requirements

- Upgrade web site and global e-commerce capabilities such that the web presence becomes the primary consumer portal to Elgin Shoe Company, Inc.

- Develop media based, electronic, and digital merchandising, advertising, and messaging processes to build and support that portal going forward

- Assess current selling process and performance

- Assess sales plan development

- Conduct gap analysis of current sales function and that required by the marketing plan

- Implement training and organizational adjustments to close the gap thus identified

- Establish opportunities for increased volume through existing and new customers with existing products and channels

- Establish opportunities for increased volume through existing and new customers with new products and channels

- Develop cluster analysis to identify problems, opportunities, and patterns re: geography, industry, price points, product lines, channels, etc.

- Measure profitability by product mix to focus on growth in the most profitable products

- Measure profitability by product category/cluster to focus on high margin categories and clusters

- Design, and implement formalized sales support of new product development protocols that are fully integrated with marketing & business plans

- Develop plans to profitably expand the firm’s volume in support of management’s plan to utilize existing capacity
2. **New Product Development**  

**Estimated Cost:** $28,000.00

**Objective:**
To evaluate the company’s current NPD practices and their appropriateness to its plans for diversification, growth, and global competitiveness. To develop a “production shop” approach such that the frequency and the velocity of launch and the value added sophistication of the product payload are continuously improved over time. To increase capacity utilization through the growth of market penetration, and diversification. To provide a logical pathway for the firm to evolve its core strategies through diversification of the markets it chooses to address.

- Evaluate current methodology of New Product Development
- Establish the marketing business process as the driver
- Establish a formal product planning process
- Establish a budgetary framework appropriate for all related investments, and expenses
- Establish managerial-financial controls for the tracking of minimal levels of investment performance, i.e. minimum returns, minimum paybacks, minimum share achievement, revenue harvest timelines, etc.
- Train all key managers as financial managers
- Train all key managers as project managers
- Design new product development value stream through all relevant functions of the organization
- Develop a stand alone NPD Action Team held accountable for the regular and periodic launch of products conforming to minimum levels of acceptable performance re: launch window, profitability, Return on Investment, Contribution Margin, Free Cash Flow generation, Market Share growth, etc.
- Determine individual participants from each major functional discipline. Such group should include individuals with total authority to represent the interests of: Marketing, Sales, Production, QA, Finance, Procurement, Distribution, Materials Management, etc.
- Establish a customer/consumer needs-identification process, i.e. a new product specifications process and presentation schedule for the NPD Action Team
- Develop and establish data driven metrics for short-turnaround tracking methodology
- Develop training appropriate for upgrade of participant skill sets in project management, product costing, concurrent design, JIT techniques, etc.

3. **SYSTEMS DEVELOPMENT**

**ESTIMATED COST: $28,000.00**

**OBJECTIVE:**

The establishment of digital methodologies in support of the achievement, and measurement of success in Elgin Shoe’s efforts to upgrade its Sales, Marketing, and New Product Development business processes.

- Evaluate current systems capabilities vis-à-vis planned upgrades in Marketing, Sales, and New Product Development, i.e. establish the degree to which current systems capabilities can be expected to support the achievement of success
- Evaluate current systems capabilities, i.e. establish the degree to which they can be expected to support the measurement of success
- Conduct gap analysis of current processes (both digital and manual) vs. that formally required by global competition in marketing, sales, and NPD processes
- Develop and design systems bundles appropriate to findings thus identified
- Install and de-bug as appropriate
- Train as appropriate