CASE 5.3

FLY-BY-NIGHT INTERNATIONAL GROUP: CAN THIS COMPANY BE SAVED?

Douglas C. Mather, founder, chairman, and chief executive of Fly-by-Night International Group (FBN), lived the fast-paced, risk-seeking life that he tried to inject into his company. Flying the company's Learjets, he logged twenty-eight world speed records. Once he throttled a company plane to the top of Mount Everest in three and a half minutes.

These activities seemed perfectly appropriate at the time. Mather was a Navy fighter pilot in Vietnam and then flew commercial airlines. In the mid-1970s, he started FBN as a pilot training school. With the defense buildup beginning in the early 1980s, Mather branched out into government contracting. He equipped the company's Learjets with radar jammers and other sophisticated electronic devices to mimic enemy aircraft. He then contracted his "rent-an-enemy" fleet to the Navy and Air Force for use in fighter pilot training. The Pentagon liked the idea and FBN's revenues grew to $55 million in the fiscal year ending April 30, Year 14. Its common stock, issued to the public in Year 9 at $8.50 a share, reached a high of $16.50 in mid-Year 13. Mather and FBN received glowing write-ups in *Business Week* and *Fortune.*

In mid-Year 14, however, FBN began a rapid descent. Although still growing rapidly, its cash flow was inadequate to service its debt. According to Mather, he was "just dumbfounded. There was never an inkling of a problem with cash."

In the fall of Year 14, the board of directors withdrew the company's financial statements for the year ending April 30, Year 14, stating that there appeared to be material misstatements that needed investigation. In December of Year 14, Mather was asked to step aside as manager and director of the company pending completion of an investigation of certain transactions between Mather and the company. On December 29, Year 14, NASDAQ (over-the-counter stock market) discontinued quoting the company's common shares. In February, Year 15, the board of directors, following its investigation, terminated Mather's employment and membership on the board.

Exhibits 5.23 to 5.25 present the financial statements and related notes of FBN for the five years ending April, Year 10, through April, Year 14. The financial statements for Year 10 to Year 12 use the amounts as originally reported for each year. The amounts reported on the statement of cash flows for Year 10 (for example, the change in accounts receivable) do not precisely reconcile to the amounts on the balance sheet at the beginning and end of the year because certain items classified as relating to continuing operations on the balance sheet at the end of Year 9 were reclassified as relating to discontinued operations on the balance sheet at the end of Year 10. The financial statements for Year 13 and Year 14 represent the restated financial statements for those years after the board of directors completed its investigation of suspected material misstatements that caused it to withdraw the originally issued financial statements for fiscal Year 14. Exhibit 5.26 lists the members of the board of directors. Exhibit 5.27 presents profitability and risk ratios for FBN.

Required

Study these financial statements and notes and respond to the following questions:

a. What evidence can you observe from analyzing the financial statements that might signal the cash flow problems experienced in mid-Year 14?

b. Can FBN avoid bankruptcy during Year 15? What changes in either the design or implementation of FBN's strategy would you recommend? To compute Altman's

equipment. The projected balance excludes the cost of acquiring the building, its related debt, the cash to be received at the time of transfer, and rental revenues from leasing the unused 40 percent of the building to other businesses.

Accumulated Depreciation: Continuation of the historical relation between depreciation expense and the cost of property, plant, and equipment.

Other Assets: A new financial reporting standard no longer requires amortization of intangibles after Year 11.

Accounts Payable: Days accounts payable outstanding, based on the average accounts payable balances, will be 97 days in Year 12 and 89 days in Year 13. The decrease in days payable reflects the ability to pay suppliers more quickly with the proceeds of the increased bank loan.

Notes Payable: Projected to increase by the amount of the bank loan in Year 12 and to decrease by the loan repayment at the end of Year 13.

Other Current Liabilities: The large increase at the end of Year 11 resulted from a major promotional offer in the fall of Year 11, which increased the amount of deposits by customers. The projected amounts for Year 12 and Year 13 represent more normal expected levels of deposits.

Long-Term Debt: Long-term borrowing represents loans from shareholders to the company. The company does not plan to repay any of these loans in the near future.

Retained Earnings: The change each year represents net income or net loss from operations. The company does not pay dividends.

Statement of Cash Flows: Amounts are taken from the changes in various accounts on the actual and projected balance sheets.

Notes to Financial Statements

Note 1: The company has incurred legal costs to enforce its option to purchase the building used in its manufacturing and administrative activities. The case is under review by the Massachusetts Supreme Court, with a decision expected in the spring of Year 12.

Note 2: The company is not subject to income tax because it has elected Subchapter S tax status.

Note 3: The notes payable to banks are secured by machinery and equipment, shares of common stock of companies traded on the New York Stock Exchange owned by two shareholders, and personal guarantees of three of the shareholders. The long-term debt consists of unsecured loans from three shareholders.

Note 4: Other current liabilities include the following:

	Year 8	Year 9	Year 10	Year 11
Customer Deposits	$11,278	$ 9,132	$20,236	$59,072
Employee Taxes Withheld	2,062	2,308	3,230	3,368
	$13,340	$11,440	$23,466	$62,440

Required (Excel spreadsheet available at academic.cengage.com/accounting/stickney for this case.)

Would you make the loan to the company in accordance with the stated terms? In responding, consider the reasonableness of the company's projections, positive and negative factors affecting the industry and the company, and the likely ability of the company to repay the loan.

Exhibit 5.23

Fly-by-Night International Group
Comparative Balance Sheets
(amounts in thousands)
(Case 5.3)

April 30:	Year 14	Year 13	Year 12	Year 11	Year 10	Year 9
Assets						
Cash	$ 159	$ 583	$ 313	$ 142	$ 753	$ 192
Notes Receivable	—	—	—	1,000	—	—
Accounts Receivable	6,545	4,874	2,675	1,490	1,083	2,036
Inventories	5,106	2,514	1,552	602	642	686
Prepayments	665	829	469	57	303	387
Net Assets of Discontinued Businesses	—	—	—	—	1,926	—
Total Current Assets	$ 12,475	$ 8,800	$ 5,009	$ 3,291	$ 4,707	$ 3,301
Property, Plant, and Equipment	$106,529	$76,975	$24,039	$17,809	$37,250	$17,471
Less Accumulated Depreciation	(17,231)	(8,843)	(5,713)	(4,288)	(4,462)	(2,593)
Net	$ 89,298	$68,132	$18,326	$13,521	$32,788	$14,878
Other Assets	$ 470	$ 665	$ 641	$ 1,112	$ 1,566	$ 1,278
Total Assets	$102,243	$77,597	$23,976	$17,924	$39,061	$19,457
Liabilities and Shareholders' Equity						
Accounts Payable	$ 12,428	$ 6,279	$ 993	$ 939	$ 2,285	$ 1,436
Notes Payable	—	945	140	1,021	4,766	—
Current Portion of Long-Term Debt	60,590	7,018	1,789	1,104	2,774	1,239
Other Current Liabilities	12,903	12,124	2,423	1,310	1,845	435
Total Current Liabilities	$ 85,921	$26,366	$ 5,345	$ 4,374	$11,670	$ 3,110
Long-Term Debt	—	41,021	9,804	6,738	20,041	9,060
Deferred Income Taxes	—	900	803	—	1,322	1,412
Other Noncurrent Liabilities	—	—	226	—	248	—
Total Liabilities	$ 85,921	$68,287	$16,178	$11,112	$33,281	$13,582
Common Stock	$ 34	$ 22	$ 21	$ 20	$ 20	$ 20
Additional Paid-In Capital	16,516	5,685	4,569	4,323	3,611	3,611
Retained Earnings	(29)	3,802	3,208	2,469	2,149	2,244
Treasury Stock	(199)	(199)	—	—	—	—
Total Shareholders' Equity	$ 16,322	$ 9,310	$ 7,798	$ 6,812	$ 5,780	$ 5,875

Exhibit 5.24

Fly-by-Night International Group
Comparative Income Statements
(amounts in thousands)
(Case 5.3)

For the Year Ended April 30:	Year 14	Year 13	Year 12	Year 11	Year 10
Continuing Operations					
Sales	$54,988	$36,597	$20,758	$19,266	$31,992
Expenses					
Cost of Services	$38,187	$26,444	$12,544	$ 9,087	$22,003
Selling and Administrative	5,880	3,020	3,467	2,989	4,236
Depreciation	9,810	3,150	1,703	2,798	3,003
Interest	5,841	3,058	1,101	2,743	2,600
Income Taxes	(900)	379	803	671	74
Total Expenses	$58,818	$36,051	$19,618	$18,288	$31,916
Income—Continuing Operations	$(3,830)	$ 546	$ 1,140	$ 978	$ 76
Income—Discontinued Operations	—	47	(400)	(659)	(171)
Net Income	$(3,830)	$ 593	$ 740	$ 319	$ (95)

Z-score, use the low-bid market price for the year to determine the market value of common shareholders' equity.

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Consolidation. The consolidated financial statements include the accounts of the company and its wholly owned subsidiaries. The company uses the equity method for subsidiaries not majority owned (50 percent or less) and eliminates significant intercompany transactions and balances.

Inventories. Inventories, which consist of aircraft fuel, spare parts, and supplies, appear at lower of FIFO cost or market.

Property and Equipment. Property and equipment appear at acquisition cost. The company capitalizes major inspections, renewals, and improvements, while it expenses replacements, maintenance, and repairs that do not improve or extend the life of the respective assets. The company computes depreciation of property and equipment using the straight-line method.

Contract Income Recognition. Contractual specifications (such as revenue rates, reimbursement terms, and functional considerations) vary among contracts; accordingly, the company recognizes guaranteed contract income (guaranteed revenue less related direct costs) either as it logs flight hours or on a straight-line monthly basis over the contract year, whichever method better reflects the economics of the contract. The company recognizes income from discretionary hours flown in excess of the minimum guaranteed amount each month as it logs such discretionary hours.

Exhibit 5.25

Fly-by-Night International Group
Comparative Statements of Cash Flows
(amounts in thousands)
(Case 5.3)

For the Year ended April 30:	Year 14	Year 13	Year 12	Year 11	Year 10
Operations					
Income—Continuing Operations	$ (3,830)	$ 546	$ 1,140	$ 978	$ 76
Depreciation	9,810	3,150	1,703	2,798	3,003
Other Adjustments	1,074	1,817	1,119	671	74
Working Capital from Operations	$ 7,054	$ 5,513	$ 3,962	$ 4,447	$ 3,153
Changes in Working Capital:					
(Increase) Decrease in Receivables	(1,671)	(2,199)	(1,185)	(407)	403
(Increase) Decrease in Inventories	(2,592)	(962)	(950)	40	19
(Increase) Decrease in Prepayments	164	(360)	(412)	246	36
Increase (Decrease) in Accounts Payable	6,149	5,286	54	(1,346)	359
Increase (Decrease) in Other Current Liabilities	779	9,701	1,113	(535)	596
Cash Flow from Continuing Operations	$ 9,883	$ 16,979	$ 2,582	$ 2,445	$ 4,566
Cash Flow from Discontinued Operations	—	(77)	(472)	(752)	(335)
Net Cash Flow from Operations	$ 9,883	$ 16,902	$ 2,110	$ 1,693	$ 4,231
Investing					
Sale of Property, Plant, and Equipment	$ 259	$ 3	$ 119	$18,387	$ 12
Acquisition of Property, Plant, and Equipment	(33,035)	(52,960)	(6,573)	(2,424)	(20,953)
Other	(1,484)	78	1,017	(679)	30
Net Cash Flow from Investing	$(34,260)	$(52,879)	$(5,437)	$15,284	$(20,911)

Continued

Exhibit 5.25

continued

	Year 14	Year 13	Year 12	Year 11	Year 10
Financing					
Increase in Short-Term Borrowing	$ —	$ 805	$ —	$ —	$ 4,766
Increase in Long-Term Borrowing	43,279	42,152	5,397	5,869	14,739
Issue of Common Stock	12,266	191	428	—	—
Decrease in Short-Term Borrowing	(945)	—	(881)	(3,745)	—
Decrease in Long-Term Borrowing	(30,522)	(7,024)	(1,647)	(19,712)	(2,264)
Acquisition of Common Stock	—	(198)	—	—	—
Other	(125)	321	201	—	—
Net Cash Flow from Financing	$ 23,953	$36,247	$ 3,498	$(17,588)	$17,241
Change in Cash	$ (424)	$ 270	$ 171	$ (611)	$ 561
Cash—Beginning of Year	583	313	142	753	192
Cash—End of Year	$ (159)	$ 583	$ 313	$ 142	$ 753

Exhibit 5.26

Fly-by-Night International Group
Members of the Board of Directors
(Case 5.3)

Charles A. Barry, USAF (Ret.), Executive Vice President of Wicks and Associates, Inc., a management consulting firm
Thomas P. Gilkey, Vice President, Marketing
Lawrence G. Hicks, Secretary and General Counsel
Michael S. Holt, Vice President, Finance, and Chief Financial Officer
Gordon K. John, Executive Vice President and Chief Operating Officer
Douglas C. Mather, Chairman of the Board, President and Chief Executive Officer
Edward F. O'Hara, President of the O'Hara Companies, which manufactures aircraft products
E. William Shapiro, Professor of Law, Emory University

Exhibit 5.27

Profitability and Risk Ratios for FBN (Case 5.3)

	Year 14	Year 13	Year 12	Year 11	Year 10
Profit Margin for ROA	(.1%)	6.9%	9.0%	14.5	5.6%
Assets Turnover	.6	.7	1.0	.7	1.1
Return on Assets	0.0%	5.0%	8.9%	9.8%	6.1%
Cost of Goods and Services/Sales	69.4%	72.3%	60.4%	47.2%	68.8%
Selling and Administrative/Sales	10.7%	8.3%	16.7%	15.5%	13.2%
Depreciation Expense/Sales	17.8%	8.6%	8.2%	14.5%	9.4%
Income Tax Expense (excluding tax effects of interest)/Sales	2.1%	4.0%	5.7%	8.3%	3.0%
Interest Expense/Sales	10.6%	8.4%	5.3%	14.2%	8.1%
Days Accounts Receivable	38	38	37	24	18
Days Accounts Payable	84	48	26	65	31
Fixed Asset Turnover	.7	.8	1.3	.8	1.3
Profit Margin for ROCE	(7.0%)	1.5%	5.5%	5.1%	.2%
Capital Structure Leverage Ratio	7.0	5.9	2.9	4.5	5.0
Rate of Return on Common Equity	(29.9%)	6.4%	15.6%	15.5%	1.3%
Current Ratio	.2	.3	.9	.8	.4
Quick Ratio	.1	.2	.6	.6	.2
Operating Cash Flow to Current Liabilities Ratio	17.6%	107.1%	53.1%	30.5%	61.8%
Liabilities to Assets Ratio	84.0%	88.0%	67.5%	62.0%	85.2%
Long-Term Debt to Long-Term Capital Ratio	0.0%	81.5%	55.7%	49.7%	77.6%
Operating Cash Flow to Total Liabilities Ratio	12.8%	40.2%	18.9%	11.2%	19.5%
Interest Coverage Ratio	.2	1.3	2.8	1.6	1.1

Income Taxes. The company recognizes deferred income taxes for temporary differences between financial and tax reporting amounts.

2. Transactions with Major Customers

The company provides contract flight services to three major customers: the U.S. Air Force, the U.S. Navy, and the Federal Reserve Bank System. These contracts have termination dates in Year 16 or Year 17. Revenues from all government contracts as a percentage of total revenues were as follows: Year 14, 62 percent; Year 13, 72 percent; Year 12, 73 percent; Year 11, 68 percent; Year 10, 31 percent.

3. Segment Data

During Year 10, the company operated in five business segments as follows:

Flight Operations—Business. Provides combat readiness training to the military and nightly transfer of negotiable instruments for the Federal Reserve Bank System, both under multiyear contracts.

Flight Operations—Transport. Provides charter transport services to a variety of customers.

Fixed-Base Operations. Provides ground support operations (fuel, maintenance) to commercial airlines at several major airports.

Education and Training. Provides training for nonmilitary pilots.

Aircraft Sales and Leasing. Acquires aircraft that the company then either resells or leases to various firms.

The company discontinued the Flight Operations—Transport and Education and Training segments in Year 11. It sold most of the assets of the Aircraft Sales and Leasing segment in Year 11.

Segment revenue, operating profit, and asset data for the various segments appear here (amounts in thousands):

April 30:	Year 14	Year 13	Year 12	Year 11	Year 10
Revenues					
Flight Operations—Business	$ 44,062	$31,297	$16,026	$11,236	$10,803
Flight Operations—Transport	—	—	—	—	13,805
Fixed-Base Operations	9,597	4,832	4,651	3,911	3,647
Education and Training	—	—	—	—	542
Aircraft Sales and Leasing	1,329	468	81	4,119	3,195
Total	$ 54,988	$36,597	$20,758	$19,266	$31,992
Operating Profit					
Flight Operations—Business	$ 5,707	$ 4,863	$ 3,455	$ 2,463	$ 849
Flight Operations—Transport	—	—	—	—	(994)
Fixed-Base Operations	(2,041)	1,362	1,038	174	332
Education and Training	—	—	—	—	12
Aircraft Sales and Leasing	1,175	378	(15)	1,217[b]	2,726[a]
Total	$ 4,841	$ 6,603	$ 4,478	$ 3,854	$ 2,925
Assets					
Flight Operations—Business	$ 85,263	$64,162	$17,738	$11,130	$13,684
Flight Operations—Transport	—	—	—	—	1,771
Fixed-Base Operations	16,544	13,209	5,754	5,011	4,784
Education and Training	—	—	—	—	1,789
Aircraft Sales and Leasing	436	226	438	1,262	18,524
Total	$102,243	$77,597	$23,930	$17,403	$40,552

[a] Includes a gain of $2.6 million on the sale of aircraft.
[b] Includes a gain of $1.2 million on the sale of aircraft.

4. **Discontinued Operations.** Income from discontinued operations consists of the following (amounts in thousands):

Year 13	
Income from operations of Flight Operations—Transport ($78), net of income taxes of $31	$ 47
Year 12	
Loss from write-off of airline operations certificates in Flight Operations—Transport business	$(400)
Year 11	
Loss from operations of Flight Operations—Transport ($1,261) and Education and Training ($172) segments, net of income tax benefits of $685	$(748)
Gain on disposal of Education and Training business, net of income taxes of $85	89
Total	$(659)
Year 10	
Loss from operations of Charter Tour business, net of income tax benefits of $164	$(171)

5. Related-Party Transactions

On April 30, Year 11, the company sold most of the net assets of the Aircraft Sales and Leasing segment to Interlease, Inc., a Georgia corporation wholly owned by the company's majority stockholder, whose personal holdings represented at that time approximately 75 percent of the company.

Under the terms of the sale, the sales price was $1,368,000, of which the buyer paid $368,000 in cash and gave a promissory note for the remaining $1,000,000. The company treated the proceeds received in excess of the book value of the net assets sold of $712,367 as a capital contribution due to the related-party nature of the transaction. FBN originally acquired the assets of the Aircraft Sales and Leasing segment during Year 10.

On September 29, Year 14, the company's board of directors established a Transaction Committee to examine certain transactions between the company and Douglas Mather, its chairman, president, and majority stockholder. These transactions appear here:

Certain Loans to Mather. In early September, Year 13, the board of directors authorized a $1,000,000 loan to Mather at the company's cost of borrowing plus 1/8 percent. On September 19, Year 13, Mather tendered a $1,000,000 check to the company in repayment of the loan. On September 22, Year 13, at Mather's direction, the company made an additional $1,000,000 loan to him, the proceeds of which Mather apparently used to cover his check in repayment of the first $1,000,000 loan. The Transaction Committee concluded that the board of directors did not authorize the September 22, Year 13, loan to Mather, nor was any director aware of the loan at the time other than Mather. The company's Year 13 Proxy Statement, dated September 27, Year 13, incorrectly stated that "as of September 19, Year 13, Mather had repaid the principal amount of his indebtedness to the company." Mather's $1,000,000 loan remained outstanding until it was cancelled in connection with the ESOP transaction discussed next.

ESOP Transaction. On February 28, Year 14, the company's employee stock ownership plan (ESOP) acquired 100,000 shares of the company's common stock from Mather at $14.25 per share. FBN financed the purchase. The ESOP gave the company a $1,425,000 unsecured demand note. To complete the transaction, the company cancelled a $1,000,000 promissory note from Mather and paid the remaining $425,000 in cash. The

Transaction Committee determined that the board of directors did not authorize the $1,425,000 loan to the ESOP, the cancellation of Mather's $1,000,000 note, or the payment of $425,000 in cash.

Eastwind Transaction. On April 27, Year 14, the company acquired four Eastwind aircraft from a German company. FBN subsequently sold these aircraft to Transreco, a corporation owned by Douglas Mather, for a profit of $1,600,000. In late September and early October, Transreco sold these four aircraft at a profit of $780,000 to unaffiliated third parties. The Transactions Committee determined that none of the officers or directors of the company were aware of the Eastwind transaction until late September, Year 14.

On December 12, Year 14, the company announced that Mather had agreed to step aside as chairman and director and take no part in the management of the company pending resolution of the matters presented to the board by the Transactions Committee. On February 13, Year 15, the company announced that it had entered into a settlement agreement with Mather and Transreco resolving certain of the issues addressed by the Transactions Committee. Pursuant to the agreement, the company will receive $211,000, the bonus paid to Mather for fiscal Year 14, and $780,000, the gain recognized by Transreco on the sale of the Eastwind aircraft. Also pursuant to the settlement, Mather will resign all positions with the company and waive his rights under his employment agreement to any future compensation or benefits to which he might otherwise have a claim.

6. Long-Term Debt

Long-term debt consists of the following (amounts in thousands):

April 30:	Year 14	Year 13	Year 12	Year 11	Year 10
Notes Payable to Banks:					
Variable Rate	$44,702	$30,495	$ 2,086	$2,504	$ 3,497
Fixed Rate	13,555	14,679	6,292	3,562	1,228
Notes Payable to Finance Companies:					
Variable Rate	—	—	1,320	1,667	10,808
Fixed Rate	—	—	—	—	325
Capitalized Lease Obligations	2,333	2,865	1,295	70	5,297
Other	—	—	600	39	1,660
Total	$60,590	$48,039	$11,593	$7,842	$22,815
Less Current Portion	(60,590)	(7,018)	(1,789)	(1,104)	(2,774)
Net	$ —	$41,021	$ 9,804	$6,738	$20,041

Substantially all of the company's property, plant, and equipment serve as collateral for this debt. The borrowings from bank and finance companies contain restrictive covenants, the most restrictive of which appear in the following table:

	Year 14	Year 13	Year 12	Year 11	Year 10
Liabilities/Tangible Net Worth	<2.5	<3.0	<4.2	<5.5	<6.7
Tangible Net Worth	>20,000	>5,800	>5,400	>5,300	>5,100
Working Capital	>5,000	—	—	—	—
Interest Coverage Ratio	>1.15	—	—	—	—

As of April 30, Year 14, the company is in default of its debt covenants. It is also in default with respect to covenants underlying its capitalized lease obligations. As a result, lenders have the right to accelerate repayment of their loans. Accordingly, the company has classified all of its long-term debt as a current liability.

The company has entered into operating leases for aircraft and other equipment. The estimated present value of the minimum lease payments under these operating leases as of April 30 of each year is as follows:

Year 14:	$2,706
Year 13:	3,142
Year 12:	3,594
Year 11:	3,971
Year 10:	4,083

7. Income Taxes

Income tax expense consists of the following:

	Year Ended April 30				
	Year 14	**Year 13**	**Year 12**	**Year 11**	**Year 10**
Current					
Federal	$ —	$—	$—	$—	$—
State	—	—	—	—	—
Deferred					
Federal	$(845)	$380	$685	$67	$(85)
State	(55)	30	118	4	(5)
Total	$(900)	$410	$803	$71	$(90)

The cumulative tax loss and tax credit carryovers as of April 30 of each year are as follows:

April 30:	**Tax Loss**	**Tax Credit**
Year 14	$10,300	$250
Year 13	5,200	280
Year 12	1,400	300
Year 11	2,100	450
Year 10	4,500	750

The deferred tax provision results from temporary differences in the recognition of revenues and expenses for income tax and financial reporting. The sources and amounts of these differences for each year are as follows:

	Year 14	**Year 13**	**Year 12**	**Year 11**	**Year 10**
Depreciation	$ —	$ 503	$336	$(770)	$ 778
Aircraft Modification Costs	—	1,218	382	982	703
Net Operating Losses	(900)	$(1,384)	290	—	$(1,729)
Other	—	73	(205)	(141)	158
Total	$(900)	$ 410	$803	$ 71	$ (90)

A reconciliation of the effective tax rate with the statutory tax rate is as follows:

	Year 14	Year 13	Year 12	Year 11	Year 10
Federal Taxes at Statutory Rate	(35.0)%	35.0%	34.0%	34.0%	(34.0)%
State Income Taxes	(2.5)	3.0	3.0	3.0	(3.0)
Effect of Net Operating Loss and Investment Credits	16.5	—	(7.2)	(29.9)	—
Other	2.0	2.9	22.2	11.1	(12.0)
	(19.0)%	40.9%	52.0%	18.2%	(49.0)%

8. **Market Price Information.** The company's common stock trades on the NASDAQ National Market System under the symbol FBN. Trading in the company common stock commenced on January 10, Year 10. High- and low-bid prices during each fiscal year are as follows:

Fiscal Year	High Bid	Low Bid
Year 14	$16.50	$9.50
Year 13	$14.63	$6.25
Year 12	$11.25	$3.25
Year 11	$ 4.63	$3.00
Year 10	$ 5.25	$3.25

On December 29, Year 14, the company announced that NASDAQ had decided to discontinue quoting the company's common stock because of the company's failure to comply with NASDAQ's filing requirements.

Ownership of the company's stock at various dates appears here:

April 30:	Year 14	Year 13	Year 12	Year 11	Year 10
Douglas Mather	42%	68%	72%	75%	75%
Public	48	23	24	25	25
Company ESOP	10	9	4	—	—
	100%	100%	100%	100%	100%
Common Shares Outstanding (000's)	3,357.5	2,222.8	2,095.0	2,000.0	2,000.0

CASE 5.4

MILLENNIAL TECHNOLOGIES: APOCALYPSE NOW

Millennial Technologies, a designer, manufacturer, and marketer of PC cards for portable computers, printers, telecommunications equipment, and equipment diagnostic systems, was the darling of Wall Street during Year 6. Its common stock price was the leading gainer for the year on the New York Stock Exchange. Its bubble burst during the third