The statement of cash flows for Lands’ End is reproduced here: CASE 7– 1 LANDS’ END, INC. & SUBSIDIARIES Consolidated Statements of Cash Flows FOR PERIOD ENDED

($ in thousands) Year 9 Year 8 Year 7

**Cash flows from operating activities**

 Net income........................................................................ $ 31,185 $ 64,150 $ 50,952

Adjustments to reconcile net income to net cash flows from operating activities—

Pretax non- recurring charge.......................................... 12,600 — —

Depreciation and amortization ...................................... 18,731 15,127 13,558

Deferred compensation expense.................................... 653 323 317

Deferred income taxes................................................... ( 5,948) ( 1,158) 994

Pretax gain on sale of subsidiary................................... — ( 7,805) —

Loss on disposal of fixed assets.................................... 586 1,127 325

Changes in assets and liabilities excluding

 Effects of divestures

 Receivables (5,640) (7,019) (675)

 Inventory 21,468 (104,545) 22,371

 Prepaid Advertising (2,844) (7,447) 4,758

 Other Prepaid expenses (2,504) (1,366) (145)

 Accounts Payable 4,179 11,616 14,205

 Reserve for returns 1,065 944 629

 Accrued Liabilities 6,993 8,755 4,390

 Accrued Profit Sharing (2,030) 1,349 1,454

 Income Taxes Payable (5,899) ` (1,047) 8,268

 Other 1,665 64 394

Net cash flows from (used for) operating activities 74,260 (26,932) 121,795

**Cash Flows from (used for) investing activities**

Cash paid for capital additions (46,750) (47,659) (18,481)

 Proceeds from sale of subsidiary - 12,350 -

Net cash flows used for investing activities (46,750) (35,309) (18,481)

**Cash flows from (used for) financing activities**

Proceed s from short-term debt 6,505 21,242 1,876

Purchases of Treasury Stock (35,557) (45,899) (30,143)

Issuance of Treasury Stock 1,845 409 604

Net cash flows used for financing activities (27,207) (24,248) (27,663)

Net increase (decrease) in cash and cash equivalents 303 (86,489) 75,651

Beginning cash and cash equivalents 6,338 92,827 17,176

Ending cash and cash equivalents 6,641 6,338 92,827

a. Lands’ End recently implemented a strategy of filling nearly all orders when the order is placed. In what year do you believe the company implemented this strategy and how is the strategy reflected in the information con-tained in the statement of cash flows?

b. Explain how the following items reconcile net income to net cash flows from operating activities: ( 1) Depreciation ( 2) Receivables ( 3) Inventory ( 4) Reserve for returns

c. Calculate free cash flows for each year shown. CHECK ( c ) Yr 9, $ 27,510

d. How does Lands’ End use its free cash flow? Do you think its use of free cash flows reflects good financial strategy?