**Conch Republic Electronics**

**Conch Republic Electronics is a mid sized electronics manufacturer located in Key West, Florida. The company president is Shelley Couts, who inherited the company. When it was founded over 70 years ago, the company originally repaired radios and other household appliances. Over the years, the company expanded into manufacturing and is now a reputable manufacturer of various electronic items. Jay McCanless, a recent MBA graduate, has been hired by the company's finance department.**

**One of the major revenue-producing items manufactured by Conch Republic is a personal digital assistant (PDA). Conch Republic currently has one PDA model on the market, and sales have been excellent. The PDA is a unique item in that it comes in a variety of tropical colors and is preprogrammed to play Jimmy Buffett music. However, as with any electronic item, technology changes rapidly, and the current PDA has limited features in comparison with newer models. Conch Republic developed a prototype for a new PDA that has all the features of the existing PDA but adds new features such as cell phone capability. The company has performed a marketing study to determine the expected sales figures for the new PDA.**

**Conch Republic can manufacture the new PDA for $200 each in variable costs. Fixed costs for the operation are estimated to run $4.5 million per year. The estimated sales volume is 70,000, 80,000, 100,000, 85,000, and 75,000 per each year for the next five years, respectively. The unit price of the new PDA will be $340. The necessary equipment can be purchased for $16.5 million and will be depreciated on a 5 year straight-line schedule.**

**Net working capital investment for the PDAs will be $6,000,000 the first year of operations.  Of course NWC will be recovered at the projects end.  Conch Republic has a 35 percent corporate tax rate and a 12 percent required return.**