

Teaching Case

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LIONEL SMITH LTD.

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LIONEL SMITH LTD.

INTRODUCTION

Lionel Smith Ltd. (LSL) is a family owned small business specializing in fine men's clothing. It is known throughout the Central Savannah River Area (CSRA), which includes Augusta, Georgia and Aiken, South Carolina, for its exceptional service, quality merchandise, and attention to detail. The past success of the organization has been due to the expertise of Mr. Lionel Smith and his high-quality long-term employees.

LSL was started in February, 1976. It was opened as a partnership between Mr. Smith and John Lucas, a family friend, on Laurens Street in Aiken, South Carolina. Mr. Smith had worked for sixteen years in the retail clothing business. He gained this experience by working in stores such as Belk's Department Store, Manning Owens Incorporated, and LeGrande's of Aiken, South Carolina.

After two years, the partnership was dissolved, Mr. Smith became the sole owner, and LSL was established as a sub-chapter S corporation. This began a period of growth for the company. Between the years of 1979 and 1983, four additional locations were opened. They were located in Aiken and Edgefield, South Carolina, and Augusta, and Savannah, Georgia. By the end of 1983, all four of those locations were closed. Mr. Lionel Smith stated the closings were due to several major factors. They include his inability to hire and retain professionally qualified supervisors and employees, the desire to focus his efforts on establishing an outside sales force, and high interest rates and an unstable economy. In 1982, the main location moved to the other side of Laurens Street in Aiken. The move to the new location was made possible because Lionel Smith was able to purchase the building. This has been the company's only location since 1983. With only one location, its staff and inventory are not divided between two or more venues, and rent, utilities, and other operating costs are lower. The company underwent another major change when it was purchased by Mr. Smith's son, Van, in 1992.

THE EXTERNAL ENVIRONMENT

Even though the retail sector is a highly competitive industry, there are no other stores selling fine men's clothing in Aiken, South Carolina. The Boardroom in Augusta, Georgia, Granger Owens in Columbia, South Carolina, and several department stores in Augusta, Georgia and Columbia, South Carolina are competitors. It is approximately 20 miles from Aiken to Augusta and approximately 60 miles from Aiken to Columbia. If a very well capitalized business with an experienced staff, strong customer service, higher-end merchandise of the type carried by Lionel Smith Ltd., and good location came to the area, it could pose a serious a threat to LSL.

There are some major industries in the CSRA, with Augusta as its core, with health care being the largest one. Several major hospitals are in the area as well as an university and Georgia's only public medical school. The 10 largest manufacturing plants have 6,725 employees.

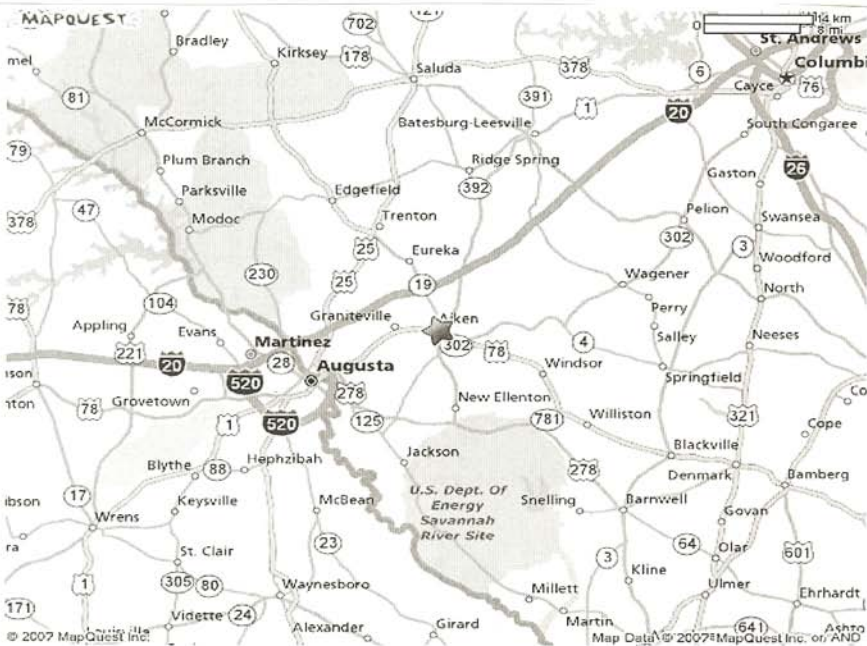
Table 1 Two Maps Showing the Location of Lionel Smith Ltd.

The first map below shows the location of LSL at 132 Laurens Street in Aiken. The second map below shows the locations of Aiken, SC, Augusta, GA, Columbia, SC, and other smaller towns in the area.



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There are some major industries in the CSRA, with Augusta as its core, with health care being the largest one. Several major hospitals are in the area as well as an university and Georgia's only public medical school. According to information on the Augusta Metro The Fort Gordon Army facility and Savannah River Site have been two of the largest employers in the CSRA for many years. Fort Gordon is the headquarters for the United States Army Signal Center, but they also have military intelligence, ordnance, hospital, and band units on the base as well. Fortunately, Fort Gordon, the area's largest employer with 17,400 military and civilian employees, was not affected by the latest announced closings of military installations.

The Savannah River Site (SRS) was constructed during the 1950's to produce the basic materials used in the fabrication of nuclear weapons, primarily tritium and plutonium-239. Five reactors were built on the site. The reactors produced nuclear materials by irradiating materials with neutrons. Also built were support facilities including two chemical separations plants, a water extraction plant, a nuclear fuel and target fabrication facility, and waste management facilities. SRS has been downsizing for the past fifteen years from approximately 22,700 employees to approximately 9,700 employees. Many of these employees are engineers in the middle- and upper-income categories, who purchase fine men's clothing. Additional layoffs could have a huge "ripple effect" throughout the area's economy.

The Industry

Apparel retailing, in general, is a tough, highly competitive business. The men's fashion apparel category is especially challenging. Many well known chains and independents have experienced the ups and downs of the industry. Efforts to control inventory (quantity and delivery timing) head the list of challenges being addressed through technology. Pricing of products by the major discounters continue to hold margins below historical levels.

In every industry, there are key success factors for survival. Location is important; a retailer can either be a tenant in a mall or shopping center or choose a stand-alone location. Compared to the former, a stand-alone location is often less costly, thus allowing the owners to have a larger store. Another key success factor is the ability of the retailer to accept different forms of payment. The vast majority of retailers accept payment in cash, credit cards, and checks. A retailer must decide whether to accept credit cards, for the additional "open-to-buy" opportunity, or to cut costs by refusing to accept them. Unlike retailers of essential goods such as food or drugs, the purchase of clothing items is not essential to most consumers in periods of economic downturn. Higher priced department and fashion apparel stores are especially vulnerable. Clothing and clothing accessory industry financial ratios are shown in Table 6, and the ratios are included in the analyses in question 10 of the instructor's manual.

Discount stores and superstores have become highly concentrated and now hold more than ninety-five percent of the men's shoe and apparel market. Efficiencies of scale in purchasing, distribution, and advertising are important success factors in large

companies, while small companies compete effectively through brand offerings and different types of merchandise.

Supply chain management is important in supplier relationships, product distribution, and inventory management. Long-term relationships with a few suppliers can provide a retailer with a competitive advantage. Computer systems and technology affect supply chain management and are important key success factors. For example, a point-of-sale system will keep track of inventory outflow, including information on each item sold and the number sold.

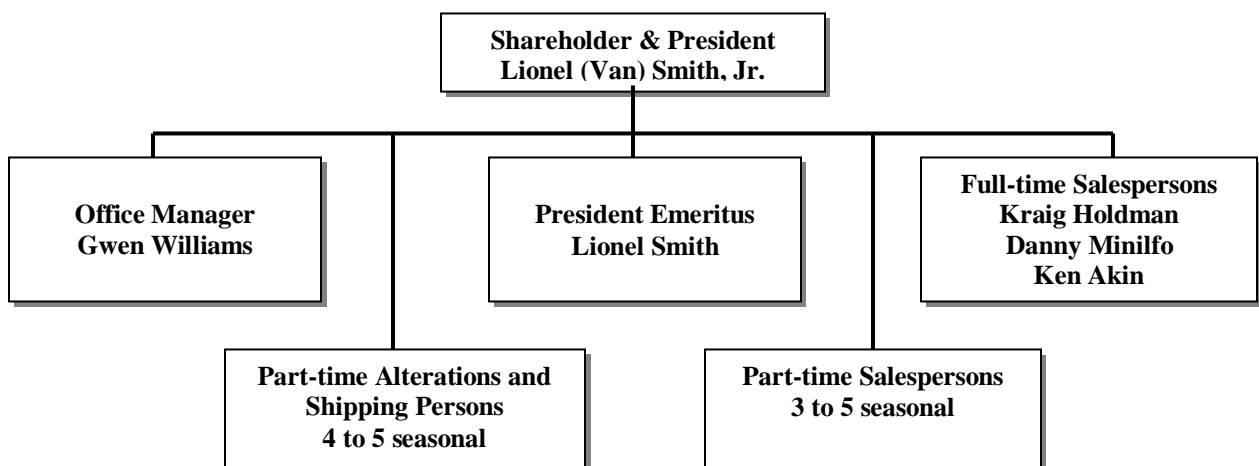
Additional success factors include determining the proper mix of part-time and full-time employees. Employee turnover, wage rates, and benefits are important decisions in retaining employees. Finally, customer service, knowledge of the products, and insights into style changes and other trends, are important ways to achieve success.

THE INTERNAL ENVIRONMENT

Structure

LSL has a simple structure with five full-time and seven to ten part-time employees, depending on the season, and Van Smith. Employees are generalists that are hired to take on many tasks with jobs interchanging daily. The company has a “hands-on” culture. As the owner/manager, Mr. Smith is frequently seen “working on the floor” with his sales staff. Table 2 below shows the company’s organizational chart.

Table 2
Organizational Chart



As the sole owner, Van Smith’s major concern is the financial performance of the company. He also engages in activities that enhance the firm's public image, such as supplying tuxedos for photos of the golf team for the University of South Carolina – Aiken. He has been involved in several socially responsible activities in the community, such as donating merchandise and gift certificates to events raising funds for charities.

These contributions were acknowledged in the events' program brochures. In addition, several LSL employees are active in community clubs, such as Rotary International. The staff also participates in the decision making processes. When he does consider implementing changes to the store, he is likely to use his father or employees as a sounding board. There is a strong "survivor" instinct present within this operation that will make it competitive for future generations. This involvement, coupled with a generous remuneration and benefits package, encourages very low turnover in personnel. This adds substantially to the stability of the business. However, Mr. Smith points out that since LSL is a privately held company, it is his responsibility to make all final decisions. This makes for quick turnaround and timely decision making. Mr. Smith feels there is no need for outside board members. He knows that board meetings would have to be held on a scheduled basis if the company had outside directors.

In addition to part-time salespersons, the company also has part-time employees with duties of in-house alterations and shipping. Van Smith feels that a strong advantage of having alterations performed internally is that the staff within this department is familiar with most of the customers and is aware of special needs and requests. Shipping is especially important for out-of-area customers who often shop when making business or pleasure trips into the area.

Mission

The company's mission statement is short and simple. It states: "*Lionel Smith Ltd. will consistently deliver the finest apparel, most current wardrobing expertise, and exceptional service in a friendly and unpretentious atmosphere.*"

Lionel Smith Ltd. has made it a part of its competitive strategy to always have higher quality merchandise and a quicker response to trends than its competitors. Van Smith, the current owner and manager, describes his implementation of this trend management process by competitively shopping his competitors. He frequently walks the men's section of large department stores such as Macy's, Dillard's, or J.C. Penney to determine when trends have become too stale for his store's most current image. He explains that he strives to be at least one clothing trend ahead of his department store competitors who must appeal to a broader market and have a slower response time to shifts in fashion. He is proud that the company's quality image is further backed by extreme attention to detail and the needs of the customer, as well as a return policy, which is based more on common sense than hard rules as described in the section titled "Policies" later in the paper.

All customers who enter the store are greeted immediately by an employee. The atmosphere is friendly, relaxed, and professional. However, the need to refurbish the selling area is quite evident. The building is viewed by Mr. Smith only as a display area for the clothing which plays the starring role. On the other hand, some employees feel that new carpeting, improved shelving, and a few more embellishments could enhance the presentation of the clothing.

Objectives

According to Van Smith, Lionel Smith Ltd. has developed the following objectives:

- Begin upgrading the product mix to achieve \$2 million per year in sales without increasing inventory volume
- Create a formal staff education program regarding fashion trends and apparel retailing basics
- Increase and refine knowledge of customer needs, tastes, and preferences
- Create a plan for maintaining/improving outside sales

Mr. Smith, however, would like to evaluate his current objectives and consider re-developing them into both long-term and short-term objectives. He realizes that only one of the objectives he has developed is measurable. Although they provide some motivating power, these objectives, in most cases, are so vague that there is no feeling of urgency to make them a reality.

Mr. Smith is the father of triplets and is deeply involved in managing his company's day-to-day activities. While he has little time to engage in long-term issues, he would like to develop a number of long-term objectives. Van Smith, however, admits that "right now" he has more pressing responsibilities that demand his attention and time. He bemoans the fact that carrying this out "will have to wait a little longer." Furthermore, he acknowledges that his wife and family are a major influence on his goals. He feels that he and his wife should jointly make some decisions about their long-term goals for the organization and make a commitment to follow them. After that, he believes that the short-term objectives will follow with ease.

The long-term objectives would relate to profitability, productivity, competitive position, employee development, employee relations, technological leadership, and public responsibility. He feels that once long-term goals are produced, he will focus on developing those that focus on the short-term. These would serve to guide his staff on a daily basis. These objectives need to be very specific as to what needs to be done. They need to give a clear time frame for completion and identify who would be responsible for accomplishing each of them. They must be measurable, prioritized, and linked to long-term objectives. As a result, they would give the employees a better understanding of their role in accomplishing the firm's mission, thus increasing their feeling of self-worth and actual value to the firm. Finally, these short-term objectives should provide a basis for control and evaluation, and help managers monitor their progress.

Policies

Mr. Smith realizes that to achieve success in today's marketplace, speed is critical in allowing decisions to be made in even the lowest levels of an organization. He believes that in a small business such as LSL, policies help guide the decisions and actions of employees. Their purpose is to standardize routine decisions and empower subordinates in implementing the business strategies.

One such policy addresses refunds, exchanges, and alterations. LSL is flexible, within reason, in taking items back. While receipts are not required, returns on sale items are exchanged only for gift cards or in exchange for another sale item. Employees keep records of their sales and are able to research any return items. As long as an item is a regular-priced item, it can be returned for a refund without a receipt. The alterations policy is that if an item is altered and is not picked up within three months, LSL returns the item to the floor for sale or donates it to a local charity.

Blue dots are placed on the price tags of the most popular items. The store always keeps these items, such as certain sizes of white button-down collar shirts, in inventory. When a “blue dot” item is sold, it is recorded by the salesperson so that a replacement can be ordered so these items stay in stock. Sidewalk sales have been an important part of company policy to sell the previous season’s items at a discounted price. Window displays must also be changed once each week since the color of some clothing will fade when exposed to the sun for long periods. Another policy, relating to telephone calls, states that they should be handled in a timely manner. Employees who are unable to immediately answer questions request callers to give their names and telephone numbers and return these calls as quickly as possible. Regarding the speed of service in the store, the employees realize that each customer sets his or her own pace. Keeping the customer happy and satisfied is the primary objective; therefore, no time requirement has been set.

From time to time, LSL offers incentives to employees for selling slow moving items. Other policies for employees include meetings that are scheduled once a month; however, the meetings have not been consistently held and, when held, all employees were not required to attend. Policies on handling disasters, such as fire or flood, are posted. All employees know how to evacuate the store and what steps to follow in emergencies. The only discipline policies relate to consistent tardiness and stealing of merchandise or cash. LSL, however, is proud that all employees are honest and have been employed by the company for many years. There is an absence of any staff performance evaluations.

It is interesting to note that these and many other policies are unwritten. Policies are more likely to be improvised and changed as needed rather than being formally written in an employee handbook. Since most employees are long-term, they are familiar with the written and unwritten policies and know how to follow them. However, problems are likely to arise when new employees are hired.

Strategy

Mr. Smith would like to maintain the current stability strategy - LSL has always been located on Laurens Street and has maintained its current employees for more than ten years. At present, there are no plans to enlarge the store. Mr. Smith considers having only one location a strength, because staff and inventory are not divided between two venues. With one operation, rent and utilities, and other operating costs are lower than would be the case if you had multiple locations. According to Van Smith, LSL's inputs are stable in price and quantity and are available in the amounts and at the times needed.

Prices are based upon advice from suppliers and a loose formula that is based on an item's salability. The success of this approach is due to LSL's superior use of insights into its product and customer needs.

LSL employs a product development strategy by adding closely related products and services. Colors are modified, patterns are rearranged in layout, sequence or components of different patterns, and fashion ideas are reviewed from season to season. This strategy enables LSL to prolong the life cycle of its current products and take advantage of its reputation and brand names. LSL is beginning to focus on a market development strategy to market existing products to customers in related areas by adding channels of distribution or changing the content of advertising campaigns. LSL has expanded its outside sales and advertising to market its present products to areas such as Augusta and Thomson, Georgia; Columbia, South Carolina; and Dothan, Alabama. Van Smith, Lionel Smith, or one of the sales force make trips to customers in these locations at least twice a year. A wine and cheese party is held for the customers in Dothan. Mr. Smith has also expanded his fine quality menswear to include sportswear and accessories. In addition, Mr. Smith would like to target graduating college and medical students, and women who shop for their husbands. He believes that through innovation, LSL can explore ways to create better customer service. One example would be to develop for certain customers a virtual closet, which is a planned wardrobe. Because all employees of LSL have a creative flair, their development of a virtual closet would provide LSL with an important competitive advantage and create barriers to entry for future competition.

To compete in its market, LSL employs both a differentiation and focus strategy. It differentiates its product through brand image, quality image, innovative and fashionable designs, and customer service. LSL's inventory includes items any man needs - tuxedos, suits, shirts, pants, socks, and ties. In limited circumstances, LSL has even packed a suitcase for a customer going on a trip. To provide such services, speed has become a major source of competitive advantage at LSL. All of the inventory is "on the floor" and can be found easily. Speed also helps to accelerate new product development and improvement. If Van Smith sees an item displayed at another retail store, he quickly liquidates that item in his store and buys a new item to replace it. LSL is on top of new fashions and is able to have these fashions in stock and out on display in a timely manner. Speed is also of paramount importance in the production processes, so LSL provides on-site seamstresses to hem or alter items as necessary. Also, by providing quick responses to consumers through answers, information, and solutions to mistakes, LSL has built and maintained customer loyalty.

At the same time, by focusing on men's apparel, LSL has been able to assess market needs, understand the buyers' behaviors, and build solely on its competencies as described previously. The company has gained a competitive edge by concentrating in product-market segments it knows best. LSL uses the focus strategy on mid- to upper-end income consumers. Mr. Smith believes that men are destination shoppers while women tend to shop around and compare prices. LSL's employees travel to various areas in the CSRA to service their customers.

An important strength that LSL possesses is a widely respected insight on appropriate taste in clothing. Advice is often requested by customers regarding the suitability of clothing for certain events such as weddings, meetings, or business situations. Minimizing wardrobe gaffes makes these customers far more confident that they will be properly dressed for all business and formal occasions. Delivering the finished garment, altered and pressed to the customer's satisfaction, further enhances customer loyalty. The firm keeps accurate records of these customers' buying habits and special needs for future reference, thus, helping set LSL apart from the competition.

Marketing

To sell its products, LSL emphasizes comfort, followed by quality and service. Price is less important than the other three attributes to LSL's customers. Although it relies heavily on word-of-mouth advertising, media sources such as television, radio, and newspaper print advertisements are used. Much of the name recognition for LSL is within the "footprint" of coverage for local television and radio stations - an area of about a 60 mile radius. This recognition is bolstered by a long history of operations; this store has consistently advertised throughout its history. The regularity of the advertisements has been a contributing factor to the name recognition of this business.

Long term relationships have been built with the customers as a result of the low turnover in the full-time staff. These relationships have been supported by the varying age groups and life experiences of the sales staff and encourage a multi-generational customer base. When asked who his target market was for Lionel Smith Ltd., Mr. Van Smith replied "18 years of age to death." He realizes, however, that this is an unrealistically broad definition of the target market. When pressed, Van acknowledges that few of his customers who are over sixty-five years old can afford his high-end merchandise on their retirement salary. Mr. Lionel Smith indicated the typical customer is between 35 and 59 years of age and has higher than average income, because the LSL line of products is too expensive for most young customers. Young professionals, such as doctors, lawyers, accountants, and managers, are also good customers.

Most of the sales personnel are involved in community activities, clubs, and recreation, providing opportunities to meet and interact with many customers outside of the store. In addition, a substantial mailing list of 5,000 existing customers and an email list of 2,300, keep the store and personnel in regular contact with the customers. The customers on these lists have made previous purchases from this business, making them much stronger candidates for future purchases.

Fifteen years ago, the need for wardrobe planning as well the need for outside sales and delivery were discovered. Both of these activities have proven to be tremendous growth centers for the business. Customer loyalty has been strongly enhanced because some customers have difficulty finding the time to leave their businesses to shop. For these customers, shopping within their own environment puts them at ease and encourages larger sales. Many customers do not understand how to coordinate their wardrobes, so wardrobe programming has become an important loyalty factor within this facet of the

business. A uniquely designed numerical system developed by the store gives the customer a "roadmap" to use in maximizing the number of outfits in their closet.

Furthermore, Lionel Smith Ltd. has a competitive advantage through the successful use of relationship marketing. As a family-owned company that has been in business for more than 30 years, it has developed extensive networking capabilities and personal contacts with customers. Careful effort is undertaken to note individual customer shopping trends and habits. Van Smith and all members of his sales staff keep personal lists of their best customers, and they call or contact them when a new shipment arrives or a sale is scheduled. Because Lionel Smith Ltd. is known for its superb quality, style, and service, the firm has developed a powerful reputation for menswear in the CSRA. This reputation has become a valuable form of word-of-mouth advertising. Because the market segment that can afford the highest quality men's clothing is a small, tightly-knit group, the great reputation of Lionel Smith Ltd. has provided the company a significant competitive advantage.

Information Systems

Recent advances in the use of technology have had a major impact on the retail industry. Consequently, a computer system was purchased by LSL in 1999 to develop a database and help manage the cash register, the inventory system, and the purchasing procedures. The company also made some attempts to use the Internet to help expand their sales. However, these systems and ideas were very difficult to implement due to insufficient technical skills within the company and the lack of support from technology vendors. Although a considerable expenditure was made for a website, LSL has none at this point. The developer defaulted on his agreement to create and maintain a website.

The current computer system lacks "user friendly" search capabilities and has limitations on the database. As a result, the company still heavily relies on old fashioned "paper and pencil" techniques in its day-to-day operations. The inventories, sales transactions, and returns have been kept using paper records. A better computer system would allow customer trends – both individually and in aggregate – to be monitored so that tailored sales and marketing decisions could be made.

Communication with customers and suppliers has been a vital element for the success of the relationship marketing that LSL utilizes. They have a toll-free (800) telephone number, but their phone system is old. It does not allow for telephone calls to be transferred to other employees or easily forwarded to voice mail. Although Van Smith thinks a new telephone system would be good, he has not investigated the capabilities or cost of an improved system.

Inventory

LSL does not offer a line of clothing more casual than sports coats and slacks even though the trend is to more casual wear. Even many financial institutions allow their employees to wear jeans on casual Friday. For fine men's clothing, depth and diversity

of inventory are strong "draws" for the business. The owner and sales staff travel regularly to New York City and Charlotte, North Carolina to "shop" the markets for new fashions, brands, fabrics and direction from menswear designers. This constant shopping assures the store that no new trends will be overlooked. Additionally, careful study of industry publications and magazines, specific to the menswear industry, further assure that the business is staying abreast of the newest offerings from the designers. Of the five full-time sales persons, there is a cumulative total of 124 years of experience in men's clothing. These experiences are not limited to selling. They also include buying, stocking, pricing, advertising, displaying, shipping, and positioning of inventory. All sales persons assist in reordering and special ordering difficult-to-obtain items. In addition to in-stock reorders, "bespoke" (i.e., made to measure) suits, sports coats, slacks, and shirts are available and are sold by all sales personnel.

Mr. Van Smith feels that his company's relationship with its suppliers continues to be of utmost importance and provides it a powerful competitive advantage. His business has a long and proud history of stakeholder relationship management. Therefore, it enjoys a reputation in the industry for paying its bills in a timely manner and being an excellent predictor of consumer taste. Lionel Smith Ltd. is also known for developing extensive and rewarding long-term relationships with its suppliers' sales representatives. Van Smith explained that it is imperative to the reputation of the business that other local retailers do not sell the same brands or lines offered by LSL. This is accomplished by cultivating his supplier relationships through loyalty to the representative and the firm he represents and maintaining strict rules about its territory boundaries.

Financial Position

Lionel Smith Ltd. is a subchapter S Corporation, which is taxed as a sole proprietorship business. Proprietorships make up about 75% of all business in the United States and are typically small businesses in the wholesale, retail, service, and construction industries. Unfortunately, a sole proprietorship puts the personal assets of the owner at risk whereas an S Corporation protects the personal assets of the owner(s). Another advantage to declaring the S Corporation status relates to taxation. An S corporation allows all of the business' income to be reported as personal income of the owner(s) and not be subject to the double taxation that regular corporations face caused by a corporation paying income tax on the earnings of the business and the recipient of dividends paying individual income taxes on the amounts received..

Although the store has an excellent relationship with its bank, there is no bank debt. A credit line is available, if needed, but has never been accessed. The only debt incurred is from vendors and it is settled on a short term basis, typically within 30 to 60 days, according to terms.

LSL utilizes its own version of an in-store credit card through their internally carried accounts receivable, while all major credit cards are also accepted. While there is general agreement that internally carried accounts receivable are a weakness, it is the opinion of the owner of LSL that customer loyalty is strongly enhanced. The accounts receivable

average collections period has ranged from 58 to 67 days, and this ratio is acceptable to management. Other weaknesses include a propensity not to follow up on proper handling of cash and other fiduciary matters.

The company's recent financial statements are shown in Tables 3, 4 and 5 with certain industry statistics for the clothing and clothing accessories industry shown in Table 6.

CHALLENGES

Early in 2006, Mr. Smith realized that in spite of the company's outstanding reputation, he must address several new challenges and opportunities. They include expanding the store, pursuing financial leverage opportunities, making technology updates, reevaluating the target market for the firm, improving human resources policies, and developing security procedures. However, he believed that he could not address all of these areas simultaneously and was unable to decide where to start.

In addition, a major market shift is taking place, namely the trend toward more casual clothing. In discussions with Mr. Smith, he seemed to downplay the significance of this important development.

Another important challenge facing Mr. Smith concerns the intertwining of personal goals with the strategic decisions of a privately-owned business. He is aware that determining the correct balance between family needs and career demands is a never ending challenge for most entrepreneurs. Mr. Smith knows that the company needs to be managed more effectively, but he is not inclined to decrease the time he spends with his family.

EPILOGUE

Although Mr. Smith has not taken steps to address all these challenges, he has realized the trend towards more casual clothing and now considers that to be the most urgent challenge. He is exploring ways to focus on this trend. He has also expanded his email list of current and potential customers and sends notices of events, such as sales, to those persons. He feels this is a more effective means of communicating with his target market, especially the young professionals.

TABLE 3

**LIONEL SMITH LTD.
Balance Sheets as of December 31,**

	2005	2004	2003	2002	2001
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 61,171	\$ 62,282	\$ 36,506	\$ 42,181	\$ 66,874
Accounts receivable	307,726	282,417	281,805	319,638	319,315
Inventory	310,613	303,242	319,629	270,880	204,605
Miscellaneous	2,282	175	2,630	5,045	3,427
Total Current Assets	681,792	648,116	640,570	637,744	594,221
Property and equipment	133,022	133,022	103,258	100,495	94,869
Accumulated depreciation	(85,452)	(74,700)	(68,397)	(63,577)	(59,077)
Net property & equipment	47,570	58,322	34,861	36,918	35,792
Other assets	1,004	1,004	1,004	1,004	1,004
Total Assets	\$ 730,366	\$ 707,442	\$ 676,435	\$ 675,666	\$ 631,017
LIABILITIES AND STOCKHOLDER'S EQUITY					
Current Liabilities					
Accounts payable	\$ 222,215	\$ 254,353	\$ 236,358	\$ 256,538	\$ 232,097
Accrued liabilities	21,247	16,329	14,907	18,987	15,201
Total Current Liabilities	243,462	270,682	251,265	275,525	247,298
Stockholder's Equity					
Capital stock	21,175	21,175	21,175	21,175	21,175
Retained earnings	465,729	415,585	403,995	378,966	362,544
Total Stockholder's Equity	486,904	436,760	425,170	400,141	383,719
Total Liabilities and Stockholder's Equity	\$ 730,366	\$ 707,442	\$ 676,435	\$ 675,666	\$ 631,017

TABLE 4**LIONEL SMITH LTD.****Income Statements for the Years Ended December 31,**

	2005	2004	2003	2002	2001
NET SALES	\$ 1,871,726	\$ 1,761,961	\$ 1,686,674	\$ 1,741,956	\$ 1,796,934
COST OF GOODS SOLD	1,232,635	1,118,798	1,081,972	1,144,106	1,201,788
Gross Margin	639,091	643,163	604,702	597,850	595,146
OTHER OPERATING INCOME	32,310	30,323	38,880	29,662	32,840
OPERATING EXPENSES					
Salaries	230,606	201,864	192,391	203,589	205,733
Advertising and promotion	114,963	119,016	144,471	137,046	126,605
Rent	37,000	36,984	36,984	37,029	38,607
Insurance	50,822	62,835	44,613	25,817	29,414
Taxes	22,631	20,280	18,620	19,342	19,273
Bad debt expense, net	3,889	17,713	0	0	11
Office supplies and postage	19,123	16,664	16,007	13,929	15,191
Telephone and utilities	16,409	16,487	15,292	14,752	14,510
Contributions	19,413	16,401	17,495	12,155	12,864
Supplies	6,884	5,874	9,030	7,254	5,033
Finance charges	2,248	1,824	2,769	2,284	3,228
Depreciation	10,752	6,303	4,820	4,500	4,115
Other operating expenses	56,466	57,425	43,560	52,403	35,656
Total Operating Expenses	591,206	579,670	546,052	530,100	510,240
NET INCOME	\$ 80,195	\$ 117,270	\$ 97,530	\$ 97,412	\$ 117,746

TABLE 5

LIONEL SMITH LTD.

Statements of Cash Flows for the Years Ended December 31,

	2005	2004	2003	2002	2001
OPERATING ACTIVITIES					
Net Income	\$ 80,195	\$ 93,816	\$ 97,530	\$ 97,412	\$ 117,746
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation	10,752	6,303	4,820	4,500	4,115
Changes in deferred and accrued Amounts:					
Accounts receivable	(25,309)	(612)	37,833	(323)	(869)
Inventory	(7,371)	16,387	(48,749)	(66,275)	71,857
Other current assets	(2,107)	2,455	2,415	(1,618)	(2,003)
Accounts payable	(32,138)	17,995	(20,180)	24,441	(56,866)
Accrued liabilities	4,918	1,422	(4,080)	3,786	(1,913)
Net cash provided by operating activities	28,940	137,766	69,589	61,923	132,067
INVESTING ACTIVITIES					
Purchase of equipment	0	(29,764)	(2,763)	(5,626)	(7,908)
FINANCING ACTIVITIES					
Dividends paid	(30,051)	(82,226)	(72,501)	(80,990)	(92,289)
NET INCREASE (DECREASE) in Cash and Cash Equivalents	(1,111)	25,776	(5,675)	(24,693)	31,870
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	62,282	36,506	42,181	66,874	35,004
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 61,171	\$ 62,282	\$ 36,506	\$ 42,181	\$ 66,874

TABLE 6

LIONEL SMITH LTD.

**Men's Clothing and Clothing Accessories
Industry Financial Ratios**

Current Ratio	1.85
Quick Ratio	0.64
Inventory Turnover	5.41
Days of Inventory	67.47
Debt to Assets	60.78%
Debt to Equity	155%
Return on Sales	6.57%
Return on Equity	30.31%

The ratios above were obtained from BizStats.