

THE UNIVERSITY OF BRITISH COLUMBIA
PETER A. ALLARD SCHOOL OF LAW

FINAL EXAMINATION – APRIL 2020

LAW 467C.001

Topics is Corporate Law: Financial Accounting in Legal Practice

Pavan Jawanda

EXAMSOFT PASSWORD:
EXAMSOFT RESUME CODE:

TOTAL MARKS: 80

WRITING TIME ALLOWED: 3 HOURS
PREPARATION TIME ALLOWED: 10 MINUTES

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THIS EXAMINATION CONSISTS OF THE FOLLOWING PARTS:

Part 1 – Multiple Choice (20 Questions for 20 Marks)

Part 2 – Short Answers (5 Questions for 25 Marks)

Part 3 – Case Analysis (9 Questions for 30 Marks)

PART 1 – MULTIPLE CHOICE (20 QUESTIONS – 1 MARK EACH)

Record your answers in Exemplify. Select only one answer for each question. If more than one answer is selected for a question, no marks for that question will be awarded.

1. If an enterprise value of a company during a transaction is done on a cash-free, debt-free basis, what does that mean?
 - a. The company will not have any cash or debt upon closing of the transaction
 - b. The company's net cash position will be positive
 - c. The company is a going concern
 - d. An assumption is made that the company has no cash or debt
 - e. None of the above

2. The 2019 income statement of Thunderbird Systems, a new robotics hardware start-up company, reported total sales revenue of \$106,000 and total expenses of \$108,000 for a net loss of \$2,000. Expenses were computer depreciation of \$10,000 and patent amortization of \$5,000. There was an increase in inventory of robotics parts of \$1,000. What was cash flow from operating activities during 2019 (parentheses indicate outflow)?
 - a. (\$3,000)
 - b. \$7,000
 - c. \$12,000
 - d. \$14,000
 - e. (\$2,000)

3. The assumption that a business enterprise will not be liquidated or insolvent in the near future is known as the:
 - a. Monetary unit assumption
 - b. Economic entity assumption
 - c. Conservatism assumption
 - d. Discounted cash flow method
 - e. Going concern assumption

4. When a company buys equipment for \$60,000 and pays for one-third in cash with the other two-thirds financed by a note payable, which of the following is an effect?
 - a. Cash decreases by \$60,000
 - b. Equipment increases by \$20,000
 - c. Liabilities increase by \$40,000
 - d. Total assets increase by \$60,000
 - e. Total expenses increase by \$60,000

5. Which of the following statements is true about earnings per share?
- It is the only ratio required to be disclosed on the statement of earnings
 - It assesses the ability of the firm to pay their bills as they come due
 - It evaluates the efficiency with which the company uses its assets to generate sales revenue
 - It represents the profit available to the preferred shareholders
 - It is widely used by creditors to assess a company's credit risk
6. Thunderbird Fine Speciality Foods is a public company trading on the Toronto Stock Exchange. The company's shares are currently trading for \$16.00 per share. Thunderbird just released the following information related to its 2019 year-end:

	<u>2019</u>	<u>2018</u>
Total assets	\$14,500,000	\$13,250,000
Total liabilities	\$7,500,000	\$6,750,000
Net income	\$762,500	\$555,000
Preferred share dividends	\$65,000	\$65,000
Average number of common shares outstanding	100,000	100,000

For 2019, the company's earnings per share were closest to:

- \$6.50
 - \$6.98
 - \$7.63
 - \$7.00
 - \$6.00
7. Which of the following items could not qualify as a cash equivalent??
- A checking account
 - Money market funds
 - Shares in a subsidiary
 - A savings account
 - Shares in a publicly traded company held in an active brokerage account
8. Which of the following is a requirement of audit committee members under applicable securities laws and regulations in Canada?
- At least one-half of the committee must be independent
 - Each member must be a financial expert
 - At least one member must have an accounting designation
 - The audit committee must directly report to the CFO of a company
 - At least one member must be a financial expert
9. Thunderbird Cosmetics received a bank loan from East Mall Credit Union. East Mall requires that at all times while the loan is outstanding, Thunderbird maintains at least \$50,000 of cash in a separate bank account with East Mall as collateral for the bank loan. Where would this be recorded?
- As a contingent liability in the notes to the financial statements
 - Restricted cash
 - Current portion of long term debt

- d. Cash flow statement
 - e. Management Discussion & Analysis
10. Which of the following balance sheet items does not result in a cash payment or cash receipt?
- a. Accounts payable
 - b. Dividends payable
 - c. Current portion of long term debt
 - d. Accumulated depreciation
 - e. Accounts receivable
11. Thunderbird Fitness has 20,000 common shares issued and outstanding at January 1, 2019. On July 1, the company sold an additional 10,000 common shares for proceeds of \$100,000. Net income for the year was \$30,000. What would the earnings per share be?
- a. \$1.00
 - b. \$1.50
 - c. \$1.20
 - d. \$4.00
 - e. \$3.25
12. In order to generate additional cash reserves during a recession, Thunderbird Food Processors sold some large food processing equipment that it used to process frozen foods for \$500,000. The original cost of the machinery was \$300,000. The accumulated depreciation on the machinery was \$200,000. Which of the following is true?
- a. Thunderbird would have \$500,000 as a cash inflow from investing activities on its cash flow statement
 - b. Thunderbird would have \$500,000 as a cash inflow from operating activities on its cash flow statement
 - c. Thunderbird would have \$500,000 of revenue on its income statement
 - d. Thunderbird would have a realized non-recurring gain from the sale of equipment of \$200,000 on its income statement
 - e. None of the above
13. In the example in #12 above, what would Thunderbird adjust for in calculating its EBITDA?
- a. Thunderbird would add back \$200,000 of depreciation
 - b. Thunderbird would add back \$500,000 of sale proceeds
 - c. Thunderbird would add back a non-recurring gain of \$400,000
 - d. Thunderbird would subtract \$500,000 of sale proceeds and add back \$200,000 of depreciation
 - e. None of the above
14. If Thunderbird Electronics, a public company and reporting issuer, repurchases its shares from shareholders in the open market, what type of activity is it?
- a. Discontinued activity
 - b. Investing activity
 - c. Operating activity
 - d. Financing activity
 - e. Ordinary activity

15. If Thunderbird Apparel's total liabilities decreased by \$14,000 and shareholders' equity increased by \$6,000 during the same period, then the amount and direction (increase or decrease) of the period's change in total assets is a(n):
- \$20,000 increase
 - \$8,000 decrease
 - \$8,000 increase
 - \$6,000 increase
 - \$14,000 increase
16. In determining the purchase price for a company, which balance sheet item is frequently the subject of negotiation as to whether it should be included as working capital or treated as debt?
- Deferred revenue
 - Accounts payable
 - Current portion of long-term debt
 - Long-term debt
 - Retained earnings
17. Thunderbird Life Sciences reports sales revenue of \$120 million this year and \$110 million last year. Its total assets in the current year are \$80 million and last year's total assets were \$75 million. What is the current year's asset turnover ratio?
- 1.46
 - 1.40
 - 1.55
 - 1.61
 - 1.50
18. On December 10, 2019, Thunderbird Farms placed an order for a new tractor from East Mall Industrial. The purchase price will be \$620,000, and the equipment will be delivered on March 30, 2020. How would this event be reported in the December 31, 2019 year-end financial statements of Thunderbird Farms?
- An increase in capital assets and an increase in accrued liabilities
 - An increase in capital assets and an increase in accounts payable
 - An increase in inventory and an increase in accrued liabilities
 - The event would be disclosed in the notes to financial statements only
 - An increase in deferred revenue
19. Which of the following can be an accepted source of accounting standard if there is no clear guidance or literature on an issue?
- International Financial Reporting Standards
 - Accounting Standards for Private Enterprises
 - Industry practices
 - Past accounting practices of a company
 - Advice from an external auditor

20. Thunderbird Telecom had the following activity during 2019:

Proceeds from sale of long-term investments	\$156,000
Gain on the sale of long-term investments	\$16,000
Loss on the disposal of equipment (\$0 proceeds from disposal)	\$17,000
Proceeds from sale of preferred shares	\$182,000
Repayment of long-term debt	\$30,000

What is the cash flow from financing activities (parentheses indicate outflow)?

- a. (\$30,000)
- b. \$156,000
- c. \$173,000
- d. \$189,000
- e. \$152,000

END OF MULTIPLE CHOICE

PART 2 – SHORT ANSWERS (5 QUESTIONS FOR 25 MARKS)**Question 1 (6 marks)**

Thunderbird Logistics Services' financial position as of January 1, 2020 was as follows:

Assets: \$40,000
Liabilities: \$15,000

During the month of January, the company completed the following transactions: (a) it paid \$4,000 of principal on a note payable (no interest); (b) it collected accounts receivable of \$4,000; (c) it paid accounts payable of \$2,000; and (d) it purchased three new bikes for its delivery drivers for \$1,000 cash and an \$8,000 note payable.

What are the company's (i) total assets, (ii) total liabilities and (iii) total shareholders' equity as of January 31, 2020? Show your calculations.

Question 2 (6 marks)

Review the Thunderbird Aeronautics Supply Inc. balance sheet attached as Annex A hereto.

Thunderbird Aeronautics Supply Inc. is a small but rapidly growing reporting issuer whose shares are listed on the TSX-V. It provides flight instrument hardware products to various airlines in North America. In light of an economic contraction and liquidity crunch in the broader economy, investors have recently become very concerned about the balance sheets of emerging companies and whether they'll have the liquidity and resources to continue as going concerns in the short term. While Thunderbird will need a long-term financing plan to continue to fund its R&D and commercialization, Thunderbird would like to assure its existing investors that it has enough resources to satisfy its liabilities in the short-term and will remain a going concern. As a result, its CEO puts pressure on the CFO to include more disclosure about Thunderbird's short-term liquidity in its next quarterly earnings news release.

You are Thunderbird's CFO and agree that there would be some usefulness to providing additional disclosure on metrics about the company's liquidity and solvency. What type of disclosure would you provide in the upcoming earnings news release? For any metrics that you are proposing, please provide a definition of the metric and your calculations. Are there any limitations or other legal considerations in respect of the disclosure you propose to provide?

Question 3 (4 marks)

Thunderbird Automotive Group, a company that owns several car dealerships throughout Vancouver, is in the process of getting its financial statements audited by an accounting firm. It is required to have this audit due to requirements imposed by its lender, East Mall Bank, in a credit agreement. Thunderbird is required to deliver a set of audited financial statements to East Mall every year while the credit agreement is in effect within 90 days of completing its year-end.

You are counsel to Thunderbird and are actively advising Thunderbird on litigation that was commenced by three individuals who were previously employees at some of Thunderbird's dealerships. The employees are claiming unpaid overtime pay whereas Thunderbird is arguing that the employees were salespeople compensated through commission (and thus weren't paid normal hourly wages). In addition, the salespeople's commission compensation exceeded what they would have received as employees earning hourly wages (at going market hourly rates). The litigation is in the discovery stage and a court trial is scheduled in five months. The claim by the three employees is for an aggregate amount of \$750,000. You are quite confident that Thunderbird will be successful in having the claim

dismissed in court, although Thunderbird has indicated that it would be open to settling the matter for a smaller amount to avoid the risk of an unfavourable court decision.

Thunderbird sends you a letter explaining that they are currently undergoing a financial statement audit by their outside auditors, who need certain information and confirmations. The outside auditors would like confirmation as to whether you are advising Thunderbird on any litigation or disputes that could expose Thunderbird to any liability. You prepare a letter confirming your involvement in the employee litigation and provide an update on its current status. Your letter indicates that the maximum exposure would be \$750,000, plus interest, plaintiffs' legal fees and any punitive damages that could be awarded by a court if the plaintiffs prevailed. You provide your assessment of the case in your letter as well as well as the fact that Thunderbird is open to settling the litigation.

Discuss any disclosure and accounting obligations that Thunderbird may have with respect to the litigation (with reference to any applicable accounting criteria). What facts or assumptions would be relevant to your analysis?

Question 4 (3 marks)

Describe three common valuation methodologies in respect of a business and an example of the types of businesses or transactions that each methodology would be appropriate or reasonably suitable for.

Question 5 (6 marks)

MCAT Mary is a small shareholder of Thunderbird Construction, a construction company that works on large-scale public-private infrastructure projects. Mary purchased the shares after Thunderbird was awarded a large construction contract in the second quarter by the BC provincial government to design and construct a toll bridge to replace the bottlenecked Lions Gate Bridge. After the news release announcing the new contract was issued, the stock price increased from \$40 to \$50 on the day of the announcement. Mary purchased her shares that day for \$50 and owns less than 0.001% of the large capitalization company.

In the third quarter, East Mall News, a prominent news organization, published an article based on a tip they received from a whistleblower employee at Thunderbird alleging various earnings management practices and fraudulent accounting undertaken by the CEO and CFO of the company. The whistleblower also alleged that the board of directors of Thunderbird was complicit in these issues to ensure the company met stock market analyst expectations. The whistleblower alleged that the CEO, CFO and board were overly focused on meeting "street" expectations to ensure their stock options would be "in the money". On the day the article was announced, it received widespread attention on social media and rose to the top of many "Trending" lists because of the political connections that Thunderbird had and the recent award of the prominent government contract. The share price plummeted to \$20. Mary was saving money for medical school and was desperate to limit her financial losses. She sold her stock at a price of \$20 per share and suffered a total loss of \$125,000 (representing almost all of the savings she had accumulated while working various jobs and investing during her undergraduate program).

Mary is naturally frustrated. She tells her friend LSAT Linus about what happened and Linus suggests that Mary apply as a complainant for a derivative action against the CEO, CFO and board of the company.

What is a derivative action and what public policy objectives does such an action achieve? What conditions will Mary have to satisfy in order to bring a derivative action? Please provide an analysis as to whether Mary would satisfy these conditions.

END OF SHORT ANSWER

PART 3 – CASE ANALYSIS (7 QUESTIONS FOR 35 MARKS)

Refer to the Thunderbird Vessels Inc. financial statements attachment accompanying this examination for the financial statements to be used for this Case Analysis. Show your work for all calculations.

Thunderbird Vessels Inc. designs and manufactures naval vessels for use in military applications. Its primary customers include the navies of several countries, with a particular focus on Southeast Asia. Its sales are global and it is headquartered in Vancouver. Its head office is in Vancouver but its manufacturing plants are in Barcelona, Beijing and Berlin. It is a publicly traded company with its common shares listed on the Toronto Stock Exchange.

The first quarter of 2019 was quite slow for Thunderbird, as there were a number of elections occurring around Southeast Asia and thus uncertainty about the level of investments governments would make in military assets and infrastructure. As a result, Thunderbird closed its plant in Berlin and terminated its employees. As a result of that plant closure, it also had to cancel a contract to produce and sell aircraft carrier ships to the Government of Germany, which required its vessels to be manufactured locally. It incurred a cancellation penalty pursuant to the terms of the contract.

In the second quarter of 2019, Thunderbird's engineers noticed a significant technical hardware defect in the radar systems of its submarine model. It quickly acted to recall these models from its customers. While the actual costs of fixing the technical defect were relatively small, the costs of transporting the submarines back to its plants in Beijing and Barcelona were significant (as it wasn't feasible to do the necessary remediation work at customer sites). The recall resulted in damage to Thunderbird's reputation, as the defects had jeopardized the safety of those on board the vessels. Thunderbird immediately engaged in a significant public relations campaign to repair its reputation and hired a number of regional public relations advisors and lobbyists to ensure its relations with governments remained strong.

In the second half of 2019, Thunderbird experienced a marked increase in order activity from its naval customers. The increase in revenue was primarily driven by increased geopolitical concerns in Southeast Asia and anxiety about potential conflicts and hostility between countries in the region after the recent elections. Furthermore, various governments were flush with cash as a result of continuing economic growth in emerging markets and resulting tax revenue.

On December 15, 2019, Thunderbird was awarded a large contract to produce military vessels for Vietnam, which was looking to replace a fleet of old hospital ships. The contract was a long-term contract over 5 years and required Thunderbird to produce and deliver 10 new hospital ships to Vietnam each year over the 5 year term. Under the terms of the contract, each ship has a sale price of CDN \$5 million and the ships must be delivered on December 15 of each year during the term (with the first delivery required on December 15, 2020). Thunderbird also has concerns about receiving payment, as the Vietnamese dong (the local currency in Vietnam) has been devalued recently and quite volatile in foreign currency markets. As a result, Thunderbird is able to negotiate a term that 50% of the total sales price each year be paid upfront on January 1 of that year with the remainder paid upon delivery on December 15 of that year. Thunderbird would also have to expand its plant in Beijing over the course of the next year in order to meet these requirements through significant capital expenditures and upgrades to the building.

On December 16, 2019, Thunderbird issued a press release announcing the new contract and its share price increased significantly from \$5 per share to \$8 per share. By the close of trading on December 31, 2019, its stock was trading a price of \$10 per share.

Question 1 (8 marks)

In order to fund the upcoming capital expenditures required for the expansion of its Beijing plant, Thunderbird engages underwriters and legal advisors to assist with a new bond offering of \$100 million. It will sell the bonds to the public by way of a prospectus to ensure it has maximum access to potential institutional and retail investors.

While Thunderbird's financial statements are prepared in accordance with IFRS, Thunderbird's lead underwriter highly recommends that Thunderbird include some additional measures in its prospectus based on what certain airplane manufacturers had been doing in the market recently. Various airplane manufacturers were including creative measures and metrics in their offering documents, and the offerings were quite successful with very favourable pricing to the bond issuers.

Thunderbird's underwriters ask that, at a minimum, Thunderbird disclose its EBITDA in the prospectus. Thunderbird's internal financial team also thinks that it can get a bit more aggressive and disclose an "Adjusted" EBITDA as well, which may be viewed even more favourably by potential investors.

- A. What are your calculation of Thunderbird's EBITDA for each of the 2019 and 2018 financial years?
- B. Provide a proposed definition and calculation (for each of the 2019 and 2018 financial years) for Adjusted EBITDA for Thunderbird to use in the prospectus. Be sure to consider the supplemental break-down of general and administrative expenses in the handout for additional details.
- C. Please provide a horizontal analysis and a vertical analysis of your EBITDA and Adjusted EBITDA measures above. For the vertical analysis, what items are you using in your calculation?
- D. What are the applicable Canadian securities law requirements with respect to the above disclosure? Please provide a paragraph of proposed disclosure to include in the prospectus in order to comply with these requirements.

Question 2 (6 marks)

Thunderbird launches the offering of bonds with a very limited package of restrictive covenants. Furthermore, there were no financial covenants included in the bond indenture (the legal instrument containing the legal terms of the bonds). Your client, East Mall Asset Management, receives the prospectus and indenture, and is concerned about Thunderbird's credit and default risk. You review the prospectus and indenture, and are surprised with the absence of financial covenants.

- A. Describe two potential financial ratio covenants that you would propose be included in the bond indenture in order to protect East Mall Asset Management. For any proposed ratios, also provide a definition that can be included in the bond indenture. How can your proposed ratios be used within the indenture in ways that can protect the bondholders' interests.
- B. Based on your proposed ratios, provide a calculation of your ratio for each of the 2019 and 2018 financial years.

Question 3 (4 marks)

Calculate the following ratios and metrics for Thunderbird for financial year 2019 (show your work) and provide an explanation as to their purpose for readers:

1. Days sales in inventory
2. Acid test (i.e., quick ratio)
3. Operating cycle
4. Return on assets (assume a simple average equity between years)

Question 4 (4 marks)

Thunderbird's auditors complete their audit of the 2019 financial statements on February 24, 2019. The auditors make a presentation to the audit committee of Thunderbird describing their audit, findings and conclusion. The audit was fairly clean with just a few immaterial adjustments that were proposed and then accepted by Thunderbird's management (and thus already reflected in the 2019 financial statements attached).

However, the auditors identify that revenue recognition accounting policies are receiving increased scrutiny by accounting and securities regulators, particularly after the CSA identified revenue recognition as a hot-button issue in its most recent continuous disclosure review program staff notice. It recommends that Thunderbird's management pay even more attention to their revenue recognition practices in 2020 to ensure they are compliant with IFRS.

Thunderbird's CEO has asked you to provide an explanation as to how revenue and cash payments should be recorded in respect of the new 5-year contract with Vietnam. Please provide a summary response of the accounting requirements and treatment with respect to the revenue and cash payments from the contract (including your calculations of any resulting income statement and balance sheet line items for the upcoming financial year ended December 31, 2020)

Question 5 (3 marks)

After entering into the contract with Vietnam, Thunderbird's CEO wants to provide some guidance to the market on its expectations and projections for its revenue, net income and EBITDA for financial year 2020. He has seen other CEOs in the market doing this recently and feels that it would increase the stock price (which he feels is undervalued by the market given that some of Thunderbird's peers trade at a higher P/E/ ratio than Thunderbird). He proposes to issue a press release containing these expectations and projections.

Please discuss any securities law requirements and limitations that would apply to any such press release. If you were counsel to Thunderbird, what would you advise?

What is Thunderbird's price-to-earnings ratio as of December 31, 2019?

Question 6 (4 marks)

Within the Property, Plant and Equipment amount on the balance sheet as of December 31, 2019 is \$10 million of land. This consists of \$5 million of owned land in Vancouver and \$5 million of owned land in Barcelona.

The Vancouver parcel was acquired in 2008 when the real estate market was very stagnant. Since it was acquired, the appraised value of the real estate has risen to \$15 million due to a red-hot real estate market and desirability of the location.

The Barcelona parcel was acquired in 1995. In recent years, there have been concerns about the Spanish government expropriating land in the area of Thunderbird's plant to build a new airport. Due to these concerns and risks, the appraised value of the land has dropped to \$3 million.

Please discuss the considerations applicable to valuing the land on Thunderbird's financial statements. Discuss any adjustments you would make to the balance sheet or income statement based on the above.

Question 7 (6 marks)

Point Grey Asset Management, a newly formed Thai sovereign wealth fund, is preparing to sign a share purchase agreement to acquire all of the shares of Thunderbird. It is completing its cash-free, debt-free valuation of Thunderbird based on the financial year 2019 financial statements and its valuation methodology ascribes an enterprise value for Thunderbird of 8x (eight times) the Adjusted EBITDA of Thunderbird for financial year 2019.

Additional costs to be incurred in connection with the transaction are as follows:

- Thunderbird engaged a team of professional advisors to assist it with the sale transaction (including lawyers and financial advisors). The total fees through closing were \$2,150,000 and remain unpaid at closing.
- The transaction will trigger the requirement to repay all of Thunderbird's long-term bank debt. This will include an early repayment premium of \$2,500,000. Point Grey will need to take out a new bank loan in order to repay and refinance all of this debt.
- The transaction will accelerate various benefits and payments under Thunderbird's equity incentive plans for employees. Various phantom equity units will automatically vest on an accelerated basis and require cash payment of \$2,750,000.
- Following closing, Thunderbird will also put in place a new incentive plan to continue to incentivize employees. Expected payments under the new incentive plan are expected to be \$5,000,000 over the next three years.
- Thunderbird's key management employees are considerably concerned about the buy-out and the security of their jobs. To ensure employees stay with Thunderbird through to the closing of the transaction, Thunderbird offers retention bonuses to these employees, which will amount to \$5,000,000.

Thunderbird's average working capital during 2019 was \$225,000,000 and its cash balance and debt liabilities are set out in the attached balance sheet. Its actual working capital can also be derived from the attached balance sheet.

In light of Point Grey's close relationship with the Government of Thailand, it has negotiated a closing condition in the purchase agreement that requires Thunderbird to terminate, with effect as of closing, its agreements with certain countries that are in trade disputes with Thailand. These contracts generated \$5,000,000 of sales revenue for Thunderbird in financial year 2019.

Prepare an enterprise value to equity value bridge on behalf of Point Grey to arrive at a final equity value for Thunderbird. If you have made any assumptions in your calculation, please describe them.

Hint: Start with your Adjusted EBITDA from Question #1 above.

END OF EXAM QUESTIONS

ATTACHMENTS BEGIN ON FOLLOWING PAGE

(1) Annex A

(2) Thunderbird Vessels Inc. Financial Statements Handout

ANNEX A
THUNDERBIRD AERONAUTICS SUPPLY INC.
Balance Sheet
December 31, 2019

Cash	\$400,000	Accounts payable	\$700,000
Accounts receivable	1,300,000	Salaries payable	60,000
Inventory	200,000	Other accrued liabilities	300,000
Prepaid Rent	15,000	Deferred revenue	250,000
Land	300,000	Bank loan (matures in 5 years with interest payable at maturity)	1,000,000
Building	500,000	Common shares	100,000
Accumulated depreciation	(200,000)	Retained earnings	155,000
Patents, net of accumulated amortization	50,000		

THUNDERBIRD VESSELS INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	December 31,	
	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 140,516	\$ 132,690
Accounts receivable, net	172,737	181,064
Inventories	186,914	184,404
Prepaid expenses and other	41,222	51,261
Total current assets	541,389	549,419
Property, plant, and equipment, net	221,346	206,991
Goodwill	311,026	311,084
Intangible assets	189,898	210,328
Other assets	40,932	26,571
Total assets	\$ 1,304,591	\$ 1,304,393
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ —	\$ 1,880
Current portion of finance lease obligations	327	299
Accounts payable	134,821	153,113
Other accrued liabilities	124,230	116,384
Total current liabilities	259,378	271,676
Long-term debt	455,386	503,018
Finance lease obligations	378	714
Deferred income taxes	37,576	34,905
Other non-current liabilities	30,885	20,231
Total liabilities	783,603	830,544
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value: 200,000,000 shares authorized; 53,473,620 and 55,135,788 shares outstanding, respectively	750	744
Additional paid-in capital	638,917	629,039
Retained earnings	221,841	150,244
Accumulated other comprehensive loss	(3,978)	(3,343)
Treasury stock, at cost: 21,640,109 and 19,372,735 common shares, respectively	(336,542)	(302,835)
Total stockholders' equity	520,988	473,849
Total liabilities and stockholders' equity	\$ 1,304,591	\$ 1,304,393

The accompanying notes are an integral part of these Consolidated Statements.

THUNDERBIRD VESSELS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)

	Year Ended December 31,		
	2019	2018	2017
Net sales	\$ 2,319,136	\$ 2,267,278	\$ 1,767,161
Cost of sales	2,012,754	1,983,627	1,506,286
Gross profit	306,382	283,651	260,875
General and administrative expenses	108,274	95,114	77,825
Selling expenses	34,851	33,046	25,588
Amortization of intangible assets	20,471	19,468	17,041
Acquisition expenses	—	68	9,605
Impairment	—	24,968	—
Income from operations	142,786	110,987	130,816
Other income (expense):			
Interest expense	(27,340)	(28,759)	(16,400)
Other, net	2,285	13,776	8,122
Other expense, net	(25,055)	(14,983)	(8,278)
Income before income tax	117,731	96,004	122,538
Income tax expense	28,156	26,583	11,116
Net income	<u>\$ 89,575</u>	<u>\$ 69,421</u>	<u>\$ 111,422</u>
Net income per share:			
Basic	\$ 1.64	\$ 1.22	\$ 1.88
Diluted	\$ 1.62	\$ 1.19	\$ 1.78
Weighted average common shares outstanding (in thousands):			
Basic	54,695	56,996	59,358
Diluted	55,290	58,430	62,599
Dividends declared per share	\$ 0.320	\$ 0.305	\$ 0.255

The accompanying notes are an integral part of these Consolidated Statements.

THUNDERBIRD VESSELS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Year Ended December 31,		
	2019	2018	2017
Cash flows from operating activities			
Net income	\$ 89,575	\$ 69,421	\$ 111,422
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	21,886	21,215	18,012
Amortization of intangibles	20,471	19,468	17,041
Net gain on sale of property, plant and equipment	(109)	(10,148)	(8,046)
Loss on debt extinguishment	165	280	799
Deferred income taxes	3,420	(2,976)	(14,682)
Stock-based compensation	9,036	10,169	10,429
Non-cash interest expense	1,045	1,745	2,258
Impairment of goodwill and other assets	—	24,968	—
Accounts receivable	8,327	(39,539)	31,943
Inventories	(2,510)	(18,713)	(13,158)
Prepaid expenses and other	(3,809)	4,548	(2,014)
Accounts payable and accrued liabilities	(817)	32,653	(963)
Other, net	(396)	(620)	(8,662)
Net cash provided by operating activities	<u>146,284</u>	<u>112,471</u>	<u>144,379</u>
Cash flows from investing activities			
Capital expenditures	(37,645)	(34,009)	(26,056)
Proceeds from sale of property, plant and equipment	785	17,776	10,860
Acquisitions, net of cash acquired	—	—	(323,487)
Other, net	—	3,060	6,443
Net cash used in investing activities	<u>(36,860)</u>	<u>(13,173)</u>	<u>(332,240)</u>
Cash flows from financing activities			
Proceeds from exercise of stock options	848	961	5,790
Borrowings under senior notes	—	—	325,000
Dividends paid	(17,797)	(17,768)	(15,315)
Borrowings under revolving credit facilities	619	937	713
Payments under revolving credit facilities	(619)	(937)	(713)
Principal payments under finance lease obligations	(308)	(290)	(600)
Proceeds from issuance of term loan credit facility	—	—	377,519
Principal payments under term loan credit facility	(50,470)	(1,880)	(386,577)
Principal payments under industrial revenue bond	—	(93)	(583)
Debt issuance costs paid	(164)	(476)	(6,783)
Convertible senior notes repurchase	—	(80,200)	(8,045)
Stock repurchase	(33,707)	(58,383)	(74,491)
Net cash (used in) provided by financing activities	<u>(101,598)</u>	<u>(158,129)</u>	<u>215,915</u>
Cash and cash equivalents:			
Net increase (decrease) in cash, cash equivalents, and restricted cash	7,826	(58,831)	28,054
Cash, cash equivalents, and restricted cash at beginning of year	132,690	191,521	163,467
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 140,516</u>	<u>\$ 132,690</u>	<u>\$ 191,521</u>
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$ 26,234	\$ 27,386	\$ 9,479
Cash paid for income taxes	\$ 20,379	\$ 24,243	\$ 41,391

The accompanying notes are an integral part of these Consolidated Statements.

THUNDERBIRD VESSELS INC.

SUPPLEMENTAL BREAK-DOWN OF GENERAL AND ADMINISTRATIVE EXPENSES

(Dollars in thousands, except per share amounts)

	Year Ended December 31,		
	2019	2018	2017
RENT EXPENSE	\$ 30,000	\$ 28,000	\$ 25,000
OFFICE SALARIES AND COMPENSATION	\$ 52,010	\$ 56,784	\$ 49,248
PRODUCT RECALL COSTS	\$ 15,598	-	-
PLANT CLOSURE COSTS AND EXPENSES	\$ 6,089	-	-
UTILITIES	\$ 2,008	\$ 1,980	\$ 2,008
REQUIRED PENALTY PAYMENT FOR EARLY TERMINATION OF CONTRACT	\$ 1,000	-	-
OTHER	\$ 1,569	\$ 8,350	\$ 1,569
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	\$ 108,274	\$ 95,114	\$ 77,825