COMFORT NOW LA

Comfort Now LA (CNL) was a small business that manufactured bleacher seat pads that sports fans or picnickers could use to make wooden outdoor seating (or even convenient rocks) a bit warmer and more comfortable. The primary markets for CNL's product were college bookstores (to be sold to students and alumni) and specialty advertising firms (for use as corporate give-a-ways). The firm was organized in the second half of 2001 and began selling products in 2002.

CNL had a policy of providing an annual "cost of living" increase for its assembly workers to maintain a constant annual cost of $25,000 per worker (1984 dollars). The production process requires one worker for every sixteen tons manufactured. As of January 2005, up to ten of the assembly workers were provided by a local Sheltered Workshop facility (a facility that provided and supervised disabled workers for product assembly and piece-work). This facility also rented the necessary manufacturing space to CNL. Nationwide Horizon Enterprises, a local manufacturing conglomerate with some excess capacity, provided the remaining workers and production space when more than ten disabled workers were required. Nationwide Horizon was also paid $25,000 (inflation-adjusted) apiece for its workers plus an additional fee for the rental of equipment and space.

In addition to manufacturing labor, CNL employed a clerical worker and a general manager but no sales staff. Through December 2005, sales were generated primarily by manufacturer's representatives who received a standard 5% of sales as their commission.

In January 2005, Nationwide Horizon Enterprises purchased CNL. Nationwide Horizon's management team immediately began supplementing sales efforts by adding the CNL products to their own manufacturer's representatives lines. Otherwise, they operated CNL without significant changes. The Nationwide Horizon Enterprises managers soon found that while sales were growing, profits were shrinking. The management responded for the second half of 2005 by increasing the commission to their manufacturer's representatives from 5% to 6%. The salesforce responded quickly and sales boomed.

By July 2006, Nationwide Horizon's board of directors expressed some concern to management. Even though sales were up, the deal was not proving to be profitable. At the end of July 2006, the board of directors was informed that Nationwide Horizon's management team had decided to reduce CNL's production staff by letting go of those employees provided by the Sheltered Work Facility.

It is now in autumn 2007. Nationwide Horizon has been sued by a noted civil rights attorney claiming that closing down the Sheltered Work Facility manufacturing operation was a wrongful termination of the workers in the Sheltered Work Facility. Her court filings say that there was no valid business reason for selecting the disabled workers for layoff rather than the nondisabled workers; in part, the court filings claim that the layoff was wrongful because there was no economic justification for dismissing these workers who had been at least as productive, and profitable, as their non-disabled counterparts for so many years. The attorney claimed that this was obvious discrimination against the disabled and because of the discrimination, her ten clients will be unemployed for an average of 20 years each.

The attorney is asking the court for a verdict of $20,000,000 as an appropriate award to her ten clients if she prevails in her action. She estimated this figure by computing 20 years x 10 clients x $25,000 = $5,000,000, doubling it to account for her fees, then doubling that to account for future inflation.

Required

You have been hired by Nationwide Horizon's board of directors to help their attorney (and them) evaluate the claims in the lawsuit and determine whether the management team made the right decision. You have been asked to consider the following specific questions in preparing a report: (Use the guidelines for preparing a report on the course website.)
You remember from your Business School days the following concepts that you think might be useful here:

a. adjusting data for inflation (macroeconomics LDC concept 1)
b. marginal cost vs. average cost (microeconomics LDC concept 6)
c. opportunity cost vs. accounting cost (microeconomics LDC concept 1)
d. present value (financial accounting LDC concept 9)
e. duty to mitigate damages (business law LDC concept 5)
f. compensatory and punitive damages (business law LDC concept 9)

TABLE 1

	Sales (Tons)	Average Real Price/Ton ($000)	Nominal Price ($000)	Nominal Revenue ($000)	Mfg. Rep's Commission Rate	Total Cost ($000)	Earnings before Tax ($000)
2001 2h	0	0	0	0	5%	129.840	-129.840
2002 1h	75	2.004	3.253	243.975	5%	251.454	-7.479
2002 2h	100	1.997	3.269	326.903	5%	309.175	17.728
2003 1h	150	2.004	3.315	497.280	5%	425.488	71.792
2003 2h	175	2.004	3.364	588.618	5%	492.402	96.216
2004 1h	185	2.004	3.423	633.271	5%	541.866	91.405
2004 2h	200	2.006	3.482	696.312	5%	605.633	90.680
2005 1h	225	2.001	3.535	795.292	5%	727.298	67.994
2005 2h	275	2.002	3.554	977.303	6%	988.973	-11.670
2006 1h	285	2.003	3.583	1021.067	6%	1042.133	-21.065