COMFORT NOW LA – QUESTIONS

You have been asked to consider the following specific questions in preparing a report to Nationwide Horizon’s board of directors.

Q. 1. Was there a reasonable economic basis for the termination of the ten disabled workers (rather than the Nationwide Horizon employees also working for CNL)? If you do not think there is enough information, what other data would you like to be provided? (Consider the opportunity cost of using the ten workers provided by the Sheltered Workshop in contrast to the opportunity cost of using existing Nationwide Horizon staff and facilities.)

Q. 2. Could CNL be a viable business? If so, under what conditions and what level of production (and, since production is directly related to production workers, employees)?

Q. 3. Because Nationwide Horizon’s insurance company will not help pay for punitive damage awards, the directors are concerned whether an award of $20,000,000 would be compensatory, punitive, or some of each. As part of your analysis, you will need to consider the time value of money and use an interest rate for discounting. You remember reading that “corporate bond rates” are appropriate for discounting workers’ earnings to present value. Suppose the current rate is 7%. However, you also remember that since the losses are in terms of “real dollars”, you will need to adjust the interest rate to an approximately “real rate” by subtracting the inflation rate. As an estimate of the inflation rate, use the median inflation rate implied by the real and nominal prices in Table 1 of the case.

Q. 4. a. Assume that with reasonable efforts to mitigate, the terminated employees could

find comparable work within one year of termination. What is a reasonable estimate of the employees’ economic losses due to the termination? (The value should be expressed as a present value, reflecting the time value of future payments.)

b. Assume that the jury believes the plaintiffs’ claim that the workers will be unemployed for an average of twenty years each. What is a reasonable estimate of the employees’ economic losses due to the termination? (The value should be expressed as a present value, reflecting the time value of future payments.)

Q. 5. Suppose that it is discovered that the workers who were terminated have not sought new employment but are instead waiting for the lawsuit to go to trial. Would this have any impact on the calculation of their economic losses?

Q. 6. Suppose that punitive damages were allowed by the court in the event of a plaintiffs’ verdict. What is an appropriate level of punitive damages? If there is not enough information to determine this, what other data would you like the directors to provide to you?