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Cutter & Buck (C)

During the fall of 2002 and into the winter of 2003, the Cutter & Buck Board met frequently with Fran Conley, sometimes multiple times a week. While usually over the telephone, the meetings were designed to give Conley feedback and support on the myriad of decisions that needed to be made in a rapid time frame. Ernie Johnson recalled, "For a period, there seemed to be a new quandary almost every week. We always made the local newspapers, and the headline writers seemed to make things just a bit more dramatic than they really were. The publicity made things harder on our employees. Fran was the central force managing through this workout, and I really think of it as a workout. She was able to separate out the dominant issues from those that we could leave alone temporarily."

Conley was also moving to strengthen her management team. It had been very difficult to bring in new management to the company in light of the high-risk situation they faced. And the lack of documented procedures meant that only existing managers knew how to get things done. While working to bring on new managers, Conley relied on the existing management team to give her feedback and counsel and, most importantly, to keep the core business moving ahead. While she and the board were focused on the earnings restatement and all the issues surrounding it, there was still a business to get back on track, and she needed her team of managers to help her do that.

Conley wanted employees to understand that their situation was serious, and the environment was one of crisis. She instituted regular employee meetings to ensure that all employees were communicated to directly. New rules and processes were put into place, as the company was under siege surrounding its restatement. As board member Kotkins explained:

> We operated under martial law, which in a crisis you need to do. There wasn't a lot of consensus building. There was little 360-degree feedback, it was dictatorial. Under martial law you suspended many normal inclusive management practices out of necessity. Because Fran was fighting so many dragons, she needed to have ultimate control. She could not allow others to act or think independently; it was just the way it had to be. It's not sustainable nor does it endear you to the troops, but being loved was not her objective.

Getting the Team in Place

Throughout the summer and early fall of 2002, adding to the senior staff at Cutter & Buck had been nearly impossible. Even in a bad job economy, Cutter & Buck's perceived uncertainty, liability, and risk frightened away most qualified candidates. Conley ended up reaching out to people she had known and trusted in the past, bringing them in on an assignment basis. Cutter & Buck also struggled to retain key longtime employees who possessed important institutional knowledge. The

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Professor William A. Sahlman and Research Associate Victoria W. Winston prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

board and Conley put retention bonus plans in place for certain employees whose knowledge was essential to keeping the company going.

By early November Conley was able to attract to the senior management team both a much-needed CFO and a corporate director of human resources. Johnson, who had been working on an interim basis to secure the bank line of credit, agreed to join Cutter & Buck as full-time CFO, while Theresa Treat signed on to lead human resources, intrigued by the opportunity to work directly with Conley to improve the company's culture.

Having served the company on a consulting basis over the prior three months, Johnson was somewhat prepared for what he might find as he took on the permanent position. He explained:

> On November 15th I came on board as CFO, and in retrospect that is a decision that I have questioned many times. On December 6th the D&O insurance was rescinded. From a liability standpoint, it was very risky. But I had always enjoyed the challenge of fixing problems and building operations, and this was certainly an opportunity to do so. I also liked the people at Cutter & Buck and in working there as a consultant had come to realize what a great little company it was. I don't think I would have come on if I had not had that exposure first.

Treat had not had that exposure to Cutter & Buck's human resource structure and was more surprised at what she found. She recalled:

> I was walking into a publicly traded company that had over 500 employees, yet there were two payroll clerks running all of HR! It was incredible to me that the company had had no lawsuits and no EEO [equal employment opportunity] complaints. There were no employee files, the software was three versions behind, and there were no human resource systems. Compliance needed to be fixed immediately. It was not intentionally haphazard on the part of the clerks—they simply didn't know any better. We weren't even able to calculate overtime correctly because the software we were running on was so old. I made it a point the first 90 days to do an audit, which I presented at the end of the year to the board. From that I gave them an action plan. It was obvious what we needed to do. And the board gave me everything I asked for to fix it.

It also became apparent to Treat that while she had an organizational problem, there was additionally a cultural one, as Conley had warned her. The paternalistic company culture that had worked in a small start-up organization was less effective and even demoralizing in a larger one. Employees were not empowered and not used to making their own decisions, nor were they used to questioning authority. This had clearly contributed to an environment that allowed the accounting problems. Treat remarked:

> As part of my audit I had interviewed so many employees and went on the circuit of team meetings. I wanted to know everything I needed to know, so I listened and I took notes. A pattern began to emerge. What I heard was that this family environment that had been created, that everyone thought was so great, really wasn't a family after all but was an elitist culture. It was an inner circle which most employees were not a part of. Most employees had not had salary increases for two and a half years, but each could name those people who were part of the inner circle and who had received sizable bonuses. The odd thing was that they were right, and this information was common knowledge. The economy was rotten, which gave us the luxury of fixing things before people would have the chance to exit.

Conley was aware of the difficulty in changing a deeply entrenched culture. It required that new managers be selected who exemplified those new values and were able to teach them to existing employees. Some employees embraced the new direction, while others did not. Most of the Cutter &

Buck employee population had been around for a long time, and many really did not see a problem in the way things were done. Changing the culture required that a new one be articulated and then communicated over and over again. An important goal of that changing culture was a commitment to better employee communications. Conley explained how she and Treat went about making that happen:

> Again and again, we emphasized four basic values: integrity, respect, professionalism, and process. In this context, "process" meant *why* a task was being done, *why* a job existed, how it related to the customer and to the tasks of other departments. We developed a simple code of ethics and ensured that every department met and discussed it. We also started a communication process where the press release would go out at, say, 1:00 p.m., and then at 1:10 p.m. I would have a company meeting in the kitchen to explain what we had just announced and to answer any questions. I would get very real questions! I started to have regular, what I called "kitchen meetings." During these meetings the employees knew that I'd tell them the truth, even if they didn't like the answers. I also made a point to hold an employee meeting in our Renton warehouse for the entire company. Most people in the Seattle office were surprised and had never been down there. My feeling was that we were all part of the same company. Renton is staffed mainly by personnel who either do a lot of the loading and physical distribution or are part of a large group of embroiderers who are predominately Vietnamese.

Stabilizing an Overworked Board

In October 2002 Cutter & Buck's outside board members included three very talented, overworked professionals who were still very involved in their own careers. Legal counsel Mike Morgan remarked, "The board were all 'A' players, there wasn't a 'C' among them. When you think of what they were up against, it's amazing. Not only did their board position demand huge amounts of their time, but it was stressful as well. They were all, to various degrees, putting themselves at risk. But no one quit, no one backed down. I'm not sure you could find another group of people where that would be the case. Cutter & Buck was very lucky."

Conley tried to be sensitive to the tremendous demands that she was putting on the board, recognizing that they all had their own lives. She established an approach in presenting to the board whereby she would use a dragon diagram and graphically show the list of problems that Cutter & Buck faced at any given point in time and what might potentially happen next as a result of those problems. It meant that nothing was a surprise when it actually occurred. Conley acknowledged, "I know it sounds a bit foolish, but it was actually very serious. I used every technique I could to help the board keep up with what was complicated stuff and understand how every issue interacted with another."

By November of 2002 Conley had also been able to attract two new board members, Skip Kotkins and Doug Southern.[1] Kotkins was CEO of Skyway Luggage, bringing industry expertise to the position, while Southern had been an auditing partner with Arthur Young and brought financial expertise. Southern recalled the immediacy with which he became involved: "When I accepted Fran's offer to join the board, I hit the ground running. I remember that my first board meeting was

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[1] Directors at Cutter & Buck were paid $20,000 per year, $1,000 for each board meeting attended, $1,000 for each non-audit committee meeting, and $2,000 for each audit committee meeting. Directors also received options for each year to buy 7,500 shares of stock at the market value and a Cutter & Buck clothing allowance of $500 per quarter.

to vote on closing down the 14 retail stores. There I sat, not even remembering people's names, and I was being asked to vote on closing down the retail end of the business! It was a pretty fast start!"

Regaining Normalcy

By October 9 Cutter & Buck published restated financials and filed them with the SEC (see **Exhibit 1** for the restated financials for FY 2000 and 2001). The effect of the $5.0 million restatement was to move sales and profits between two fiscal years, with very little net impact on the bottom line. By October 14 NASDAQ had ceased its delisting proceedings against Cutter & Buck, and the stock's ticker reverted to CBUK shortly thereafter. In early December Conley announced the business restructuring and the closing down of all Cutter & Buck retail stores.

Despite positive efforts to move the business forward, there were still problems with the directors and officers insurance as well as with impending class-action lawsuits. On December 6, D&O insurer Genesis notified Cutter & Buck that its D&O liability insurance would be rescinded. The result was that all members of senior management and the board were put in a highly vulnerable situation in which they faced the prospect of personal liability. Cutter & Buck immediately purchased new insurance but proceeded to sue Genesis to honor its coverage for all the matters related to the restatement.

The four separate lawsuits filed against Cutter & Buck were consolidated into a single suit led by investment manager Whitney Tilson. Conley and the board knew that, given the circumstances, a class-action suit was inevitable, so having Tilson, whom they considered to be rational and reasonable, lead the lawsuit was the best of a bad situation. Tilson's funds had maintained their ownership of more than 2% of Cutter & Buck's stock, so his investment had suffered when the stock declined after the accounting scandal was revealed. Despite big losses, he referred to himself as a "reluctant suer," noting:

> I don't like lawsuits in general, and with Cutter & Buck this was particularly true. Its accounting problem was far from the type of massive fraud that had brought down other companies. Sales and profits had been shifted between two fiscal years, but by the time this was discovered years later, there appeared to be little impact. While the numbers clearly needed to be restated and made accurate, the intrinsic value of the company remained intact. Also, the company's problems had occurred under previous management, and those individuals were long gone.
>
> The new management team was working hard to engineer a turnaround. I was impressed with Fran, who came in and laid out a plan to fix the business, most importantly by shutting down the businesses the company never should have been in. The distraction of a lawsuit surely wasn't helping matters, and the uncertainty inherent in litigation was depressing the stock price, which languished around $3. If I had been able to, I would have dropped all of the lawsuits, but that wasn't going to happen, so I decided that if someone was going to lead a class-action suit, it might as well be me. My goal was to quickly negotiate a settlement that was fair to all parties, so the company—and my stock!—could recover.

The class-action lawsuit carried on into 2003. As is typical in such cases, the court ordered a mediation session, which took place in May 2003. Thanks in part to Tilson's efforts, the parties reached a creative settlement on the first day: Cutter & Buck agreed to pay the plaintiffs $4 million (the company had $15 million in their coffers and no debt at the time) and then agreed to split any D&O insurance recovery from the pending lawsuit under a formula that was roughly 50-50. The settlement resulted in a good recovery for shareholders that had suffered losses yet did not cripple the company and gave Cutter & Buck an incentive to push for recovery on the D&O insurance.

Impressed with how he had handled the litigation, a year later the board asked Tilson if he would join the Cutter & Buck Board of Directors. Morgan explained the action:

> Asking Whitney to join the board, after he led the shareholder action against Cutter & Buck, was truly unique; I'm not aware of something like this happening anywhere else. But after the shareholder suit he continued to be an owner in the business. We all had a lot of respect for him as a result of the negotiations, and he understood the business well. It was a point where we wanted to grow the board and the business, and he had a different set of talents than others which we knew would be useful to the board.

Conley Departs

By June of 2004 the company was back to profitability and focused on issues well beyond the accounting issues of 2002 (see **Exhibit 2** for a Cutter & Buck timeline). Board member Southern remarked, "There comes a point where the board moves back from 40 meetings a year to six or 10, and the shift is to overseeing the store, not constantly solving disasters. At that point the role we played as the board needed to change as well. A board is used to getting that three-ring binder and executive parking. It can't indefinitely be 'get your ass over here, we're in trouble again!' A board's role needs to change as the circumstances do."

Board member Mounger concluded:

> You come to a board supposedly offering expertise, but you also receive an education. Every one of us is a much better board member today for having gone through what we did. My first lesson learned would be take nothing for granted. When things appear to be going well, question everything. As a board member you have a fiduciary responsibility. Secondly, you can be friends with management, but your first responsibility is to the shareholders. This would include a strong belief that there should always be a nonexecutive chairman of the board. Thirdly, don't take your eye off the business, even when everything else is hitting you. We spent 99% of our time on the legal and financial issues surrounding the restatement and only 1% devoted to product, to the core business. This was not good. It has left us with some business issues that we are now focused on. But when all is said and done, I think that there is no question that without Fran we might not have made it.

On June 15, 2004, Cutter & Buck announced a return to profitability with $8.0 million in profit and the resignation of Conley as CEO and president. In September 2004 (see **Exhibit 3**) she left those positions. (See **Exhibit 4** for a graph showing the stock price history during the time Conley was CEO.)

Exhibit 1 Restated Financials—10-K FY 2002–October 10, 2002

Unaudited Quarterly Information (in thousands, except per share)

The following quarterly information is unaudited. In the opinion of management, all material adjustments necessary to present fairly the results of operations of the Company, for the periods presented, have been made. Except for the effects of the restatements, all such adjustments were of a normal, recurring nature.

	For the Quarter ended July 31, 2000		For the Quarter ended October 31, 2000		For the Quarter ended January 31, 2001		For the Quarter ended April 30, 2001	
	As previously Reported	As Restated	As previously Reported	As Restated	As previously Reported	As Restated	As previously Reported	As Restated
Net sales	$40,429	42,982	$47,433	45,756	$33,597	35,266	$54,370	58,237
Cost of sales	22,912	24,306	26,887	26,008	18,786	19,699	35,566	37,479
Gross profit	17,517	18,676	20,546	19,748	14,811	15,567	18,804	20,758
Total operating expenses	15,274	15,328	15,559	15,612	16,185	16,239	17,925	17,980
Operating income (loss)	2,243	3,348	4,987	4,136	(1,374)	(672)	879	2,778
Net income (loss)	1,322	2,000	3,051	2,567	(963)	(546)	292	1,451
Basic earnings (loss) per share	0.13	0.19	0.29	0.25	(0.09)	(0.05)	0.03	0.14
Diluted earnings (loss) per share	0.13	0.19	0.29	0.24	(0.09)	(0.05)	0.03	0.14

	For the Quarter ended July 31, 2001		For the Quarter ended October 31, 2001		For the Quarter ended January 31, 2002		For the Quarter ended April 30, 2002
	As previously Reported	As Restated	As previously Reported	As Restated	As previously Reported	As Restated	
Net sales	39,397	40,143	44,064	44,711	33,601	33,190	55,909
Cost of sales	22,896	23,306	27,115	27,486	22,476	22,216	38,772
Gross profit	16,501	16,837	16,949	17,225	11,125	10,974	17,137
Total operating expenses	18,313	18,395	16,248	16,330	23,086	23,166	18,283
Operating income (loss)	(1,812)	(1,558)	701	895	(11,961)	(12,192)	(1,146)
Net income (loss)	(1,352)	(1,179)	225	347	(8,350)	(8,501)	(1,040)
Basic earnings (loss) per share	(0.13)	(0.11)	0.02	0.03	(0.79)	(0.80)	(0.10)
Diluted earnings (loss) per share	(0.13)	(0.11)	0.02	0.03	(0.79)	(0.80)	(0.10)

The as previously reported column includes reclassifications that increased net sales and cost of sales in each quarter as follows (in thousands):

	Fiscal Year	
	2002	2001
July 31	$1,666	$1,400
October 31	1,164	1,359
January 31	965	1,228
April 30	N/A	774

Restatement Information

In consultation with our independent auditors, we restated our audited financial statements for the years ended April 30, 2000 and 2001, and our unaudited financial statements for each of the quarters in those years and for the quarters ended July 31, 2001, October 31, 2001 and January 31, 2002. We have also restated the selected financial data for 1998 and 1999. We initially announced our intention to restate certain financial statements on August 12, 2002. That announcement was made after our new Chairman and Chief Executive Officer, appointed April 2002, discovered certain accounting irregularities. In early August, shortly after her discovery, the Board of Directors appointed a Special Committee to investigate these irregularities. The preliminary conclusion of the Special Committee was that approximately $5.8 million of shipments to three distributors made on a consignment basis during fiscal year 2000 had been recorded as sales of inventory for that year. Subsequent to that announcement, the Special Committee continued its investigation to confirm whether any additional accounting irregularities had occurred. The Special Committee was assisted in its investigation by our regular outside legal counsel, special independent legal counsel, a forensic accounting firm and our independent auditors.

Upon completion of the Special Committee's restatement investigation, our restatement was expanded to include adjustment of certain other transactions related to the timing of revenue recognition and accounting errors discovered at our European subsidiary encompassing the fiscal years 2000 and 2001 and each of the periods noted above. We have also recorded a cumulative effect adjustment to retained earnings for amounts related to 1998 and 1999 of $250,541. Since the restatement adjustments related primarily to the timing of the recognition of revenue, the restatement had an insignificant impact on our shareholders' equity as of April 30, 2002. All adjustments fell into the following categories:

Restatement of distributor transactions: In the fourth quarter of fiscal 2000 we made shipments of product to three distributors on a consignment basis and improperly recorded these shipments as sales. Some of this product was sold by the distributors during fiscal 2001 and cash was remitted to us. At the end of fiscal 2001 the unsold product was returned to us and recorded as sales returns. The fiscal 2000 financial statements are being restated to reverse these sales and the fiscal 2001 financial statements are being restated to record sales by the distributors on a cash basis and to reverse the sales returns.

Restatement of premature shipments: We generally ship our product to arrive on customer specified delivery dates. In certain instances, we shipped product to customers well in advance of the date originally specified by the customer. We have restated our financial statements for the fiscal years 1998 through 2001 to record sales in the period that the customer requested the goods to be received taking into account a normal time to assure receipt in accordance with customer specified terms.

In addition, on certain occasions we shipped product to third parties where it was held until the customer specified dates, or shipped product in ways that assured slow delivery. We have restated for all such sales to record the sales upon substantive transfer of the product to the customer.

Restatement of European operations: Certain accounting errors were discovered during the process of closing our European operations. We have restated our financial statements for fiscal years 2000 and 2001 to adjust for an understatement of accrued expatriate compensation and overstatement of recoverable value added taxes.

Income Taxes: We have recorded the income tax effects of the restatements in each year using the marginal federal and state income tax rates.

The effect of the restatement on the consolidated financial statements is summarized as follows:

	As Previously Reported	As Restated
	(in thousands)	
Net loss for the quarter ended January 31, 2002	$ (8,350)	$ (8,501)
Net income for the quarter ended October 31, 2001	225	347
Net loss for the quarter ended July 31, 2001	(1,352)	(1,179)
Net income for the year ended April 30, 2001	3,702	5,472
Net income for the quarter ended April 30, 2001	292	1,451
Net loss for the quarter ended January 31, 2001	(963)	(546)
Net income for the quarter ended October 31, 2000	3,051	2,567
Net income for the quarter ended July 31, 2000	1,322	2,000
Net income for the year ended April 30, 2000	10,629	8,193

Additional information related to the restatement of our financial statements for the periods mentioned above is set forth in Note 1 to Notes to Consolidated Financial Statements in Part IV Item 14(a)(1).

Since the discovery of the matters discussed above, we have taken remedial steps to improve our accounting procedures and internal controls to mitigate the risk of recurrence of such matters as follows:

- Termination of employment of those individuals who appear to have been responsible for these activities;
- Clarification and strengthening of our revenue recognition policy and communication of that policy throughout the Company; and
- Completion of a comprehensive review of our European subsidiaries as part of their closure.

In addition, our new CEO is actively professing ethics, business integrity and individual responsibility to all our employees.

Consolidated Statements of Operations—Year Ended April 30

	2002	2001	2000
Net sales	**$173,953,302**	$182,241,318	$148,038,309
Cost of sales	**111,779,915**	107,492,108	83,846,571
Gross profit	**62,173,387**	74,749,210	64,191,738
Operating expenses:			
Design and production	**4,966,295**	4,094,259	3,464,916
Selling and shipping	**46,536,990**	46,725,117	35,992,104
General and administrative	**16,151,107**	14,340,160	11,584,764
Restructuring and asset impairment	**8,519,772**	–	–
Total operating expenses	**76,174,164**	65,159,536	51,041,784
Operating income (loss)	**(14,000,777)**	9,589,674	13,149,954
Other income (expenses):			
Factor commission and interest expense, net of interest income of $134,029 in 2002, $134,195 in 2001, and $579,028 in 2000	**(1,598,821)**	(1,255,501)	(459,658)
License and royalty income, net of other expense	**345,119**	492,415	287,252
Total other income (expense)	**(1,253,702)**	(763,086)	(172,406)
Income (loss) before income taxes	**(15,254,479)**	8,826,588	12,977,548
Income tax expense (benefit)	**(4,881,432)**	3,354,103	4,784,370
Net income (loss)	**$ (10,373,047)**	$ 5,472,485	$ 8,193,178
Basic earnings (loss) per share	**$ (0.98)**	$ 0.52	$ 0.83
Diluted earnings (loss) per share	**$ (0.98)**	$ 0.52	$ 0.82

CONSOLIDATED BALANCE SHEETS

	April 30, 2002	April 30, 2001 (Restated)
Assets		
Current assets:		
Cash and cash equivalents	**$ 6,988,823**	$ 8,072,456
Accounts receivable, net of allowances for doubtful accounts and returns of $4,239,645 in 2002 and $4,713,524 in 2001	**41,904,527**	45,663,014
Inventories, net	**26,207,917**	55,769,434
Deferred income taxes	**3,525,006**	3,350,725
Prepaid expenses and other current assets	**10,763,992**	4,898,876
Total current assets	**89,390,265**	117,754,505
Furniture and equipment, net	**16,444,100**	23,192,033
Deferred income taxes	**189,933**	763,321
Other assets	**934,765**	857,100
Total assets	**$ 106,959,063**	$ 142,566,959
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term borrowings	**$ —**	$ 18,732,209
Accounts payable	**7,272,511**	12,885,720
Accrued liabilities	**6,854,000**	4,648,793
Current portion of capital lease obligations and debt	**3,212,563**	2,736,537
Other current liabilities	**126,296**	276,333
Total current liabilities	**17,465,370**	39,279,592
Capital lease obligations, less current portion	**3,716,424**	6,774,898
Long-term debt, less current portion	**—**	3,571,428
Deferred income taxes	**2,039,700**	357,759
Other liabilities	**342,725**	233,962
Commitments and contingencies	**—**	—
Shareholders' equity:		
Preferred stock, no par value, 6,000,000 shares authorized; none issued and outstanding	**—**	—
Common stock, no par value: 25,000,000 shares authorized; 10,589,810 issued and outstanding in 2002 and 10,539,512 in 2001	**64,525,494**	64,187,129
Deferred compensation	**(348,590**	(968,764
Retained earnings	**19,217,940**	29,590,987
Accumulated other comprehensive loss	**—**	(460,032
Total shareholders' equity	**83,394,844**	92,349,320
Total liabilities and shareholders' equity	**$ 106,959,063**	$ 142,566,959

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Shares	Amount	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at April 30, 1999, as previously reported	8,312,236	$ 32,998,010	$ (107,340)	$ 16,175,865	$ (158,899)	$ 48,907,636
Cumulative effect of restatement	—	—	—	(250,541)	—	(250,541)
Balance, April 30, 1999 (restated)	8,312,236	32,998,010	(107,340)	15,925,324	(158,899)	48,657,095
Sale of common stock, net of offering expenses of $2,462,760	1,955,000	28,817,240	—	—	—	28,817,240
Stock issued under employee stock purchase plan	26,254	351,736	—	—	—	351,736
Exercise of stock options	33,657	196,055	—	—	—	196,055
Deferred compensation relating to restricted stock grants	17,525	252,016	(252,016)	—	—	—
Amortization of deferred compensation	—	—	148,872	—	—	148,872
Tax benefit on exercise of stock options	—	29,990	—	—	—	29,990
Net income (restated)	—	—	—	8,193,178	—	8,193,178
Foreign currency translation	—	—	—	—	(173,306)	(173,306)
Comprehensive income (restated)	—	—	—	—	—	8,019,872
Balance, April 30, 2000 (restated)	10,344,672	62,645,047	(210,484)	24,118,502	(332,205)	86,220,860
Stock issued under employee stock purchase plan	39,514	261,088	—	—	—	261,088
Exercise of stock options	15,250	120,780	—	—	—	120,780
Expense relating to stock options granted to non-employee	—	32,050	—	—	—	32,050
Deferred compensation relating to restricted stock grants	140,076	1,114,342	(1,114,342)	—	—	—
Amortization of deferred compensation	—	—	356,062	—	—	356,062
Tax benefit on exercise of stock options	—	13,822	—	—	—	13,822
Net income (restated)	—	—	—	5,472,485	—	5,472,485
Foreign currency translation	—	—	—	—	(127,827)	(127,827)
Comprehensive income (restated)	—	—	—	—	—	5,344,658
Balance, April 30, 2001 (restated)	10,539,512	64,187,129	(968,764)	29,590,987	(460,032)	92,349,320
Stock issued under employee stock purchase plan	**46,829**	**182,130**	**—**	**—**	**—**	**182,130**
Exercise of stock options	**3,469**	**4,994**	**—**	**—**	**—**	**4,994**
Tax benefit on exercise of stock options	**—**	**5,191**	**—**	**—**	**—**	**5,191**
Expense relating to stock options granted to non-employee	**—**	**65,550**	**—**	**—**	**—**	**65,550**
Stock-based compensation	**—**	**80,500**	**(80,500)**	**—**	**—**	**—**
Amortization of deferred compensation	**—**	**—**	**700,674**	**—**	**—**	**700,674**
Net loss	**—**	**—**	**—**	**(10,373,047)**	**—**	**(10,373,047)**
Foreign currency translation	**—**	**—**	**—**	**—**	**(79,685)**	**(79,685)**
Foreign currency translation loss recognized	**—**	**—**	**—**	**—**	**539,717**	**539,717**
Comprehensive loss	**—**	**—**	**—**	**—**	**—**	**(9,913,015)**
Balance, April 30, 2002	**$ 10,589,810**	**$ 64,525,494**	**$ (348,590)**	**$ 19,217,940**	**$ —**	**$ 83,394,844**

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended April 30,	2002	2001 (Restated)	2000 (Restated)
Operating activities:			
Net income (loss)	**$ (10,373,047)**	$ 5,472,485	$ 8,193,178
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	**6,591,093**	5,066,227	3,786,907
Deferred income taxes	**1,922,731**	(1,283,715)	(689,595)
Deferred gain on sale and leaseback of capital assets	**(90,284**	383,552	—
Amortization of deferred compensation	**620,174**	356,062	148,872
Noncash compensation expense	**65,550**	32,050	—
Noncash restructuring and asset impairment charges	**5,476,420**	—	—
Inventory write-downs relating to restructuring	**3,335,677**	—	—
Changes in assets and liabilities:			
Accounts receivable, net	**1,914,364**	(4,397,681)	(10,020,972)
Inventories	**26,231,490**	(13,614,562)	(13,436,542)
Prepaid expenses and other current assets	**(6,921,984**	(1,739,685)	(258,301)
Accounts payable and accrued liabilities	**(2,817,875)**	2,119,695	5,276,032
Other liabilities	**243,340**	—	—
Income taxes payable	**—**	(1,946,727)	(797,380)
Net cash provided by (used in) operating activities	**26,197,649**	(9,552,299)	(7,797,801)
Investing activities:			
Purchases of furniture and equipment	**(2,257,061)**	(9,241,358)	(9,939,082)
Proceeds from sale and leaseback of capital assets	**—**	6,745,675	—
Increase in trademarks, patents and marketing rights	**(113,947)**	(455,560)	(109,059)
Net cash used in investing activities	**(2,371,008)**	(2,951,243)	(10,048,141)
Financing activities:			
Net proceeds from (repayments of) short-term borrowings	**(18,784,626)**	15,043,294	(8,614,755)
Net repayments of long-term debt	**(3,571,428)**	—	—
Principal payments under capital lease obligations	**(2,784,485)**	(2,209,738)	(387,216)
Issuance of common stock	**187,124**	395,690	29,395,021
Net cash provided by (used in) financing activities	**(24,953,415)**	13,229,246	20,393,050
Effects of foreign exchange rate changes on cash	**43,141**	(19,860)	59,245
Net increase (decrease) in cash and cash equivalents	**(1,083,633)**	705,844	2,606,353
Cash and cash equivalents, beginning of year	**8,072,456**	7,366,612	4,760,259
Cash and cash equivalents, end of year	**$ 6,988,823**	$ 8,072,456	$ 7,366,612
Supplemental information:			
Cash paid during the year for interest	**$ 1,489,702**	$ 875,015	$ 933,644
Cash paid during the year for income taxes	**$ 343,853**	$ 7,195,229	$ 6,271,345
Noncash financing and investing activities:			
Equipment acquired under capital leases	**$ 202,037**	$ 8,042,840	$ 2,223,457
Deferred compensation for issuance of restricted stock	**$ —**	$ 1,114,342	$ 252,016

Source: Company documents.

Exhibit 2 Cutter & Buck Timeline—July 2002 to June 2004

July 29, 2002	CBUK files for a 15-day extension on the 10-K filing.
August 9, 2002	Stephen Lowber, CFO, resigns.
August 12, 2002	CBUK announces irregularities and plans to restate its audited financial statements for the fiscal years ended April 30, 2000 and April 30, 2001.
August 15, 2002	NASDAQ alerts CBUK to potential delisting due to rules violation.
August 31, 2002	CBUK moves corporate headquarters over Labor Day weekend. SEC tells CBUK they are under investigation.
September 13, 2002	Four class-action security lawsuits are filed against CBUK.
October 9, 2002	CBUK files restated earnings with the SEC.
October 14, 2002	NASDAQ closes down its delisting proceedings against CBUK.
November 15, 2002	CBUK announces the hiring of a new CFO, executive vice president for products and markets, and corporate director of human resources.
December 4, 2002	CBUK announces business restructuring and the closing of its retail stores.
December 6, 2002	CBUK's directors and officers (D&O) liability insurance carrier files notice to rescind insurance coverage.
June 16, 2003	CBUK announces the settlement of the class-action lawsuit.
June 15, 2004	CBUK announces $8.0 million in profit and the resignation of Fran Conley.

Source: Developed by casewriter.

Exhibit 3 Fran Conley Resignation Letter

CUTTER & BUCK

September 15, 2004

Dear Shareholder,

We write in a time of transition, the end of a successful era for Cutter & Buck and the beginning of a period of new opportunities.

As Fran Conley steps down as Chairman and Chief Executive Officer, Doug Southern will assume the duties of the Chairman of the Board, and Bill Swint will become interim Chief Executive Officer. We are pleased that the company had such skilled managers available to keep its momentum going while we search for a permanent Chief Executive Officer.

In the era now ending, we did a successful turnaround. We exited unprofitable business lines, emphasized doing profitable business in our core markets, increased selected prices, and decreased inventory. We settled the shareholder suits and SEC investigation. We re-engineered our business processes in every part of the company, and strengthened internal controls at every level. The results are a return to profitability, with good gross margins and operating margins, lower inventory and receivables, and a strong balance sheet. Equally important, we have preserved and enhanced the brand positioning as upscale, fine quality, with careful distribution. We believe we now have both a fine brand and strong financial position.

We are very pleased that our shareholders have benefited from these results. On the first day of the 2004 fiscal year the stock price was $3.45, and on the last day it was $10.50. In addition, we have instituted a quarterly dividend and a stock-buy-back program.

We introduced the Annika Collection by Cutter & Buck, an exciting collection of fashion-forward golf apparel for women featuring technical fabrics and fine detailing.

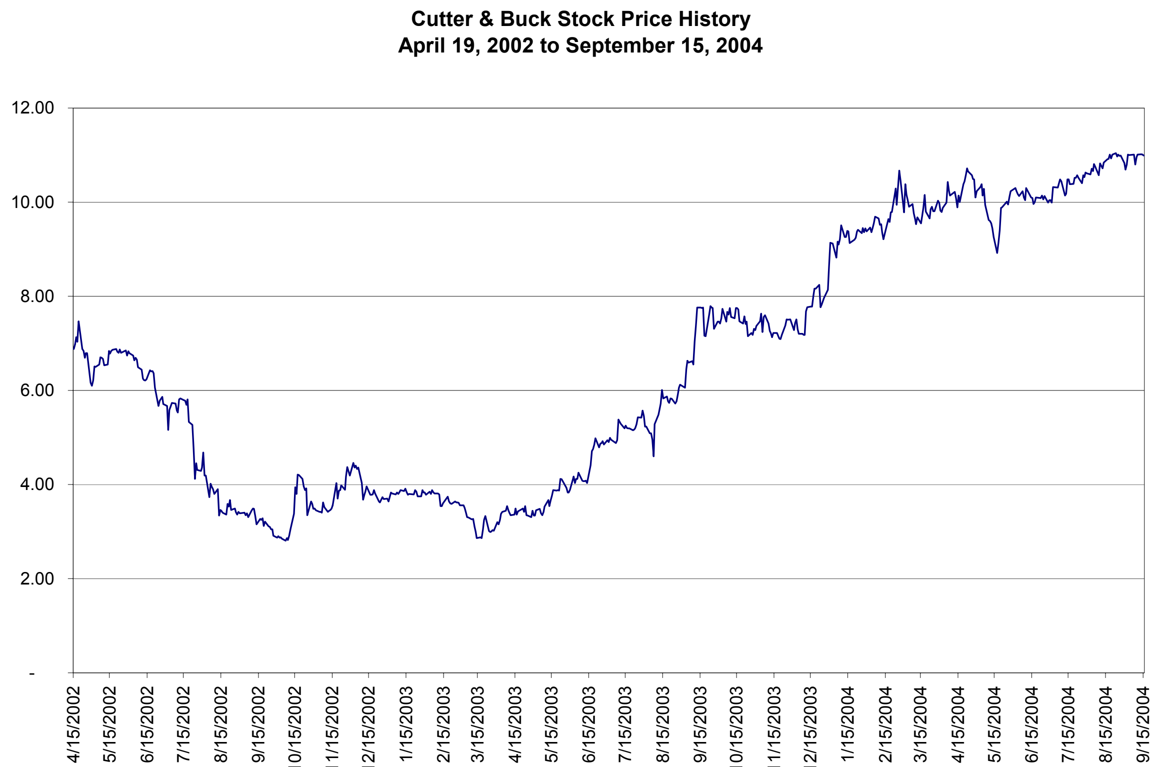
We also announced the Integrity Pique shirt. We have a deep and long-standing commitment to the environment and to social accountability. The Integrity Pique shirt is a reflection of our values, and we believe it appeals to a growing number of customers who desire high-quality products that are functional, stylish, and in line with their personal values.

We are very pleased with the condition of the company today. We have a great brand, loyal customers, and many exciting opportunities.

Frances M. Conley Douglas G. Southern

Source: Company document.

Exhibit 4 Cutter & Buck Stock Price History



Source: Company document.