December 31, 20X3

U.S. Reporting Unit Strategic Plan Support

Our business has been affected significantly by the global economic downturn. Our goods are primarily luxury goods and consumer demand decreased. In response to the decrease in our revenues and operating profits, the Company implemented a number of cost cutting initiatives in an effort to bring our costs back in line with historical levels. We recognized some of the benefits of management's cost cutting initiatives in 20X3. In addition, we have begun to downsize our production team of Product A. We will discontinue Product A in 20X5. Our projections include annual cost savings related to the reduction in employee headcount in 20X4 that amount to approximately $10 million.

The sales growth rates we are anticipating are just getting us back to prerecession levels and we have not lost market share. Our revised growth rates have helped us begin recovery and by 20X6 we fully expect to be back at prerecession levels of sales.

Sales Strategy

We are in the process of revising our marketing strategy and rebranding our products for the U.S. reporting unit. This rebranding includes design changes to Product B and discontinuing our less profitable Product A. Thus far, we have had favorable test results for our rebranding campaign and expect it will add significantly to our revenue growth in 20X4 and beyond.

In addition, we expect further growth because of the new Product C. We are just coming out of the development phase for Product C, which we acquired as a business three years ago, and expect to go to market with our new cutting-edge technology in 20X4. We already have market share and scale and we intend to use our existing distribution channels. We believe we will really begin seeing the benefits of Product C in 20X5.

Lastly, we expect growth as a result of the synergies between Product B and Product C. Because of the economic downturn, we have not been able to capitalize on those synergies as we intended to as of the acquisition date because we have been waiting for the economy to recover to introduce Product C.

Cost Strategy

We have gone through several cost cutting initiatives in the past year, which included consolidation of facilities and reduction in forces primarily for our office and administrative staff.

We will also discontinue product line A. We expect the cost of these restructuring activities will be approximately $10 million in the next year, which we have built into the projections. We expect total cost savings as a result of these initiatives to be upwards of 1 percent of current costs.

EBITDA

The Company is committed to improving our earnings before income taxes, depreciation, and amortization (EBITDA) margin to 15 percent, which management believes is an attainable margin and is consistent with competitors' margins. It has been the Company's intention to bring the margins of the U.S. reporting unit in line with the rest of the Company's products; the ending margin of 15 percent is in line with the Company's consolidated EBITDA margins, which reached nearly 14 percent in 20X1. The Company's EBITDA projections are supported by the Company's business strategy, as described herein.