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What You See and What You Get

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Why Cash Flows Are More Important Than Earnings

There is lots of evidence that managers behave as if markets are fixed on earnings. But there is also considerable evidence of the market's willingness and ability to look through and beyond earnings.

Amy Hutton
*Roundtable of Corporate Disclosure*¹

Cash is a fact, profit is an opinion.

Alfred Rappaport
*Creating Shareholder Value*²



Source: iStockphoto.

- **A company's value equals the present value of future cash flows.**
- **While convenient, earnings provide limited information about future cash flows.**
- **Our analysis of the DJIA suggests cash flows remain very healthy.**
- **The ongoing shift to an intangible-based economy renders earnings even less useful.**

Cash: The Exiled King?

Every mainstream finance textbook defines a company's value as the present value of its future cash flows. But you would never know that by canvassing analyst reports, corporate disclosures, and the business media. Their communications rarely dwell on the textbook drivers of value. For these constituents, one figure towers above all others: earnings per share.

In a recent survey of corporate executives, academic researchers found overwhelming agreement among chief financial officers that earnings are "in a class by themselves" in their importance for disclosure.³ When asked why earnings are perceived to be so important, the executives noted earnings are a simple metric that summarize performance, get broad media attention, simplify analyst communication, and appear to be the basis of analyst evaluation. What's more disturbing is nearly 80 percent of the executives said they would be willing to forgo a value-creating project in order to present smooth earnings.

Studies of analyst reports also back the perception that earnings are central. One catalog of sell-side analyst reports shows that 99.1 percent mention earnings and price-to-earnings multiples, while only 12.8 percent use some variation of discounted cash flow to derive target prices.⁴ While well educated and well compensated, the analysts behave in practice very differently than theory would have it.

Given the perceived importance and indisputable ubiquity of earnings, why not accept earnings as the standard for performance and evaluation? The reason is earnings often provide an incomplete, and in some cases distorted, view of a company's economic condition and prospects.⁵ The choice boils down to one between convenience and relevance. Here are three differences between economic and accounting results:

1. Companies can compute earnings using alternative and equally acceptable accounting methods.
2. Earnings exclude incremental capital needs, including the working capital and capital expenditures companies require to grow sales and profits.
3. Earnings do not consider the cost of capital. As a consequence, there is no reliable link between earnings per share growth and the creation of shareholder value.

First, and notwithstanding relatively new regulation in Sarbanes-Oxley and heightened scrutiny, companies still have substantial latitude in the accounting methods they select. Examples include depreciation schedules, loss reserves, and methods of recording inventory costs. In theory, two companies with identical economics can have very different bottom lines based on the accepted accounting choices they make.

Second and more concerning, earnings do not consider future capital needs. For instance, many companies require higher levels of inventory and accounts receivable as they grow. These working capital investments are true cash outlays that are not reflected in earnings, leading to a potentially meaningful gap between earnings and cash flow.

Earnings also do a clumsy job of reflecting capital expenditures. Companies record their capital expenditures on the balance sheet and then depreciate them over the asset's estimated useful life— itself a judgment call. So to go from earnings to cash, investors must add back non-cash depreciation expense to earnings but must then reduce earnings by the amount of the capital expenditures. Depending on the magnitude and timing of capital spending, the chasm between earnings and cash flow as the result of capital expenditure accounting can be large.

In some instances, a failure to reflect incremental capital needs leads to an *understatement* of earnings. This is the case when a growing company operates with a negative cash conversion cycle, where for every incremental dollar of sales, current liability growth exceeds current asset growth, leading to a positive cash flow contribution. So cash flows can be either less or more than earnings depending on a company's business model.⁶

Finally, earnings do not consider the cost of capital. In order for a company to create shareholder value, it must generate returns on incremental investments in excess of the cost of capital. However, companies can make investments that add to earnings per share but fail to create value.

Take for example a company with a nine percent cost of capital evaluating a new project promising a seven percent return. Based on value-creation discipline, the company should reject the project. However, if the company is able to fund the project with short-term debt at a five percent rate, funding the project would boost earnings per share.⁷

A number of significant corporate finance activities present the opportunity for divergence between earnings growth and value creation. These include mergers and acquisitions, share buybacks, and capital projects funded with internally generated cash flow. Given the nearly obsessive focus on earnings at a lot of companies, investors are well served to be very diligent and critical in assessing a company's capital allocation actions and processes.

Watch the Hips

Providing conceptual support for cash flow in favor of earnings is one thing, but whether the market cares is another question altogether. Investors and companies often point to the popularity of earnings as *prima facie* evidence of their relevance. And, of course, earnings are relevant to the degree they are a reasonable proxy for cash flow. The crucial question is how the market reacts when earnings and cash flow diverge. To answer, we can set aside opinion and study specific events that led to a divergence between the two to see how the market reacted.

Financial economists have been interested in this topic for a long time, and there are at least three clear instances in the past few decades that offer the opportunity for this analysis. One of the first studies, and still among the most often cited, was published in 1973 and looked at what happens to stock prices as companies shift from first-in, first-out (FIFO) to last-in, first-out (LIFO) accounting during a period of rising prices. Companies electing that shift see a decline in earnings because reported expense rises, but an increase in cash flow because cash taxes are lower. Economist Shyam Sunder found these companies also saw their stocks rise—net of market changes—in defiance of a simple earnings-based model.⁹

A second example is from the early 1990s, when the Financial Accounting Standards Board (FASB) required companies to amortize the costs of, and recognize a liability for, post-retirement benefits (FASB 106). Prior to this implementation, companies operated on a pay-as-you-go basis. So in this case, cash flows were unaffected while earnings (and in many cases book value) were diminished. Research on stock price performance surrounding the adoption of FASB 106 also found no adverse stock price behavior, suggesting the market looked through the cosmetic earnings drop.¹⁰

A final illustration is the FASB's 2004 decision to mandate the expensing of employee stock options. Like FASB 106, the accounting change did not affect economic value—although it may have influenced corporate behavior—and, indeed, full disclosure about options programs was already required in the footnotes. Expensing simply moved a disclosed economic cost to the income statement, penalizing earnings. Once again, the FASB action presented an ideal opportunity to test whether the market dwells exclusively on earnings.

Studies of this change also found the market fully capable of looking past the earnings hit. Authors of one study commented:

The event study confirms the view that accounting treatment of incentives does not influence stock prices . . . investors take full account of the economic cost of options, whether or not such costs are reflected on the income statement.¹¹

Taken together, these studies suggest the market looks past simple earnings measures.¹² These findings appear to be valid through time and over varying circumstances. The triumph of substance over the superficial recalls the notable aphorism: Nothing is more practical than good theory.

What Do the Numbers Tell Us Today?

To show the difference between reported earnings and cash flow, we reconcile the operating net income and cash flows for the companies in the Dow Jones Industrial Average (DJIA) over the past decade (1997-2006). We define cash flow as the difference between cash flow from operations and capital expenditures. While a small sample, the DJIA companies comprise about one-quarter of the market capitalization of the Standard & Poor's 500 Composite Index.

To reduce the data's noise, we exclude financials, General Electric, and General Motors from the aggregates. We provide detailed individual reconciliations for all 30 companies later in the report. Highlights for 2006 include:

- Cash flow was 95 percent of operating net income on a weighted basis. (See Exhibit 1.) While this ratio is the lowest in the past five years, it remains above the levels of the late 1990s and early 2000s. (See Exhibit 2.) Note, too, the wide range of cash flow-to-earnings ratios. This disparity underscores that what you see may not be what you get.
- Capital spending rose 13 percent. This was the second consecutive year of double-digit capital spending growth. (See Exhibit 3.) The pickup in capital expenditures is the primary reason the cash flow ratio is lower today than the early 2000s. During the post-bubble bear market, companies were very tight with their purse strings. (See Exhibit 4.)
- Total debt increased 11 percent, and the cash flow-to-debt ratio dropped to 50 percent from 52 percent in 2005. In the early 2000s, this ratio was consistently in the mid-30 percent range. The balance sheets of these large companies remain in excellent shape.
- Working capital management remained tight for these companies. The magnitude of the negative working capital grew, suggesting working capital was a source of cash flow the income statement did not reflect. (See Exhibit 5.)

Exhibit 1: Cash Flow as a Percentage of Operating Net Income, 2006

US\$ in millions

		<u>Operating Net Income</u>	<u>Cash Flow</u>	<u>Cash Flow as a % of Operating Net Income</u>
AA	Alcoa Inc.	\$2,161	(\$638)	-30%
BA	Boeing Co.	3,012	6,043	201%
CAT	Caterpillar Inc.	3,537	4,206	119%
DD	E.I. DuPont de Nemours	3,375	2,204	65%
DIS	Walt Disney Co.	3,286	4,759	145%
HD	Home Depot Inc.	5,761	4,119	71%
HON	Honeywell International Inc.	1,630	2,478	152%
HPQ	Hewlett-Packard Co.	6,960	8,817	127%
IBM	International Business Machines	9,415	10,655	113%
INTC	Intel Corp.	5,641	4,841	86%
JNJ	Johnson & Johnson	11,053	11,582	105%
KO	Coca-Cola Co.	5,080	4,550	90%
MCD	McDonald's Corp.	2,750	2,600	95%
MMM	Minnesota Mining & Manufacturing Co.	3,413	2,671	78%
MO	Altria Group	11,580	11,132	96%
MRK	Merck & Co.	4,576	5,785	126%
MSFT	Microsoft Corp.	12,599	12,826	102%
PFE	Pfizer Inc.	15,608	15,544	100%
PG	Procter & Gamble Co.	8,684	8,708	100%
T	AT&T Corp.	7,356	7,295	99%
UTX	United Technologies Corp.	3,732	3,849	103%
VZ	Verizon Communications Inc.	5,480	7,005	128%
WMT	Wal-Mart Stores	12,178	4,498	37%
XOM	Exxon Mobil Corp.	39,500	33,824	86%

Weighted Mean

95.2%

Note: Non-calendar fiscal years are adjusted to the closest calendar year.

Source: LMCM analysis.

Exhibit 2: Cash Flow as a Percentage of Operating Net Income, 1997–2006

		2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
AA	Alcoa Inc.	-30%	-37%	75%	148%	114%	136%	117%	139%	94%	45%
BA	Boeing Co.	201%	270%	135%	125%	148%	73%	234%	216%	30%	45%
CAT	Caterpillar Inc.	119%	67%	-242%	-573%	205%	98%	107%	177%	56%	76%
DD	E.I. DuPont de Nemours	65%	54%	70%	31%	37%	-127%	130%	375%	111%	109%
DIS	Walt Disney Co.	145%	95%	122%	138%	98%	80%	172%	30%	-29%	5%
HD	Home Depot Inc.	71%	47%	59%	71%	56%	84%	-30%	-6%	-9%	-39%
HON	Honeywell International Inc.	152%	108%	100%	95%	104%	67%	50%	64%	49%	56%
HPQ	Hewlett-Packard Co.	127%	125%	68%	97%	192%	71%	57%	63%	117%	64%
IBM	International Business Machines	113%	139%	130%	133%	169%	112%	45%	54%	53%	46%
INTC	Intel Corp.	86%	102%	121%	132%	121%	104%	58%	119%	88%	79%
JNJ	Johnson & Johnson	105%	91%	105%	116%	92%	126%	104%	94%	102%	89%
KO	Coca-Cola Co.	90%	113%	108%	107%	98%	84%	131%	116%	73%	76%
MCD	McDonald's Corp.	95%	107%	110%	122%	83%	41%	40%	57%	51%	21%
MMM	Minnesota Mining & Manufacturing Co.	78%	106%	112%	132%	107%	120%	65%	112%	61%	31%
MO	Altria Group	96%	82%	95%	93%	95%	70%	111%	122%	118%	109%
MRK	Merck & Co.	126%	125%	122%	99%	100%	87%	73%	61%	64%	105%
MSFT	Microsoft Corp.	102%	127%	165%	139%	128%	168%	112%	161%	173%	144%
PFE	Pfizer Inc.	100%	98%	86%	337%	82%	83%	108%	48%	107%	34%
PG	Procter & Gamble Co.	100%	94%	113%	139%	135%	114%	39%	72%	62%	110%
T	AT&T Corp.	99%	155%	118%	140%	236%	39%	2%	-18%	31%	29%
UTX	United Technologies Corp.	103%	108%	104%	99%	101%	108%	87%	441%	120%	107%
VZ	Verizon Communications Inc.	128%	117%	118%	306%	221%	407%	-15%	48%	55%	59%
WMT	Wal-Mart Stores	37%	27%	21%	65%	39%	28%	25%	36%	87%	127%
XOM	Exxon Mobil Corp.	86%	95%	113%	75%	86%	81%	83%	49%	42%	155%
	Weighted mean	95%	98%	98%	108%	109%	92%	65%	81%	72%	85%
	Median	100%	104%	109%	119%	103%	84%	78%	68%	63%	76%

Source: LMCM analysis.

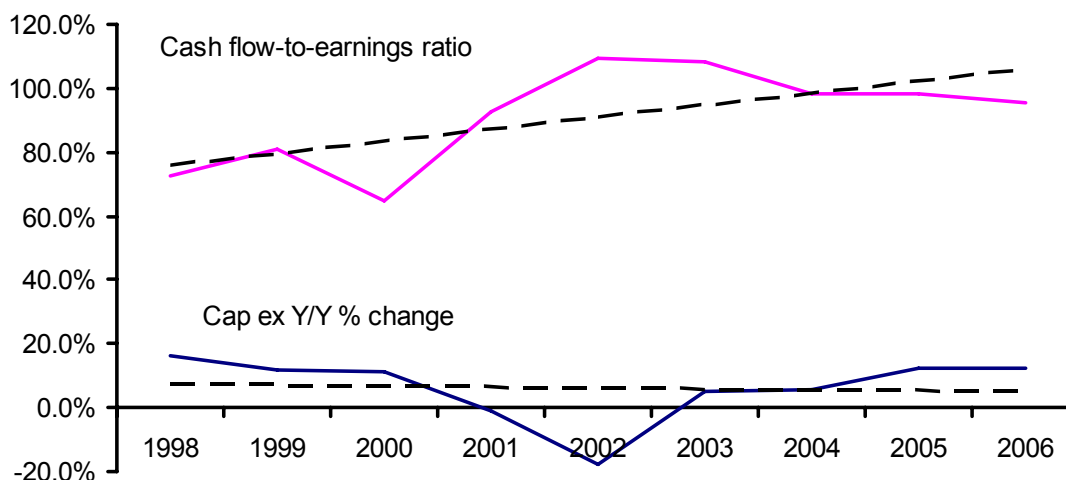
Exhibit 3: Capital Expenditures, 2002–2006

US\$ in millions

		2006		2005	%	2004	%	2003	%	2002
		Capex	% change	Capex	change	Capex	change	Capex	change	Capex
AA	Alcoa Inc.	\$3,205	50%	\$2,138	87%	\$1,142	32%	\$863	-32%	\$1,270
BA	Boeing Co.	1,456	-3%	1,496	53%	978	32%	741	-26%	1,001
CAT	Caterpillar Inc.	1,593	33%	1,201	30%	926	36%	682	-6%	728
DD	E.I. DuPont de Nemours	1,532	14%	1,340	9%	1,232	-28%	1,713	34%	1,280
DIS	Walt Disney Co.	1,299	-29%	1,823	28%	1,427	36%	1,049	-3%	1,086
HD	Home Depot Inc.	3,542	-9%	3,881	-2%	3,948	13%	3,508	28%	2,749
HON	Honeywell International Inc.	733	7%	684	9%	629	-4%	655	-2%	671
HPQ	Hewlett-Packard Co.	2,536	27%	1,995	-6%	2,126	7%	1,995	17%	1,710
IBM	International Business Machines	4,362	14%	3,842	-12%	4,368	-1%	4,393	-8%	4,753
INTC	Intel Corp.	5,779	-1%	5,818	51%	3,843	5%	3,656	-22%	4,703
JNJ	Johnson & Johnson	2,666	1%	2,632	21%	2,175	-4%	2,262	8%	2,099
KO	Coca-Cola Co.	1,407	57%	899	19%	755	-7%	812	-5%	851
MCD	McDonald's Corp.	1,742	8%	1,607	13%	1,419	9%	1,307	-35%	2,004
MMM	Minnesota Mining & Manufacturing Co	1,168	24%	943	1%	937	38%	677	-11%	763
MO	Altria Group	2,454	11%	2,206	15%	1,913	-3%	1,974	-2%	2,009
MRK	Merck & Co.	980	-30%	1,403	-19%	1,726	-10%	1,916	-19%	2,370
MSFT	Microsoft Corp.	1,578	55%	1,019	-8%	1,109	-43%	1,954	154%	770
PFE	Pfizer Inc.	2,050	-3%	2,106	-19%	2,601	-2%	2,641	50%	1,758
PG	Procter & Gamble Co.	2,667	22%	2,181	8%	2,024	37%	1,482	-12%	1,679
T	AT&T Corp.	8,320	49%	5,576	9%	5,099	-2%	5,219	35%	3,878
UTX	United Technologies Corp.	954	3%	929	17%	795	50%	530	-10%	586
VZ	Verizon Communications Inc.	17,101	14%	14,964	13%	13,259	12%	11,874	-1%	11,984
WMT	Wal-Mart Stores	15,666	8%	14,563	13%	12,893	25%	10,308	11%	9,325
XOM	Exxon Mobil Corp.	15,462	12%	13,839	15%	11,986	-7%	12,859	12%	11,437
	Weighted mean		12.5%		12.3%		5.6%		5.0%	

Source: FactSet and LMCM analysis.

Exhibit 4: Higher Capital Expenditures Help Explain Lower Cash Flow Ratios



Source: LMCM analysis.

Exhibit 5: Working Capital Percentage Change, 2005–2006

US\$ in millions

		<u>2006</u>	<u>2005</u>	<u>% Change</u>
AA	Alcoa Inc.	\$2,695	\$1,930	40%
BA	Boeing Co.	(11,723)	(10,997)	7%
CAT	Caterpillar Inc.	12,927	12,658	2%
DD	E.I. DuPont de Nemours	4,554	4,505	1%
DIS	Walt Disney Co.	(377)	264	-243%
HD	Home Depot Inc.	3,051	1,507	102%
HON	Honeywell International Inc.	2,099	2,322	-10%
HPQ	Hewlett-Packard Co.	(1,303)	(224)	482%
IBM	International Business Machines	2,815	4,039	-30%
INTC	Intel Corp.	(56)	(499)	-89%
JNJ	Johnson & Johnson	4,309	3,289	31%
KO	Coca-Cola Co.	229	193	19%
MCD	McDonald's Corp.	(1,502)	(1,244)	21%
MMM	Minnesota Mining & Manufacturing Co.	2,211	1,877	18%
MO	Altria Group	(94)	(369)	-75%
MRK	Merck & Co.	(4,920)	(4,920)	0%
MSFT	Microsoft Corp.	(7,593)	(5,891)	29%
PFE	Pfizer Inc.	281	2,811	-90%
PG	Procter & Gamble Co.	(1,354)	(1,402)	-3%
T	AT&T Corp.	(7,614)	(7,533)	1%
UTX	United Technologies Corp.	1,984	1,919	3%
VZ	Verizon Communications Inc.	(7,680)	(4,748)	62%
WMT	Wal-Mart Stores	(2,768)	(2,104)	32%
XOM	Exxon Mobil Corp.	(4,186)	(4,469)	-6%

Source: LMCM analysis.

Cash Flow in a Knowledge Economy

The classic definition of free cash flow is net operating profit after tax (NOPAT) less investment needs, including working capital changes and capital expenditures. For the most part, investors calculate NOPAT by analyzing the income statement and determine investment needs by studying the balance sheet. However, as our global economy migrates away from manufacturing

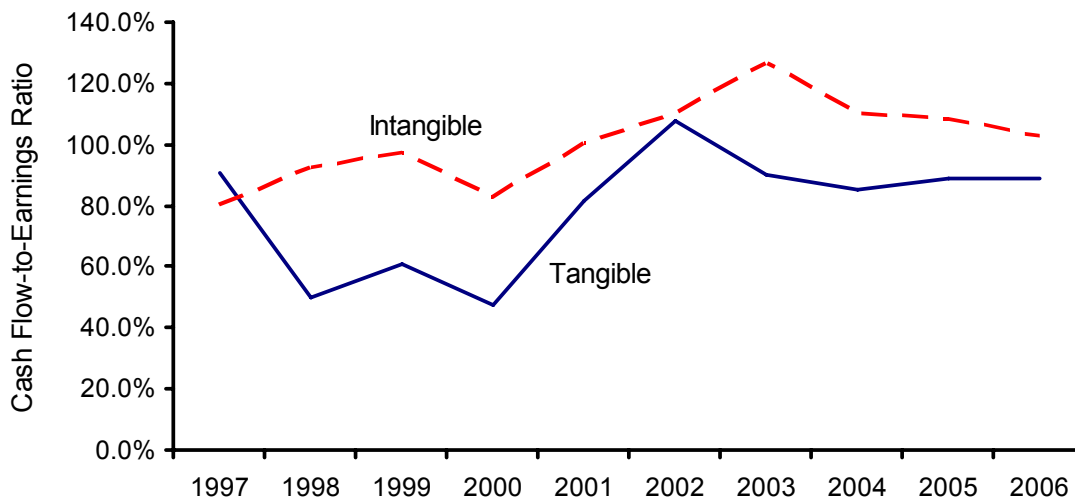
toward service and knowledge businesses, the accounting for investments becomes a lot less tidy.

Take Microsoft as an example. In fiscal 2007, the company spent nearly \$7.1 billion on research and development—certainly a form of investment—and only \$2.3 billion on capital expenditures. Microsoft is most certainly making healthy investments in its business, but most of those investments are reflected on the income statement as an expense, versus on the balance sheet as an asset.

There are at least two implications for investors. First, understanding the nature and potential payback from intangible investments is more important than ever. Today's accounting conventions, which were developed to capture the condition of largely tangible-asset businesses, does a substandard job of capturing the essential features of intangible investments.¹³

Second, since the investments of intangible-centered companies tend to show up as expenses on the income statement, these companies frequently generate high cash flow-to-earnings ratios. To illustrate this point, we selected two groups of companies to represent tangible and intangible businesses and compared their cash flow-to-earnings ratios. (See Exhibit 6.) The intangible group shows consistently higher cash flows for each dollar earned than the tangible group.

Exhibit 6: Intangible-Based Companies Have Higher Cash Flow Ratios



Source: LMCM analysis.

What You See and What You Get

This discussion yields some relevant conclusions for investors:

- *A company's value equals the present value of future cash flows.* Notwithstanding theory, earnings remain the primary measure of financial performance for companies, investors, and the business press.
- *Earnings are severely limited.* While convenient, earnings provide limited information about future cash flows. Specifically, companies can calculate earnings with alternative acceptable approaches, earnings neglect capital needs, and companies can grow earnings without creating shareholder value. These limitations underscore why earnings are far from ideal for valuation.
- *Empirical evidence suggests the market looks through earnings.* Event studies suggest when there's a dichotomy between earnings and cash flow the market generally follows cash. This undermines the view that the market simplistically capitalizes earnings.

- *Our analysis of the DJIA suggests cash flows remain very healthy.* However, a large dispersion exists behind the aggregates, suggesting investors should do in-depth company-by-company analysis.
- *The ongoing shift to an intangible-based economy renders earnings even less useful.* Intangible-based companies consistently have higher cash flow-to-earnings ratios than their tangible-based peers.

Exhibits 7 through 36 present the earnings and cash flow reconciliations for all the companies in the DJIA for the most recent reported fiscal year.

Exhibit 7: Alcoa Inc.

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$30,379.0			
Other income - net				
Decrease in receivables		(97.0)		
Reduction in deferred hedging gains			30,282.0	99.7%
Cost of revenue	(23,318.0)			
Decrease in inventories		(496.0)		
Decrease in payables and accrued expenses		(294.0)		
Reduction in prepaid expenses and other current assets		(167.0)		
Net change in noncurrent assets and liabilities		(23.0)		
Other		(169.0)	(24,467.0)	104.9%
Operating, selling, general and administrative expenses	(1,402.0)			
Research and development expenses	(213.0)		(1,615.0)	
Depreciation and amortization	(1,280.0)			
Depreciation and amortization (cash flow impact)		1,280.0		
Capital expenditures		(3,205.0)	(3,205.0)	250.4%
Special items	(543.0)			
Other items	193.0			
Restructuring and other charges		543.0		
Stock-based compensation		72.0		
Excess tax benefits from stock-based payment arrangements		(17.0)		
Cash paid on long-term aluminum supply contract		0.0		
Pension contributions		(397.0)		
Increase (decrease) in net assets held for sale		(73.0)		
Interest Expense	(384.0)		(606.0)	
Provision for taxes on income	(835.0)			
Change in deferred taxes		(69.0)		
Increase in taxes, including taxes on income		(35.0)	(939.0)	112.5%
Minority interests	(436.0)	436.0		
Loss from discontinued operations	87.0	(87.0)		
Cash provided for discontinued operations		4.0		
Other operating cash items				
Equity earnings before additional taxes, net of dividends		(89.0)		
Gains from investing activities sale of assets		(25.0)		
Provision for doubtful accounts		22.0	(88.0)	
Reported Net Income	2,248.0			
Operating Net Income	2,161.0			
Cash Flow			(638.0)	-29.5%
Per share data:				
Reported Net Income	\$2.59			
Operating Net Income	\$2.49			
Cash Flow			(\$0.73)	
Shares outstanding	869.0			
Additional cash flow items				
Financing				
Net additions (reduction) to short-term borrowings		126.0		
Common stock issued and treasury stock sold		156.0		
Repurchase of common stock		(290.0)		
Dividends paid to shareholders		(524.0)		
Dividends paid to minority interests		(400.0)		
Contributions from minority interests		342.0		
Net change in commercial paper		560.0		
Additions to long-term debt		29.0		
Payments on long-term debt		(36.0)		
Excess tax benefits from stock-based payment arrangements		17.0		
Net cash from (used for) financing			(20.0)	
Investing				
Acquisitions of minority interests (F and P)		(1.0)		
Acquisitions, net of cash acquired (F and P)		8.0		
Proceeds from the sale of assets and businesses		372.0		
Additions to investments		(58.0)		
Sale of investments (F)		35.0		
Net change in short term investments and restricted cash		(4.0)		
Other		12.0		
Net cash from (used for) investing			364.0	
Total cash used for investments and financing			344.0	
Effect of exchange rate changes on cash		38.0		
Net change in cash and cash equivalents			(256.0)	

Source: LMCM analysis.

Exhibit 8: Altria Group

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$101,407.0			
Increase in accounts receivable		(271.0)	101,136.0	99.7%
Cost of sales	(37,480.0)			
Increase in inventories		(1010.0)		
Decrease in accounts payable		123.0		
Accrued liabilities and other current assets		184.0		
Other		826.0		
Other (financial)		(126.0)	(37,483.0)	100.0%
Excise taxes on products	(31,083.0)			
Marketing, administration and research costs	(14,913.0)			
Domestic tobacco headquarters relocation charges	0.0	(2.0)		
Escrow bond for the <i>Price</i> domestic tobacco case		1850.0		
International tobacco Italian antitrust charge	(61.0)			
Asset impairment and exit costs	(1,180.0)	882.0		
Pension plan contributions		(1024.0)		
Pension provisions and postretirement, net		886.0		
Gain on redemption of United Biscuits investment	251.0	(251.0)		
Provision for airline industry exposure	(103.0)	103.0		
Settlement charges		50.0	(44,595.0)	
Amortization of intangibles	(30.0)			
Depreciation and amortization expense		1,804.0		
Capital expenditures		(2,454.0)	(680.0)	2266.7%
Interest and other debt expense, net	(877.0)			
Minority interest in earnings	(163.0)	163.0		
Gains (losses) on sales of businesses	605.0	(605.0)	(877.0)	
Income taxes	(4,351.0)			
Increase in deferred income taxes		(234.0)		
Income taxes		(504.0)		
Increase in deferred income taxes (financial)		(274.0)		146.4%
Income tax reserve reversal		(1,006.0)	(6,369.0)	
Reported Net Income	12,022.0			
Operating Net Income	11,580.0			
Cash Flow			11,132.0	96.1%
Per share data:				
<i>Reported Net Income</i>	<u>\$5.76</u>			
<i>Operating Net Income</i>	<u>\$5.55</u>			
<i>Cash Flow</i>			<u>\$5.33</u>	
<i>Shares outstanding</i>	2,087.0			
Additional cash flow items				
Financing				
Consumer products				
Net issuance (repayment) of short-term borrowings		(2,059.0)		
Long-term debt proceeds		69.0		
Long-term debt repaid		(3,459.0)		
Financial services				
Long-term debt repaid		(1,015.0)		
Repurchase of common stock		(1,254.0)		
Dividends paid		(6,815.0)		
Issuance of common stock		486.0		
Other		(319.0)		
Net cash from (used for) financing			(14,366.0)	
Investments				
Consumer products				
Purchase of businesses, net of acquired cash		(4.0)		
Proceeds from sales of businesses		1,466.0		
Other		32.0		
Financial services				
Investments in finance assets		(15.0)		
Proceeds from finance assets		357.0		
Total cash used for investments			1,836.0	
Total cash used for investments and financing			(12,530.0)	
Effect of exchange rates on cash and cash equivalents		160.0		
Net change in cash and cash equivalents			(1,238.0)	

Source: LMCM analysis.

Exhibit 9: AT&T Corp.

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Revenues	\$63,055.0			
Increase in receivables		519.0	63,574.0	100.8%
Operating expenses:				
Cost of services and products	(27,349.0)			
Depreciation and other amortization	(9,907.0)			
Selling, general and administrative expenses	(15,511.0)			
Amortization of investment tax credits		(28.0)		
Depreciation and amortization		9,907.0		
Capital expenditures		(8,320.0)		
Provision for uncollectibles		586.0		
Decrease in accounts payables		(2,213.0)		
Net change in other operating assets and liabilities		30.0		
Other adjustments for noncash items		1,519.0	(51,286.0)	201.8%
Other income, net	16.0			
Gains on sales		(10.0)	6.0	37.5%
Interest expense, net	(1,466.0)			
Provision for income taxes	(3,525.0)	(87.0)		
Undistributed earnings from investments in equity affiliates	0.0	(1,946.0)		
Equity in net income of affiliates	2,043.0			
Put settlement loss and mark-to-market charges			(4,981.0)	
Stock-based compensation tax benefit		(18.0)	(18.0)	
Reported Net Income	7,356.0			
Income from continuing operations	7,356.0			
Cash Flow			7,295.0	99.2%
Per share data:				
Reported Net Income	\$1.89			
Operating Net Income	\$1.89			
Cash Flow			\$ 1.88	
Shares outstanding	3,882.0			
Additional cash flow items				
Financing				
Proceeds from long-term debt issuances		1,491.0		
Retirements of long-term debt		(4,242.0)		
Increase in short-term borrowings		3,649.0		
Repayment of other short-term borrowings		(2.0)		
Treasury shares issued		589.0		
Purchase of treasury shares		(2,678.0)		
Dividends paid on common stock		(5,153.0)		
Stock-based compensation tax benefit		18.0		
Other		200.0		
Net cash from (used for) financing			(6,128.0)	
Investments				
Receipts from (investments in) affiliates -- net		(1,104.0)		
Purchases of held-to-maturity securities		3.0		
Net dispositions of businesses, net of cash acquired		756.0		
Acquisitions, net of cash acquired		368.0		
Other investing activities		4.0		
Net cash from (used for) investments			27.0	
Total cash used for investments and financing			(6,101.0)	
Net change in cash and cash equivalents			1,194.0	

Source: LMCM analysis.

Exhibit 10: Boeing Co.

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$61,530.0			
Increase in receivables		(244.0)	61,286.0	99.6%
Cost of revenue	(50,437.0)			
Decrease in inventories		444.0		
Decrease in payables and accrued expenses		(744.0)		
Advances in excess of related costs		1,739.0		
Other		(189.0)	(49,187.0)	97.5%
Depreciation and Amortization				
Depreciation and Amortization		1,559.0		
Capital expenditures		(1,456.0)	103.0	93.4%
General and administrative expenses	(4,171.0)			
Income (loss) from operating investments, net	146.0			
Research and development expenses	(3,257.0)		(7,282.0)	
Share-based plans	0.0	743.0		
Accrued retiree health care		114.0	857.0	-
Gain on dispositions	(226.0)	226.0		
Settlement with U.S. Department of Justice, net of accruals	(571.0)			
Customer and commercial financing valuation provision		32.0		
Deferred lease income		(62.0)		
Prepaid pension expense		(522.0)		
Pension expense/(income)		746.0		
Investment/asset impairment charges, net		118.0		
Excess tax benefits from share-based payment arrangements		(395.0)		
Net gain on disposal of discontinued operations, net of taxes	9.0	(14.0)		
Customer financing, net		718.0		
Other income	420.0			
Other charges and credits, net		82.0		
Interest Expense	(240.0)		321.0	
Provision for taxes on income	(988.0)			
Change in deferred taxes		933.0	(55.0)	5.6%
Reported Net Income	2,215.0			
Operating Net Income	3,012.0			
Cash Flow			6,043.0	200.6%
Per share data:				
Reported Net Income	\$2.91			
Operating Net Income	\$3.96			
Cash Flow			\$7.94	
Shares outstanding	761.0			
Additional cash flow items				
Financing				
New borrowings		1.0		
Debt repayments		(1,681.0)		
Excess tax benefits from share-based payment arrangements		395.0		
Common shares repurchased		(1,698.0)		
Stock options exercised, other		294.0		
Dividends paid		(956.0)		
Net cash from (used for) financing			(3,645.0)	
Investing				
Contributions less proceeds for investments		35.0		
Acquisitions net of cash acquired		(1,854.0)		
Proceeds from dispositions		123.0		
Other		(34.0)		
Net cash from (used for) investing			(1,730.0)	
Total cash used for investments and financing			(5,375.0)	
Effect of exchange rate changes on cash and cash equivalents			38.0	
Net change in cash and cash equivalents			706.0	

Source: LMCM analysis.

Exhibit 11: Caterpillar Inc.

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Revenues:				
Sales of Machinery and Engines	\$38,869.0			
Revenues of Financial Products	2,648.0			
Increase in receivables		(89.0)	<u>41,428.0</u>	99.8%
Cost of goods sold				
Depreciation and amortization	(29,549.0)	1,602.0		
Capital expenditures		(1,593.0)		
Increase in inventory		(827.0)		
Increase in payables		670.0		
Other		197.0	<u>(29,500.0)</u>	99.8%
Selling, general and administrative	(3,706.0)			
Research and development expenses	(1,347.0)			
Interest expense of Financial Products	(1,023.0)			
Interest expense excluding Financial Products	(274.0)			
Other operating expenses	(971.0)			
Other income	214.0	709.0		
Provision for income taxes	(1,405.0)			
Equity in profit of unconsolidated affiliated companies	81.0		<u>(7,722.0)</u>	
Reported Net Income	3,537.0			
Operating Net Income	3,537.0			
Cash Flow			<u>4,206.0</u>	118.9%
Per share data:				
Reported Net Income	\$5.37			
Operating Net Income	\$5.37			
Cash Flow			<u>\$6.39</u>	
Shares outstanding	658.7			
Additional cash flow items				
Financing				
Dividends paid		(726.0)		
Common stock issued, including treasury shares reissued		414.0		
Treasury shares purchased		(3,208.0)		
Excess tax benefit from stock-based compensation		169.0		
Proceeds from long-term debt issued		11,269.0		
Payments on long-term debt		(10,375.0)		
Short-term borrowings, net		(136.0)		
Net cash from (used for) financing			<u>(2,593.0)</u>	
Investments				
Expenditures for equipment leased to others		(1,082.0)		
Proceeds from disposals of property, plant, equipment		572.0		
Additions to finance receivables		(10,522.0)		
Collection of finance receivables		8,094.0		
Proceeds from sale of finance receivables		1,067.0		
Investments and acquisitions		(513.0)		
Proceeds from sale of available-for-sale securities		539.0		
Investments in available-for-sale securities		(681.0)		
Other, net		323.0		
Net cash from (used for) investments			<u>(2,203.0)</u>	
Total cash used for investments and financing			<u>(4,796.0)</u>	
Effect of exchange rate changes on cash		12.0		
Net change in cash and cash equivalents			<u>(578.0)</u>	

Source: LMCM analysis.

Exhibit 12: Coca-Cola Co.

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$24,088.0		24,088.0	
Cost of goods sold	(8,164.0)			
Foreign currency adjustments		52.0		
Change in operating assets and liabilities		(615.0)		
Other		233.0	(8,494.0)	104.0%
Depreciation and Amortization		938.0		
Capital expenditures		(1,407.0)	(469.0)	
Selling, general and administrative expenses	(9,431.0)			
Other operating charges	(185.0)	159.0		
Stock based compensation expense		324.0	(9,133.0)	
Interest Income	193.0			
Interest expense	(220.0)		(27.0)	
Equity Income	102.0			
Equity income, net of dividends		124.0	226.0	221.6%
Other income	195.0			
Gains on sales of assets, including bottling interests		(303.0)	(108.0)	-55.4%
Income taxes	(1,498.0)			
Change in deferred taxes		(35.0)	(1,533.0)	
<i>Reported Net Income</i>	5,080.0			
<i>Operating Net Income</i>	5,080.0			
<i>Cash Flow</i>			4,550.0	89.6%
<i>Reported Net Income</i>	\$ 2.16			
<i>Income from continuing operations</i>	\$ 2.16			
<i>Cash Flow</i>			\$ 1.94	
Shares outstanding	2,348.0			
Additional cash flow items				
Financing				
Issuances of debt		617.0		
Payments of debt		(2,021.0)		
Issuances of stock		148.0		
Purchase of stock for treasury		(2,416.0)		
Dividends		(2,911.0)		
Net cash from (used for) financing			(6,583.0)	
Investing				
Acquisitions and investments, principally bottling companies		(901.0)		
Purchases of investments and other assets		(82.0)		
Proceeds from disposals of investments and other assets		640.0		
Proceeds from other divestitures and investments		112.0		
Other investing activities		(62.0)		
Net cash from (used for) investing			(293.0)	
Effect of exchange rate changes on cash and cash equivalents			65.0	
Net change in cash and cash equivalents			(2,261.0)	

Source: LMCM analysis.

Exhibit 13: E.I. DuPont de Nemours

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$27,421.0			
Other income	1,561.0	187.0		
Increase in receivables		(194.0)	<u>28,975.0</u>	105.7%
Cost of goods sold and other operating charges	(20,440.0)			
Decrease in inventory		(61.0)		
Increase in payables		526.0		
Increase in accrued interest and income taxes		(359.0)	<u>(20,334.0)</u>	99.5%
Selling, general and administrative expenses	(3,224.0)		<u>(3,224.0)</u>	100.0%
Depreciation and Amortization	(227.0)	1,384.0		
Capital expenditures		(1,532.0)	<u>(375.0)</u>	165.2%
Research and development	(1,302.0)			
Interest expense	(460.0)			
Contributions to pension plans		(280.0)	<u>(2,042.0)</u>	
Provision for taxes	(196.0)			
Deferred tax (benefit)/expense		(615.0)	<u>(811.0)</u>	
Minority interest	15.0		<u>15.0</u>	
Reported Net Income	<u>3,148.0</u>			
Operating Net Income	<u>3,375.0</u>			
Cash Flow			<u>2,204.0</u>	65.3%
Reported Net Income	<u>\$3.42</u>			
Operating Net Income	<u>\$3.66</u>			
Cash Flow			<u>\$2.39</u>	
Shares Outstanding	921.5			
Additional cash flow items				
Financing				
Dividends paid to stockholders		(1,378.0)		
Net increase in short-term borrowings		(263.0)		
Long-term and other borrowings, receipts		2,611.0		
Long-term and other borrowings, payments		(3,139.0)		
Acquisition of treasury stock		(280.0)		
Proceeds from exercise of stock options		148.0		
Other		(22.0)		
Net cash from (used for) financing			<u>(2,323.0)</u>	
Investments				
Investments in affiliates		(31.0)		
Payments for businesses		(60.0)		
Proceeds from sales of assets		148.0		
Net decrease in shortterm financial instruments		37.0		
Forward exchange contract settlements		45.0		
Miscellaneous, net		48.0		
Net cash from (used for) investments			<u>187.0</u>	
Total cash used for investments and financing			<u>(2,136.0)</u>	
Effect of exchange rate on cash and cash equivalents		10.0		
Net change in cash and cash equivalents			<u>78.0</u>	

Source: LMCM analysis.

Exhibit 14: Exxon Mobil Corp.

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Revenue:				
Sales and other operating revenue, including excise taxes	\$365,467.0			
Earnings from equity interests and other revenue	12,168.0			
Accounts receivable		(181.0)		
Dividends received greater than equity in current earnings of equity companies		(579.0)	376,875.0	99.8%
Costs and expenses:				
Crude oil and product purchases	(182,546.0)			
Decrease in inventories		(1,057.0)	(183,603.0)	100.6%
Operating expenses				
(29,528.0)				
Decrease accounts and other payables		1,160.0		
Annuity and accrued liability provisions		(2,453.0)		
Other		(903.0)	(31,724.0)	107.4%
Selling, general and administrative expenses	(14,273.0)		(14,273.0)	
Depreciation and depletion	(11,416.0)	11,416.0		
Capital expenditures		(15,462.0)	(15,462.0)	135.4%
Exploration expenses, including dry holes	(1,181.0)			
Interest expense	(654.0)			
Excise taxes	(30,381.0)			
Other taxes and duties	(39,203.0)		(71,419.0)	
Income applicable to minority and preferred interests	(1,051.0)			
Cash dividends to minority interests		1,051.0	0.0	
Income taxes	(27,902.0)			
Deferred income tax charges		1,717.0		
Prepaid taxes and expenses		(385.0)	(26,570.0)	95.2%
Net Income	39,500.0			
Operating Net Income	39,500.0			
Cash Flow			33,824.0	85.6%
Per share data:				
Reported Net Income	\$6.68			
Operating Net Income	\$6.68			
Cash Flow			\$5.72	
Shares Outstanding	5,913.0			
Additional cash flow items				
Financing				
Additions to long-term debt		318.0		
Reductions in long-term debt		(33.0)		
Additions to short-term debt		334.0		
Reductions in short-term debt		(451.0)		
Additions in debt with less than 90 day maturity		(95.0)		
Cash dividends to Exxon shareholders		(7,628.0)		
Cash dividends to minority interests		(239.0)		
Changes in minority interests and sales of affiliate stock		(493.0)		
Tax benefits related to stock-based awards		462.0		
Common stock acquired		(29,558.0)		
Common stock sold		1,173.0		
Net cash from (used for) financing			(36,210.0)	
Investments				
Sales of subsidiaries and plant, property and equipment		3,080.0		
Additional investments and advances		(2,604.0)		
Sales of investments and collection of advances		756.0		
Net cash from (used for) investments			1,232.0	
Total cash used for investments and financing			(34,978.0)	
Effect of exchange rate changes on cash		727.0		
Net change in cash and cash equivalents			(427.0)	

Source: LMCM analysis.

Exhibit 15: Hewlett-Packard Co.

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Revenues:				
Products	\$73,557.0			
Services	17,773.0			
Financing	328.0			
Increase in receivables		(882.0)	90,776.0	99.4%
Costs and expenses:				
Cost of products sold	(55,248.0)			
Depreciation and amortization		2,353.0		
Stock based compensation expense		536.0		
Capital expenditures		(2,536.0)		
Decrease in inventory		(842.0)		
Increase in payables		1,879.0		
Other current assets		2,785.0		
Other		(7.0)	(51,080.0)	92.5%
Cost of services	(13,930.0)			
Research and development	(3,591.0)			
Selling, general and administrative	(11,266.0)			
Restructuring charges	(158.0)	(652.0)		
In-process research and development charges	(52.0)			
Acquisition-related charges	0.0	52.0		
Amortization of purchased intangible assets and goodwill	(604.0)			
Interest income and other, net	606.0			
Net investment gains	25.0	0.0		
Provision for doubtful accounts		4.0	(29,566.0)	
Financing interests	(249.0)		(249.0)	
Provision for taxes	(993.0)			
Change in deferred taxes		693.0		
Taxes on earnings		(513.0)		
Tax benefit from employee stock options		(251.0)	(1,064.0)	107.2%
<i>Reported Net Income</i>	6,198.0			
<i>Operating Net Income</i>	6,960.0			
<i>Cash Flow</i>			8,817.0	126.7%
Per share data:				
<i>Reported Net Income</i>	\$2.23			
<i>Operating Net Income</i>	\$2.50			
<i>Cash Flow</i>			\$3.17	
<i>Shares outstanding</i>	2,782.0			
Additional cash flow items				
Financing				
Change in notes payable and short-term borrowings		(55.0)		
Issuance of long-term debt		1,121.0		
Payment of long-term debt		(1,259.0)		
Issuance of common stock under employee stock plans		2,538.0		
Repurchase of common stock		(6,057.0)		
Dividends		(894.0)		
Repayment of common stock repurchase		(1,722.0)		
Excess tax benefit from stock-based compensation		251.0		
Net cash from (used for) financing			(6,077.0)	
Investments				
Disposition of property, plant and equipment		556.0		
Purchase of investments		(46.0)		
Maturities of investments		94.0		
Cash acquired through business acquisitions		(855.0)		
Net cash from (used for) investments			(251.0)	
Total cash used for investments and financing			(6,328.0)	
Net change in cash and cash equivalents			2,489.0	

Source: LMCM analysis.

Exhibit 16: Home Depot Inc.

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Net Sales	\$90,837.0			
(Increase) decrease in receivables, net		96.0	90,933.0	100.1%
Cost of merchandise sold	(61,054.0)			
Depreciation and amortization	(1,762.0)	1,886.0		
Capital expenditures		(3,542.0)		
Stock-based compensation expense		297.0		
Changes in assets and liabilities, net of the effects of acquisitions:				
Increase in merchandise inventories		(563.0)		
Increase in other current assets		(225.0)		
Increase in accounts payable and accrued liabilities		531.0		
Increase in deferred revenue		(123.0)		
Increase (decrease) in income taxes payable		(172.0)		
Increase in deferred taxes		46.0		
Increase in other long-term liabilities		(51.0)		
Other		178.0	(64,554.0)	105.7%
Selling, general, and administrative	(18,348.0)			
Interest and investment income	27.0			
Interest expense	(392.0)		(18,713.0)	100.0%
Provision for income taxes	(3,547.0)		(3,547.0)	100.0%
Reported Net Income	5,761.0			
Operating Net Income	5,761.0			
Cash Flow			4,119.0	71.5%
Per share data:				
<i>Reported Net Income</i>	\$2.80			
<i>Income from continuing operations</i>	\$2.80			
<i>Cash Flow</i>			\$2.01	
Shares outstanding	2,054.0			
Additional cash flow items				
Financing				
(Repayments of) Proceeds from short-term borrowings, net of discount		(900.0)		
Proceeds from long-term borrowings, net of discount		8,935.0		
Repayments of long-term debt		(509.0)		
Repurchase of common stock		(6,684.0)		
Proceeds from sale of common stock, net		381.0		
Cash dividends paid to stockholders		(1,395.0)		
Other		(31.0)		
Net cash from (used for) financing			(203.0)	
Investments				
Payments for businesses acquired, net		(4,268.0)		
Proceeds from sales of property and equipment		138.0		
Purchases of investments		(5,409.0)		
Proceeds from sales and maturities of investments		5,434.0		
Net cash from (used for) investments			(4,105.0)	
Total cash used for investments and financing			(4,308.0)	
Effect of exchange rate on cash and cash equivalents		(4.0)		
Net change in cash and cash equivalents			(189.0)	

Source: LMCM analysis.

Exhibit 17: Honeywell International Inc.

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Revenues	\$31,367.0			
Increase in receivables		(573.0)	30,794.0	98.2%
Cost of products and services sold	(24,096.0)			
Depreciation and amortization		794.0		
Capital expenditures		(733.0)		
Increase in inventory		(128.0)		
Increase in payables		516.0		
Merger repositioning and other charges, net		(76.0)		
Pension and other retirement benefit plans		106.0		
Stock option expense		77.0		
Other current assets		(11.0)		
Accrued liabilities		(16.0)		
Other		20.0	(23,547.0)	97.7%
Selling, general and administrative	(4,210.0)			
Other income	111.0			
Interest and other financial charges	(374.0)			
Income from discontinued operations, net of taxes	5.0		(4,468.0)	
Tax provision	(720.0)			
Deferred income taxes		450.0		
Excess tax benefits from share based payment arrangement		(31.0)	(301.0)	
Reported Net Income	2,083.0			
Operating Net Income	1,630.0			
Cash Flow			2,478.0	152.0%
Per share data:				
Reported Net Income	\$2.54			
Operating Net Income	\$1.99			
Cash Flow			\$3.02	
Shares outstanding	820.8			
Additional cash flow items				
Financing				
Net increase in commercial paper		(86.0)		
Net increase in short-term borrowings		(224.0)		
Payment of debt assumed with acquisitions		(346.0)		
Proceeds from issuance of common stock		396.0		
Proceeds from issuance of long-term debt		1,239.0		
Payments of long-term debt		(1,019.0)		
Excess tax benefits from share based payment arrangement		31.0		
Repurchases of common stock		(1,896.0)		
Cash dividends on common stock		(744.0)		
Net cash from (used for) financing			(2,649.0)	
Investments				
Proceeds from disposals of property, plant, equipment		87.0		
Cash paid for acquisitions		(633.0)		
Proceeds from sale of businesses		665.0		
Net cash from (used for) investments			119.0	
Total cash used for investments and financing			(2,530.0)	
Effect of foreign exchange rate changes on cash and cash equivalents			42.0	
Net change in cash and cash equivalents			(10.0)	

Source: LMCM analysis.

Exhibit 18: Intel Corp.

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$35,382.0			
Increase in receivables		1,217.0	36,599.0	103.4%
Cost of revenue	(17,164.0)			
Decrease in inventories		(1,116.0)		
Decrease in payables		7.0		
Share-based compensation		1,375.0		
Excess tax benefit from share-based payment arrangements		(123.0)		
Other		(444.0)	(17,465.0)	101.8%
Depreciation and Amortization				
Depreciation expense		4,654.0		
Capital expenditures		(5,779.0)	(1,125.0)	124.2%
Research and development	(5,873.0)			
Marketing, general and administrative	(6,096.0)			
Restructuring and asset impairment charges	(555.0)	635.0		
Amortization and impairment of acquisition-related intangibles and costs	(42.0)	258.0		
Gains on equity securities	214.0	(214.0)		
Gains on divestitures		(612.0)		
Trading assets		324.0		
Interest income and other, net	1,202.0		(10,759.0)	
Provision for taxes	(2,024.0)			
Deferred taxes		(325.0)		
Income taxes payable		(60.0)	(2,409.0)	119.0%
Net Income	5,044.0			
Operating Net Income	5,641.0			
Cash Flow			4,841.0	85.8%
Per share data:				
Reported Net Income	\$0.87			
Operating Net Income	\$0.97			
Cash Flow			\$0.84	
Shares outstanding	5,797.0			
Additional cash flow items				
Financing				
Increase in short-term debt, net		(114.0)		
Proceeds from sales of shares		1,046.0		
Excess tax benefit from share-based payment arrangements		123.0		
Repayment of notes payable		(581.0)		
Repurchase and retirement of common stock		(4,593.0)		
Payment of dividends to stockholders		(2,320.0)		
Net cash from (used for) financing			(6,439.0)	
Investments				
Purchase of available-for-sale investments		(5,272.0)		
Sales and maturities of available-for-sale investments		7,147.0		
Purchases and investments in non-marketable equity securities		(1,722.0)		
Net proceeds from divestitures		752.0		
Other investing activities		(33.0)		
Net cash from (used for) investments			872.0	
Total cash used for investments and financing			(5,567.0)	
Net change in cash and cash equivalents			(726.0)	

Source: LMCM analysis.

Exhibit 19: International Business Machines

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Revenue:				
Global services	\$48,247.0			
Hardware	22,499.0			
Software	18,204.0			
Global financing	2,379.0			
Enterprise investments/other	94.0			
Receivables		(512.0)	<u>90,911.0</u>	
Costs and expenses:				
Global services	(34,972.0)			
Hardware	(14,175.0)			
Software	(2,693.0)			
Global financing	(1,182.0)			
Other	(107.0)			
Payments for plant, rental machines and other property		(4,362.0)		
Depreciation		3,907.0		
Amortization of intangibles		1,076.0		
Stock-based compensation		846.0		
Net gain on asset sales and other		(175.0)		
Other than temporary declines in securities and other investments		4.0		
Inventories		112.0		
Pension assets		234.0		
Other assets		(885.0)		
Accounts payable		355.0		
Pension liabilities		(1,084.0)	<u>(53,101.0)</u>	
Expense and Other Income:				
Selling, general and administrative	(20,259.0)			
Research, development and engineering	(6,107.0)			
Intellectual property and custom development income	900.0			
Other (income) and expense	766.0			
Interest expense	(278.0)		<u>(24,978.0)</u>	
Provision for income taxes	(3,901.0)			
Deferred income taxes		1,724.0		
Loss from discontinued operations	76.0	(76.0)	<u>(2,177.0)</u>	
Reported Net Income	9,491.0			
Operating Net Income	9,415.0			
Cash Flow			10,655.0	113.2%
Per share data:				
Reported Net Income	\$ 6.20			
Income from continuing operations	\$ 6.15			
Cash Flow			\$ 6.96	
Shares outstanding	1,530.8			
Additional cash flow items				
Financing				
Proceeds from new debt		1,444.0		
Short-term borrowings/(repayments) less than 90 days-net		1,834.0		
Payments to settle debt		(3,400.0)		
Common stock transactions-net		(6,399.0)		
Cash dividends paid		(1,683.0)		
			<u>(8,204.0)</u>	
Investments				
Proceeds from disposition of plant, rental machines and other property		430.0		
Investments in software		(804.0)		
Purchases of marketable securities and other investments		(28,555.0)		
Proceeds from disposition of marketable securities and other investments		25,542.0		
Acquisition of businesses		(3,799.0)		
Net cash from (used for) investments			<u>(7,186.0)</u>	
Total cash used for investments and financing			(15,390.0)	
Effect of exchange rate changes		201.0		
Net cash used in discontinued operations		(12.0)		
Net change in cash and cash equivalents			(4,546.0)	

Source: LMCM analysis.

Exhibit 20: Johnson & Johnson

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$53,324.0			
Increase in accounts receivable		(699.0)	52,625.0	98.7%
Cost of products sold	(15,057.0)			
Increase in inventories		(210.0)		
Increase in accounts payable		1,750.0		
Decrease in either current and non-current assets		(269.0)		
Increase in either current and non-current liabilities		410.0		
Accounts receivable reserves		(14.0)		
Depreciation and amortization expense		2,177.0		
Capital expenditures		(2,666.0)	(13,879.0)	92.2%
Selling, marketing and administrative expenses	(17,433.0)			
Research expense	(7,125.0)			
Purchased in-process research and development	(559.0)	559.0		
Stock based compensation		659.0	(23,899.0)	137.1%
Interest income	829.0			
Interest expense, net of portion capitalized	(63.0)			
Other expense, net	671.0		1,437.0	214.2%
Provision for income taxes	(3,534.0)			
Decrease in deferred income taxes		(1168.0)	(4,702.0)	
Reported Net Income	11,053.0			
Operating Net Income	11,053.0			
Cash Flow			11,582.0	104.8%
<i>Reported Net Income</i>	\$3.76			
<i>Income from continuing operations</i>	\$3.76			
<i>Cash Flow</i>			\$3.94	
Shares outstanding	2,936.4			
Additional cash flow items				
Financing				
Dividends of common stock		(4,267.0)		
Repurchase of common stock		(6,722.0)		
Proceeds from short-term debt		6,385.0		
Retirement of short-term debt		(2,633.0)		
Proceeds from long-term debt		6.0		
Retirement of long-term debt		(13.0)		
Proceeds from the exercise of stock options		1,135.0		
Net cash from (used for) financing			(6,109.0)	
Investments				
Proceeds from the disposal of assets		511.0		
Acquisition of businesses, net of cash acquired		(18,023.0)		
Purchase of investments		(467.0)		
Sale of investments		426.0		
Other		(72.0)		
Net cash from (used for) investments			(17,625.0)	
Total cash used for investments and financing			(23,734.0)	
Effect of exchange rate changes on cash and equivalents		180.0		
Net change in cash and cash equivalents			(11,972.0)	

Source: LMCM analysis.

Exhibit 21: McDonald's Corp.

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales:				
Sales by company operated restaurants	\$16,082.7			
Revenues from franchised and affiliated restaurants	5,503.7			
Increase in accounts receivable		(90.8)	<u>21,495.6</u>	99.6%
Costs and expenses:				
Operating costs and expenses	(13,541.7)			
Increase in inventories		(1.6)		
Decrease in accounts payable		82.8		
Occupancy and other operating expenses				
Depreciation and amortization expense		1,249.9		
Capital expenditures		(1,741.9)		102.1%
Share-based compensation		122.5	<u>(13,830.0)</u>	
Franchised restaurants occupancy expenses	(1,060.4)			
Selling, general and administrative expenses	(2,337.9)		<u>(3,398.3)</u>	
Other operating expense net	(201.3)	78.2	<u>(123.1)</u>	61.2%
Interest expense	(402.0)			
Non-operating expense	123.3			
Income from discontinued operations	671.2		<u>392.5</u>	
Provision for income taxes	(1,293.4)			
Increase in deferred income taxes		28.7		
Taxes and other liabilities		(153.6)		
Impairment and other charges (credits), net		134.2		
Gains on Chipotle disposition, net of tax		(653.0)	<u>(1,937.1)</u>	
Reported Net Income	3,544.2			
Operating Net Income	2,749.7			
Cash Flow			<u>2,599.6</u>	94.5%
Per share data:				
Reported Net Income	\$2.87			
Operating Net Income	\$1.36			
Cash Flow			<u>\$2.11</u>	
Shares outstanding	1,234.0			
Additional cash flow items				
Financing				
Net short-term borrowings		34.5		
Long-term financing issuances		1.9		
Long-term financing repayments		(2301.1)		
Treasury stock purchases		(2959.4)		
Common and preferred stock dividends		(1216.5)		
Proceeds from preferred stock redemption		975.7		
Excess tax benefit on share-based compensation		87.1		
Other		185.5		
Net cash from (used for) financing			<u>(5,192.3)</u>	
Investments				
Purchases of restaurant businesses		(238.6)		
Sales of restaurant businesses and property		315.7		
Chipotle disposition		281.7		
Other		109.7		
Net cash from (used for) investments			<u>468.5</u>	
Total cash used for investments and financing			<u>(4,723.8)</u>	
Net change in cash and cash equivalents			<u>(2,124.2)</u>	

Source: LMCM analysis.

Exhibit 22: Merck & Co.

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$22,636.0			
Increase in accounts receivable		(709.3)	<u>21,926.7</u>	96.9%
Materials and production	(6,001.1)			
Increase in inventories		226.5		
Increase in accounts payable		16.4		
Accrued and other current liabilities		461.6		
Non-current liabilities		(125.6)		
Other		18.1	<u>(5,404.1)</u>	90.1%
Marketing and administrative	(8,165.4)		<u>(8,165.4)</u>	
Research and development expense	(4,782.9)			
Restructuring costs	(142.3)			
Dividends and distributions from equity affiliates		1,931.9		
Share-based compensation		312.5		
Depreciation and amortization expense		2,268.4		
Capital expenditures		(980.2)	<u>(1,392.6)</u>	29.1%
Acquired research		762.5		
Gains on sales of businesses			<u>762.5</u>	
Equity income in affiliates	2,294.4	(2,294.4)		
Other expense, net	382.7	131.2	<u>513.9</u>	
Provision for income taxes	(1,787.6)			
Income taxes paid		(138.2)		137.4%
Deferred income taxes		(530.2)	<u>(2,456.0)</u>	
<i>Reported Net Income</i>	<u>4,433.8</u>			
<i>Operating Net Income</i>	<u>4,576.1</u>			
<i>Cash Flow</i>			<u>5,785.0</u>	126.4%
Per share data:				
<i>Reported Net Income</i>	<u>\$2.04</u>			
<i>Operating Net Income</i>	<u>\$2.10</u>			
<i>Cash Flow</i>			<u>\$2.66</u>	
Shares Outstanding	2,177.8			
Additional cash flow items				
Financing				
Net change in short-term borrowings		(1,522.8)		
Proceeds from issuance of debt		755.1		
Payments of debt		(506.2)		
Purchase of treasury stock		(1,002.3)		
Dividends paid to stockholders		(3,322.6)		
Proceeds from exercise of stock options		369.9		
Other		(375.3)		
Net cash from (used for) financing			<u>(5,604.2)</u>	
Investments				
Purchase of securities		(20,044.3)		
Proceeds from sale of securities		16,143.8		
Other		(3.0)		
Net cash from (used for) investments			<u>(3,903.5)</u>	
Total cash used for investments and financing			<u>(9,507.7)</u>	
Effect of exchange rate changes on cash and equivalents		52.1		
Net change in cash and cash equivalents			<u>(3,670.6)</u>	

Source: LMCM analysis.

Exhibit 23: Microsoft Corp.

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$44,282.0			
Increase in accounts receivable		(2,071.0)	42,211.0	95%
Cost of revenue	(7,650.0)			
Increase in other assets		(1,454.0)		
Increase in other liabilities		2,852.0	(6,252.0)	82%
Depreciation and amortization expense				
Depreciation expense		903.0		
Capital expenditures		(1,578.0)	(675.0)	
Research and development	(6,584.0)			
Sales and marketing	(12,256.0)			
Other	62.0	1,626.0	(17,152.0)	
Losses on equity investees and other	(1,320.0)			
Investment Income	1,728.0	(270.0)	138.0	
Income tax expense	(5,663.0)			
Deferred taxes		219.0		
Stock option tax benefits			(5,444.0)	96%
Reported Net Income	12,599.0			
Operating Net Income	12,599.0			
Cash Flow			12,826.0	101.8%
<i>Basic earnings per share</i>	\$ 1.21			
<i>Basic EPS (continuing operations)</i>	\$ 1.21			
<i>Cash Flow</i>			\$ 1.23	
Shares outstanding	10,438.0			

Additional cash flow items				
Financing				
Common stock issued		2,101.0		
Common stock repurchased		(19,207.0)		
Common stock dividends		(3,545.0)		
Other		89.0		
Net cash from (used for) financing			(20,562.0)	
Investments				
Other		3,117.0		
Acquisition of business		(649.0)		
Purchases of investments		(51,117.0)		
Maturities/sales of investments		58,230.0		
Net cash from (used for) investments			9,581.0	
Total cash used for investments and financing			(10,981.0)	
Effect of exchange rates			18.0	
Cash and equivalents, beginning of year			4,851.0	
Net change in cash and cash equivalents			1,863.0	

Source: LMCM analysis.

Exhibit 24: Minnesota Mining & Manufacturing Co.

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$22,923.0			
Increase in receivables		(103.0)	22,820.0	99.6%
Cost of goods sold	(11,713.0)			
Decrease in inventories		(309.0)		
Accounts payable		68.0		
Stock-based compensation expense		200.0		
Product and other insurance receivables and claims		58.0		
Other	0.0	252.0	(11,444.0)	97.7%
Depreciation and amortization		1,079.0		
Capital expenditures		(1,168.0)	(89.0)	108.2%
Research and development	(1,522.0)			
Selling, general and administrative expenses	(5,066.0)		(6,588.0)	
Interest expense	(122.0)			
Investment and other income, net	51.0			
Gain on divestiture, net	1,074.0			
Income tax paid related to divestiture				
Pension company contributions, net		55.0	(16.0)	
Provision for taxes on income	(1,723.0)			
Deferred income tax provision		(316.0)		
Income taxes payable		138.0		
Excess tax benefits from stock-based compensation		(60.0)		
Minority interests	(51.0)		(2,012.0)	
Reported Net Income	3,851.0			
Operating Net Income	3,413.0			
Cash Flow			2,671.0	78.3%
Per share data:				
Reported Net Income	\$5.15			
Operating Net Income	\$4.36			
Cash Flow			\$3.57	
Shares Outstanding	747.5			
Additional cash flow items				
Financing				
Change in short-term debt		882.0		
Repayment of long-term debt		(440.0)		
Proceeds from long-term debt		693.0		
Purchases of treasury stock		(2,351.0)		
Reissuances of treasury stock		523.0		
Payment of dividends		(1,376.0)		
Distributions to minority interests		(38.0)		
Excess tax benefits from stock-based compensation		60.0		
Other		(14.0)		
Net cash from (used for) financing			(2,061.0)	
Investing				
Proceeds from sale of property, plant and equipment		49.0		
Acquisitions and other investments		(888.0)		
Proceeds from sale of businesses		1,209.0		
Purchases of investments		(3,253.0)		
Proceeds from sale of investments		2,287.0		
Proceeds from maturities of marketable securities		304.0		
Net cash from (used for) investing			(292.0)	
Effect of exchange rate changes on cash and cash equivalents		57.0		
Net change in cash and cash equivalents			375.0	

Source: LMCM analysis.

Exhibit 25: Pfizer Inc.

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$48,371.0			
Increase in accounts receivable		(172.0)	48,199.0	99.6%
Cost of sales	(7,640.0)			
Increase in inventories		118.0		
Accounts payable and accrued liabilities		(450.0)		
Prepaid and other assets		314.0	(7,658.0)	100.2%
Selling, informational and administrative	(15,589.0)		(15,589.0)	
Merger-related in-process research and development charge	(835.0)	835.0		
Merger-related and restructuring costs	(1,323.0)			
Research and development expense	(7,599.0)			
Amortization of intangible assets	(3,261.0)			
Intangible asset impairments and other associated non-cash charges		320.0		
Depreciation and amortization expense		5,293.0		
Capital expenditures		(2,050.0)		
Gains on sales of investments, discontinued businesses and product lines		(10,476.0)		
Share-based compensation expense		655.0		
Other non cash adjustments		559.0	(17,882.0)	235.3%
Other expense, net	904.0	297.0		
Other deferred items		(420.0)	781.0	
Minority interests	(12.0)			
Provision for income taxes	(1,992.0)			
Income taxes payable		2,909.0		
Deferred taxes		(1,525.0)	(620.0)	31.1%
Discontinued operations, net of tax	8,313.0		8,313.0	100.0%
<i>Reported Net Income</i>	<u>19,337.0</u>			
<i>Operating Net Income</i>	<u>15,608.0</u>			
<i>Cash Flow</i>			<u>15,544.0</u>	<u>99.6%</u>
Per share data:				
<i>Reported Net Income</i>	<u>\$2.67</u>			
<i>Operating Net Income</i>	<u>\$2.16</u>			
<i>Cash Flow</i>			<u>\$2.15</u>	
Shares Outstanding	7,242.0			
Additional cash flow items				
Financing				
Repayments of long-term debt		(55.0)		
Increase in short-term borrowings--net		1,040.0		
Principal payments on short-term borrowings		(11,969.0)		
Proceeds from issuances of long-term debt		1,050.0		
Purchases of common stock		(6,979.0)		
Cash dividends paid		(6,919.0)		
Stock option transactions and other		732.0		
Net cash from (used for) financing			(23,100.0)	
Investments				
Purchases net of maturities of short-term investments		(9,597.0)		
Proceeds from redemptions of short-term investments		20,771.0		
Proceeds from sales of businesses--net		200.0		
Proceeds from sales of equity investments		233.0		
Purchases of other assets		(153.0)		
Proceeds from sales of other assets		3.0		
Purchases of long-term investments		(1,925.0)		
Other investing activities		(61.0)		
Acquisitions, net of cash acquired		(2,320.0)		
Net cash from (used for) investments			7,151.0	
Total cash used for investments and financing			(15,949.0)	
Effect of exchange rate changes on cash and equivalents		(15.0)		
Net change in cash and cash equivalents			<u>(420.0)</u>	

Source: LMCM analysis.

Exhibit 26: Procter & Gamble Co.

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$68,222.0			
Increase in receivables		(524.0)	67,698.0	99.2%
Cost of products sold	(33,125.0)			
Increase in inventories		383.0		
Increase in payables and accrued expenses		230.0		
Increase in other operating current assets		(508.0)		
Other		10.0	(33,010.0)	99.7%
Depreciation and amortization		2,627.0		
Capital expenditures		(2,667.0)	(40.0)	101.5%
Marketing, research and administrative expenses	(21,848.0)			
Interest expense	(1,119.0)			
Share-based compensation expense		585.0		
Other income, net	283.0		(22,099.0)	
Provision for taxes on income	(3,729.0)			
Change in deferred taxes		(112.0)	(3,841.0)	103.0%
<i>Reported Net Income</i>	8,684.0			
<i>Operating Net Income</i>	8,684.0			
<i>Cash Flow</i>			8,708.0	100.3%
Per share data:				
<i>Reported Net Income</i>	\$2.84			
<i>Operating Net Income</i>	\$2.84			
<i>Cash Flow</i>			\$2.85	
Shares Outstanding	3,054.9			
Additional cash flow items				
Financing				
Dividends to shareholders		(3,703.0)		
Change in short-term debt		(8,627.0)		
Additions to long-term debt		22,545.0		
Reductions of long-term debt		(5,282.0)		
Proceeds from stock options		1,319.0		
Treasury purchases		(16,830.0)		
Net cash from (used for) financing			(10,578.0)	
Investing				
Proceeds from asset sales		882.0		
Acquisitions		171.0		
Change in investment securities		884.0		
Net cash from (used for) investing			1,937.0	
Effect of exchange rate changes on cash and cash equivalents		237.0		
Net change in cash and cash equivalents			304.0	

Source: LMCM analysis.

Exhibit 27: United Technologies Corp.

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales:				
Product sales	\$34,271.0			
Service sales	12,847.0			
Financing revenue and other income, net	711.0			
Decrease in accounts receivable		(35.0)	47,794.0	99.9%
Costs and expenses:				
Cost of products sold	(26,089.0)			
Increase in inventories and contracts in progress		(789.0)		
Decrease in other current assets		25.0		
Increase in accounts payable		990.0		
Contribution to domestic pension plans		(190.0)		
Stock compensation cost		180.0		
Other, net		(195.0)	(26,068.0)	99.9%
Depreciation expense		1,033.0		
Capital expenditures		(954.0)	79.0	92.4%
Cost of services sold	(8,651.0)			
Research and development	(1,529.0)			
Selling, general and administrative	(5,462.0)			
Interest	(606.0)		(16,248.0)	
Income Taxes	(1,494.0)			
Decrease in deferred income taxes		(214.0)	(1,708.0)	114.3%
Minority interests subsidiaries' earnings	(266.0)			
Dividends to minority interests and other		266.0	non-cash	
Reported Net Income	3,732.0			
Operating Net Income	3,732.0			
Cash Flow			3,849.0	103.1%
Per share data:				
Reported Net Income	\$3.81			
Operating Net Income	\$3.81			
Cash Flow			\$3.93	
Shares Outstanding	980.0			
Additional cash flow items				
Financing				
Issuance of long-term debt		1,109.0		
Repayment of long-term debt		(825.0)		
Increase (decrease) in short-term borrowings		(817.0)		
Common stock issued under employee stock plans		346.0		
Dividends paid on common stock		(951.0)		
Common stock repurchase		(2,068.0)		
Dividends to minority interest and other		(136.0)		
Net cash from (used for) financing			(3,342.0)	
Investments				
Increase in customer financing assets		(314.0)		
Decrease in customer financing assets		382.0		
Acquisitions of businesses		(911.0)		
Dispositions of businesses		451.0		
Other, net		85.0		
Net cash from (used for) investments			(307.0)	
Total cash used for investments and financing			(3,649.0)	
Effect of exchange rates		99.0		
Net change in cash and cash equivalents			299.0	

Source: LMCM analysis.

Exhibit 28: Verizon Communications Inc.

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Operating revenues	\$88,144.0			
Accounts receivable		(1,312.0)	86,832.0	98.5%
Cost of services and sales (exclusive of items shown below)	(34,994.0)			
Selling, general, and administrative expense	(25,232.0)			
Depreciation and amortization expense	(14,545.0)	14,545.0		
Capital expenditures		(17,101.0)		
Employee retirement benefits		1,923.0		
Provision for uncollectable accounts		1,034.0		
Inventories		8.0		
Other assets		52.0		
Accounts payable and accrued liabilities		(383.0)		
Other, net		1,408.0		
Gain on sale of discontinued operations		541	(72,744.0)	207.9%
Equity in income (loss) from unconsolidated businesses	773.0			
Income (loss) from other unconsolidated businesses	0.0	(773.0)		
Other income and (expense), net	395.0			
Interest expense	(2,349.0)			
Minority interest	(4,038.0)			
Income (loss) from discontinued operations	759.0	1,076.0	(4,157.0)	177.0%
Provision for income taxes	(2,674.0)			
Provision for deferred taxes		(252.0)	(2,926.0)	109.4%
Cumulative effect of change in accounting principle	(42.0)		(42.0)	
<i>Reported Net Income</i>	6,197.0			
<i>Operating Net Income</i>	5,480.0			
<i>Cash Flow</i>			7,005.0	127.8%
Per share data:				
<i>Reported Net Income</i>	\$2.13			
<i>Income from continuing operations</i>	\$1.88			
<i>Cash Flow</i>			\$2.41	
Shares outstanding	2,912.0			
Additional cash flow items				
Financing				
Proceeds from long-term borrowings		3,983.0		
Repayments of long-term borrowings and capital lease obligations		(11,233.0)		
Increase (decrease) in short-term obligations, excluding current maturities		7,944.0		
Dividends paid		(4,719.0)		
Proceeds from sale of common stock		174.0		
Purchase of common stock for treasury		(1,700.0)		
Other, net		(201.0)		
Net cash used in financing activities-discontinued operations		(279.0)		
Net cash from (used for) financing			(6,031.0)	
Investments				
Acquisitions, net of cash acquired, and investments		(1,422.0)		
Net change in short-term and other current investments		290.0		
Other, net		811.0		
Net cash used in investing activities-discontinued operations		1806.0		
Net cash from (used for) investments			1,485.0	
Total cash used for investments and financing			(4,546.0)	
Net change in cash and cash equivalents			2,459.0	

Source: LMCM analysis.

Exhibit 29: Wal-Mart Stores

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$344,992.0			
Other income - net	3,658.0			
Change in accounts receivable		(214.0)	348,436.0	101.0%
Cost of revenue	(264,152.0)			
Change in inventories		(1,274.0)		
Change in payables		2,344.0		
Change in accrued liabilities		588.0		
Other		1,039.0	(261,455.0)	99.0%
Depreciation and Amortization		5,459.0		
Capital expenditures		(15,666.0)	(10,207.0)	
Operating, selling, general and administrative expenses	(64,001.0)		(64,001.0)	
Interest Costs:				
Debt	(1,549.0)			
Capital leases	(260.0)			
Interest income	280		(1,529.0)	
Income tax expense	(6,276.0)			
Deferred taxes	(89.0)	89.0	(6,276.0)	100.0%
Minority interest and equity in unconsolidated subsidiaries	(425.0)		(425.0)	
Loss from discontinued operations, net of tax	(894.0)	894.0		
Net cash used in operating activities of discontinued ops		(45.0)	(45.0)	
Net Income	11,284.0			
Operating Net Income	12,178.0			
Cash Flow			4,498.0	36.9%
Per share data:				
Reported Net Income	\$2.71			
Income from continuing operations	\$2.92			
Cash Flow			\$1.08	
Shares outstanding	4,164.0			
Additional cash flow items				
Financing				
Increase in commercial paper		(1,193.0)		
Proceeds from issuance of long-term debt		7,199.0		
Proceeds from issuance of common stock		0.0		
Purchase of company stock		(1,718.0)		
Payment of long-term debt		(5,758.0)		
Payment of capital lease obligations		(340.0)		
Other financing activities		(227.0)		
Dividends		(2,802.0)		
Net cash from (used for) financing			(4,839.0)	
Investments				
Disposal of Assets		394.0		
Other investment activity		223.0		
Investment in international operations		(68.0)		
Proceeds from disposal of certain int'l operations, net		610.0		
Net cash provided by investing activities of discontinued ops		44.0		
Net cash from (used for) investments			1,203.0	
Total cash used for investments and financing			(3,636.0)	
Effect of exchange rates on cash		97.0		
Net change in cash and cash equivalents			959.0	

Source: LMCM analysis.

Exhibit 30: Walt Disney Co.

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Revenues	\$34,285.0			
Change in receivables		(78.0)	34,207.0	99.8%
Costs and expenses	(28,807.0)			
Other		(40.0)		
Increase in inventories		(63.0)		
Other, current		(52.0)		
Accounts and taxes payable and accrued liabilities		299.0		
Film and television broadcast rights		860.0		
Equity based compensation		382.0	(27,421.0)	95.2%
Amortization of intangible assets	0.0			
Depreciation		1,436.0		
Investments in property		(1,299.0)		
Amortization of intangible assets			137.0	-
Restructuring charges	18.0	0.0		
Gain on sale of businesses	70.0	(70.0)	18.0	20.5%
Equity in income of investees	473.0	(473.0)		
Cash distributions received from equity investees		458.0	458.0	96.8%
Corporate activities and other				
Net interest expense	(592.0)			
Income taxes	(1,890.0)	(22.0)		
Change in deferred taxes		(136.0)		
Minority interests	(183.0)	183.0	(2,640.0)	106.4%
Reported Net Income	3,374.0			
Operating Net Income	3,286.0			
Cash Flow			4,759.0	144.8%
Per share data:				
Reported Net Income	\$1.68			
Income from continuing operations	\$0.53			
Cash Flow			\$2.37	
Shares outstanding	2,005.0			
Additional cash flow items				
Financing				
Borrowings		2,806.0		
Reduction in borrowings		(1,950.0)		
Repurchases of common stock		(6,898.0)		
Dividends		(519.0)		
Exercise of stock options and other		1,282.0		
Commercial paper borrowings		85.0		
Hong Kong Disneyland minority interest capital contributions		51.0		
Net cash from (used for) financing			(5,143.0)	
Investments				
Dispositions		1,073.0		
Proceeds from sale of marketable securities and other investments		81.0		
Other		(82.0)		
Net cash from (used for) investments			1,072.0	
Total cash used for investments and financing			(4,071.0)	
Net change in cash and cash equivalents			688.0	

Source: LMCM analysis.

Financial Companies and Special Cases

Exhibit 31: American Express Company

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Revenues				
Discount revenue	\$12,978.0			
Interest and dividends, net	1,078.0			
Securitization income	1,489.0			
Net card fees	1,994.0			
Travel commissions and fees	1,778.0			
Other commissions and fees	2,555.0			
Cardmember lending net finance charge	3,457.0			
Other	1,807.0			
Accounts receivable		(309.0)	<u>26,827.0</u>	
Expenses				
Human resources	(5,065.0)			
Annuities and investment certificates	(529.0)			
Charge card	(935.0)			
Cardmember lending	(1,623.0)			
Provisions for losses and benefits		3,102.0		
Other assets		(483.0)		
Accounts payable and other liabilities		2,520.0		
Professional services	(2,710.0)			
Occupancy and equipment	(1,491.0)			
Depreciation and amortization		645.0		
Capital expenditures		(861.0)		
Interest	(1,236.0)			
Marketing and promotion	(6,516.0)			
Communications	(449.0)			
Loss (income) from discontinued operations	(22.0)	22.0		
Other	(1,254.0)			
(Decrease) increase in Travelers Cheques outstanding		35.0		
Net cash from op activities attributable to discontinued ops		(8.0)	<u>(16,858.0)</u>	1344.3%
Income tax provision	(1,599.0)			
Deferred taxes, acquisition costs, and other		(524.0)		
Stock-based compensation		298.0	<u>(1,825.0)</u>	
<i>Reported Net Income</i>	<u>3,707.0</u>			
<i>Operating Net Income</i>	<u>3,729.0</u>			
<i>Cash Flow</i>			<u>8,144.0</u>	219.7%
Per share data:				
<i>Reported Net Income</i>	<u>\$3.06</u>			
<i>Operating Net Income</i>	<u>\$3.08</u>			
<i>Cash Flow</i>			<u>\$ 6.72</u>	
Shares outstanding	1,212.0			
Additional cash flow items				
Financing				
Net increase in customer deposits		(338.0)		
Sales of annuities and investment certificates		4,670.0		
Redemption of annuities and investment certificates		(5,554.0)		
Net (decrease) increase in debt with maturities of 3 mo. or less		(3,017.0)		
Issuance of debt		29,545.0		
Principal payments on debt		(14,978.0)		
Issuance of American Express common shares		1,203.0		
Repurchase of American Express common shares		(4,093.0)		
Dividends paid		(661.0)		
Net cash provided by financing activities attributable to discontinued ops		1.0		
Net cash from (used for) financing			<u>6,778.0</u>	
Investments				
Sale of investments		5,964.0		
Maturity and redemption of investments		13,224.0		
Purchase of investments		(18,457.0)		
Net increase in Cardmember loans/receivables		(15,096.0)		
Cardmember loans/receivables sold to trust, net		(1,078.0)		
Sale of land, buildings and equipment		95.0		
(Acquisitions) dispositions, net of cash acquired/sold		993.0		
Net cash from (used for) investments attributable to discontinued ops		(1.0)		
Net cash from (used for) investments			<u>(14,356.0)</u>	
Total cash used for investments and financing			<u>(7,578.0)</u>	
Effect of exchange rate changes on cash			264.0	
Net change in cash and cash equivalents			<u>830.0</u>	

Source: LMCM analysis.

Exhibit 32: American International Group

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Revenues				
Premiums and other considerations	\$74,083.0			
Net investment income	25,292.0			
Realized capital gains (losses)	106.0			
Other revenues	13,713.0		113,194.0	
Expenses				
Incurred policy losses and benefits	(59,706.0)			
Insurance acquisition and other operating expenses	(31,801.0)			
Capital expenditures		(6,009.0)		
Net gains on sales of securities for sale and other assets		(763.0)		
Foreign exchange transaction (gains) losses		1,795.0		
Net unrealized (gains) losses on non-AIGFP derivative assets and liabilities		(713.0)		
Equity in income of partially owned companies and other invested assets		(3,990.0)		
Amortization of deferred policy acquisition costs		11,578.0		
Amortization of premium and discount on securities		699.0		
Depreciation expenses, principally flight equipment		2,374.0		
Provision for finance receivable losses		495.0		
Impairment losses		944.0		
General and life insurance reserves		13,173.0		
Premiums and insurance balances receivable and payable-net		(1,214.0)		
Reinsurance assets		1,665.0		
Capitalization of deferred policy acquisition costs		(15,363.0)		
Investment income due and accrued		(235.0)		
Funds held under reinsurance treaties		(1,612.0)		
Other policyholders' funds		(953.0)		
Income taxes payable		2,003.0		
Commissions, expenses and taxes payable		408.0		
Other assets and liabilities-net		331.0		
Bonds and common stocks trading, at market value		(7,851.0)		
Trading assets and liabilities-net		(668.0)		
Trading securities, at market value		1,339.0		
Spot commodities, at market value		(128.0)		
Net unrealized gain on interest rate and currency swaps, options and forward transactions		(1,482.0)		
Securities purchased under agreements to resell		(19,154.0)		
Securities sold under agreements to repurchase		11,645.0		
Securities and spot commodities sold but not yet purchased, at market value		(1,899.0)		
Finance receivables held for sale - originations and purchases		(10,786.0)		
Sales of finance receivables - held for sale		10,602.0		
Other-net		541.0	(104,735.0)	114.5%
Income tax provision	(5,489.0)			
Deferred	(1,048.0)			
Minority interest	(1,136.0)			
Accounting changes	34.0		(7,639.0)	
Reported Net Income	14,048.0			
Operating Net Income	14,014.0			
Cash Flow			820.0	5.8%
Per share data:				
Reported Net Income	\$5.39			
Operating Net Income	\$5.37			
Cash Flow			\$ 0.31	
Shares outstanding	2,608.0			
Additional cash flow items				
Financing				
Change in policyholders' contract deposits		54,195.0		
Withdrawals from policyholders' contract deposits		(41,866.0)		
Change in trust deposits and deposits due to banks and other depositors		1,269.0		
Change in commercial paper		2,952.0		
Proceeds from notes, bonds, loans and mortgages payable		58,763.0		
Repayments on notes, bonds, loans and mortgages payable		(24,047.0)		
Proceeds from guaranteed investment agreements		12,265.0		
Maturities of guaranteed investment agreements		(12,433.0)		
Change in securities lending payable		9,789.0		
Proceeds from treasury stock issued		163.0		
Cash dividends to shareholders		(1,638.0)		
Acquisition of treasury stock		(20.0)		
Other-net		398.0		
Net cash from (used for) financing			59,790.0	
Investments				
Sales and maturities of fixed maturity securities available for sale		112,899.0		
Sales of equity securities available for sale		12,475.0		
Proceeds from fixed maturity securities held to maturity		205.0		
Sales of flight equipment		697.0		
Sales or distributions of other invested assets		14,087.0		
Payments received on mortgage, policy, collateral and guaranteed loans		5,165.0		
Principal payments received on finance receivables held for investment		12,586.0		
Purchases of fixed maturity securities available for sale		(146,465.0)		
Purchases of equity securities available for sale		(14,482.0)		
Purchases of fixed maturity securities held to maturity		(197.0)		
Purchases of other invested assets		(16,040.0)		
Mortgage, policy, collateral and guaranteed loans issued		(7,438.0)		
Finance receivables held for investment - originations and purchases		(13,830.0)		
Change in securities lending collateral		(9,835.0)		
Net additions to real estate, fixed assets, and other assets		(1,097.0)		
Net change in short-term investments		(9,716.0)		
Net change in non-AIGFP derivative assets and liabilities		(45.0)		
Net cash from (used for) investments			(61,031.0)	
Total cash used for investments and financing			(1,241.0)	
Effect of exchange rate changes on cash			114.0	
Net change in cash and cash equivalents			(307.0)	

Source: LMCM analysis.

Exhibit 33: Citigroup Inc.

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Revenues:				
Interest	\$96,431.0			
Insurance premiums	3,202.0			
Commissions and fees	19,535.0			
Principal transactions	7,708.0			
Asset management and administration fees	6,934.0			
Realized gains from sales of investments	1,791.0			
Other income	10,957.0			
Change in brokerage receivables net of brokerage payables		12,503.0	159,061.0	108.5%
Interest expense	(56,943.0)		(56,943.0)	
Provisions for benefits, claims and credit losses:				
Policyholder benefits and claims	(967.0)			
Unfunded lending commitments	(250.0)			
Provision for credit losses	(6,738.0)			
Amortization of deferred policy acquisition costs and value of insurance force		287.0		
Additions to deferred policy acquisition costs		(381.0)	(8,049.0)	
Operating expenses:				
Non-insurance compensation and benefits	(30,277.0)			
Net occupancy expense	(5,841.0)			
Technology/communications expense	(3,762.0)			
Advertising and marketing	(2,563.0)			
Other operating	(9,578.0)			
Depreciation and amortization		2,503.0		
Capital expenditures on premises and equipment		(4,035.0)		
Provision for credit losses		6,988.0		
Change in trading account assets		(98,105.0)		
Change in trading account liabilities		24,779.0		
Change in federal funds sold and securities purchased under agreements to resell		(65,353.0)		
Change in federal funds sold and securities purchased under agreements to repurchase		106,843.0		
Net gain on sale of securities		(1,791.0)		
Change in loans held for sale		(1,282.0)		
Other		(8,426.0)	(89,900.0)	
Provision for income taxes	(8,101.0)			
Deferred tax benefit		90.0	(8,011.0)	
Minority interest	(289.0)			
Income from discontinued operations	27.0	150.0		
Gain on sale	219.0	139.0		
Provision (benefit) for income taxes and minority interest, net of taxes	43.0	0.0	289.0	
Reported Net Income	21,538.0			
Operating Net Income	21,292.0			
Cash Flow			(3,553.0)	-16.7%
Per share data:				
Reported Net Income	\$3.32			
Income from continuing operations	\$4.36			
Cash Flow			\$ (0.73)	
Shares outstanding	4,887.3			
Additional cash flow items				
Financing				
Dividends paid		(9,826.0)		
Issuance of common stock		1,798.0		
Issuance of preferred stock		(125.0)		
Treasury stock acquired		(7,000.0)		
Stock tendered for payment of withholding taxes		(685.0)		
Issuance of on-term debt		113,687.0		
Payment and redemption of long-term debt		(46,468.0)		
Change in deposits		121,203.0		
Change in short-term borrowings including investment banking and brokerage borrowings		33,903.0		
Contract holder fund deposits		577.0		
Contract holder fund withdrawals		(634.0)		
Net cash from (used for) financing			206,430.0	
Investments				
Change in deposits at interest with banks		(10,877.0)		
Change in loans		(356,062.0)		
Proceeds from sales of loans and credit card receivables		253,176.0		
Purchases of investments		(296,124.0)		
Proceeds from sales of investments		86,999.0		
Proceeds from maturities of investments		121,111.0		
Proceeds from sales of premises and equipment, subsidiaries and affiliates, and other real estate owned		1,606.0		
Other, net				
Net cash from (used for) investments			(200,171.0)	
Total cash used for investments and financing			6,259.0	
Effect of exchange rate changes		645.0		
Net change in cash and cash equivalents			3,351.0	

Source: LMCM analysis.

Exhibit 34: General Electric Co.

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Revenues:				
Sales of goods	\$64,297.0			
Sales of services	36,403.0			
Other income	2,537.0			
GECS revenue from services	59,957.0			
GECS commercial paper interest rate swap adjustment	197.0			
Decrease in receivables		(2,152.0)	<u>161,239.0</u>	98.8%
Cost of goods sold	(50,588.0)			
Depreciation		9,158.0		
Capital expenditures		(16,650.0)		
Decrease in inventory		(1,779.0)		
Increase in payables		(119.0)		
Other		530.0	<u>(59,448.0)</u>	117.5%
Cost of services sold	(23,522.0)			
Interest and other financial charges	(19,286.0)		<u>(42,808.0)</u>	
Investment contracts, insurance losses and insurance annuity benefits	(3,214.0)			
Decrease in GE progress collections		926.0	<u>(2,288.0)</u>	71.2%
Provision for losses on financing receivables	(3,839.0)	3,839.0	<u>non-cash</u>	
Other costs and expenses	(37,414.0)			
Minority interest in net earnings of consolidated affiliates	(908.0)			
Earnings (loss) from discontinued operations, net of taxes	163.0	(163.0)		
Cash used for discontinued operations		(2,373.0)	<u>(40,695.0)</u>	
Provision for taxes	(3,954.0)			
Change in deferred taxes		1,950.0	<u>(2,004.0)</u>	50.7%
<i>Reported Net Income</i>	<u>20,829.0</u>			
<i>Operating Net Income</i>	<u>20,829.0</u>			
<i>Cash Flow</i>			<u>13,996.0</u>	67.2%
Per share data:				
<i>Reported Net Income</i>	<u>\$2.01</u>			
<i>Operating Net Income</i>	<u>\$2.01</u>			
<i>Cash Flow</i>			<u>\$1.35</u>	
Shares outstanding	10,359.0			
Additional cash flow items				
Financing				
Net increase in borrowings		4,582.0		
Newly issued debt		88,362.0		
Repayments and other reductions		(49,346.0)		
Net purchase of GE shares for treasury		(8,554.0)		
Dividends paid to share owners		(10,420.0)		
All other financing activities		(1,174.0)		
Cash used for financing, discontinued operations		(220.0)		
Net cash from (used for) financing			<u>23,230.0</u>	
Investments				
Dispositions of property, plant and equipment		6,799.0		
Net increase in GECS financing receivables		(38,134.0)		
Proceeds from sales of discontinued operations		9,022.0		
Proceeds from principal business dispositions		3,870.0		
Payments for principal businesses purchased		(11,652.0)		
All other investing activities		(4,274.0)		
Cash used for investing, discontinued operations		(383.0)		
Net cash from (used for) investments			<u>(34,752.0)</u>	
Total cash used for investments and financing			<u>(11,522.0)</u>	
Net change in cash and cash equivalents			<u>2,474.0</u>	

Source: LMCM analysis.

Exhibit 35: General Motors

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Revenues:	\$207,349.0			
Other income	2,721.0		<u>210,070.0</u>	
Costs and expenses:				
Cost of sales and other operating charges	(164,682.0)			
Provision for financing losses	(4,071.0)	1,799.0		
Net gains on sale of credit receivables		(1,256.0)		
Net gains on sale of investment securities		(1,006.0)		
Mortgages: servicing rights and premium amortization		1,021.0		
Goodwill impairment -- GMAC		828.0		
Delphi benefit guarantee		500.0		
Loss on sale of 51% interest in GMAC		2,910.0		
Postretirement benefits other than pensions, net of payments and VEBA contributions		2,841.0		
Pension expense, net of contributions		3,959.0		
Retiree lump sum and vehicle voucher expense, net of payments		(325.0)		
Net change in mortgage loans		(21,578.0)		
Net change in mortgage securities		427.0		
Change in other investments and miscellaneous assets		(470.0)		
Change in other operating assets and liabilities		(12,608.0)		
Other	(4,238.0)	2,227.0	<u>(193,722.0)</u>	117.6%
Selling, general and administrative expenses	(25,081.0)		<u>(25,081.0)</u>	
Depreciation and amortization expense		10,950.0		
Expenditures for property		(7,933.0)	<u>3,017.0</u>	
Interest expense	(16,945.0)			
Income tax expense	2,785.0			
Minority interests	184.0		<u>(13,976.0)</u>	
Reported Net Income	<u>(1,978.0)</u>			
Operating Net Income	<u>(1,978.0)</u>			
Cash Flow			<u>(19,692.0)</u>	995.6%
Per share data:				
Reported Net Income	<u>(\$3.49)</u>			
Operating Net Income	<u>(\$3.49)</u>			
Cash Flow			<u>(\$34.79)</u>	
Shares outstanding	566.0			
Additional cash flow items				
Financing				
Net increase in loans payable		7,033.0		
Increase in long-term debt		(12,724.0)		
Cash dividends paid to shareholders		(563.0)		
Other		2,487.0		
Net cash from (used for) financing			<u>(3,767.0)</u>	
Investments				
Investments in other marketable securities - acquisitions		(25,530.0)		
Investments in other marketable securities - liquidations		28,549.0		
Mortgage servicing rights - net change		(61.0)		
Finance receivables - increase		(1,160.0)		
Proceeds from sale of 51% interest in GMAC		7,353.0		
Proceeds from sales of finance receivables		18,374.0		
Operating leases - acquisitions		(17,070.0)		
Operating leases - liquidations		7,039.0		
Proceeds from sale of business units		10,506.0		
Investments in companies, net of cash acquired		(357.0)		
Other		(15.0)		
Net cash from (used for) investments			<u>27,628.0</u>	
Total cash used for investments and financing			<u>23,861.0</u>	
Effect of exchange rate changes on cash and cash equivalents		365.0		
Net change in cash and cash equivalents			<u>4,534.0</u>	

Source: LMCM analysis.

Exhibit 36: JPMorgan Chase & Co.

US\$ in millions, unless otherwise stated

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Revenues:				
Investment banking fees	\$5,520.0			
Trading revenue	10,346.0			
Net change in trading related assets		(61,664.0)		
Fees and commissions	15,784.0			
Private equity/securities gains	(543.0)	139.0		
Securities borrowed		916.0		
Credit card income	6,913.0			
Other revenue	2,175.0			
Other assets		(7,208.0)		
Accrued interest and accounts receivable		(1,170.0)		
Other, net		2,882.0	<u>(25,910.0)</u>	-64.5%
Costs and expenses:				
Interest income	59,107.0			
Interest expense	(37,865.0)			
Trading related liabilities		(4,521.0)		
Accounts payable and other liabilities		7,815.0		
Provision for loan losses	(3,270.0)	3,270.0	<u>24,536.0</u>	41.5%
Employee compensation and benefits	(21,191.0)			
Stock-based compensation		2,368.0		
Occupancy expense	(2,335.0)			
Technology and communications expense	(3,653.0)			
Professional and outside services	(3,888.0)			
Marketing	(2,209.0)			
Merger and restructuring costs	(305.0)			
Amortization of intangibles	(1,428.0)	1,428.0		
Depreciation and amortization		2,149.0		
Other expenses	(3,272.0)			
Income tax benefit	(6,237.0)			
Deferred tax provision		(1,810.0)		
Income from discontinued operations	795.0			
Gains on disposition of businesses		(1,136.0)		
Originations and purchases of loans held-for-sale		(178,355.0)		
Proceeds from sales and securitizations of loans held-for-sale		170,874.0	<u>(48,205.0)</u>	
<i>Reported Net Income</i>	<u>14,444.0</u>			
<i>Operating Net Income</i>	<u>15,382.0</u>			
<i>Cash Flow</i>			<u>(49,579.0)</u>	-322.3%
Per share data:				
<i>Reported Net Income</i>	<u>\$4.16</u>			
<i>Operating Net Income</i>	<u>\$4.43</u>			
<i>Cash Flow</i>			<u>(\$14.29)</u>	
Shares outstanding	3,470.0			
Additional cash flow items				
Financing				
Domestic deposits		82,105.0		
Federal funds purchased and securities sold under repo agreements		36,248.0		
Commercial paper and other borrowed funds		12,657.0		
Other, net		6,247.0		
Proceeds from issuance of long-term debt		56,721.0		
Repayments of long-term debt		(34,267.0)		
Proceeds from the issuance of stock and stock-related rewards		1,659.0		
Excess tax benefits related to stock-based compensation		302.0		
Redemption of preferred stock		(139.0)		
Treasury stock purchased		(3,938.0)		
Dividends paid		(4,846.0)		
Net cash from (used for) financing			<u>152,749.0</u>	
Investments				
Net increase in interest earning deposits with subsidiary bank		8,168.0		
Proceeds from held to maturity securities		19.0		
Federal funds sold and securities purchased under resale agreements		(6,939.0)		
Loans due to sales and securitizations		20,809.0		
Other loans, net		(70,837.0)		
Other, net		1,839.0		
Available for sale securities proceeds from maturities		24,909.0		
Available for sale securities proceeds from sales		123,750.0		
Available for sale securities purchases		(201,530.0)		
Cash used in acquisitions		185.0		
Net cash from (used for) investments			<u>(99,627.0)</u>	
Total cash used for investments and financing			<u>53,122.0</u>	
Effect of exchange rate		199.0		
Net change in cash and cash equivalents			<u>3,742.0</u>	

Source: LMCM analysis.

Endnotes

¹ Amy Hutton, "Roundtable on Corporate Disclosure: National Corporate Finance Forum—May 7, 2004," *Journal of Applied Corporate Finance*, Vol. 16, 4, Fall 2004.

² Alfred Rappaport, *Creating Shareholder Value: A Guide for Managers and Investors* (New York: Free Press, 1998), 15.

³ John R. Graham, Campbell R. Harvey, and Shiva Rajgopal, "Value Destruction in Financial Reporting Decisions," *Financial Analysts Journal*, Vol. 62, 6, November/December 2006, 27-39.

⁴ Paul Asquith, Michael B. Mikhail, and Andrea S. Au, "Information Content of Equity Analyst Reports," *Journal of Financial Economics*, Vol. 75, 2, February 2005, 245-282.

⁵ Alfred Rappaport and Michael J. Mauboussin, "The Trouble With Earnings and Price-Earnings Multiples," www.expectationsinvesting.com, September 2001.

⁶ Naturally, over the very long term, cash flow and earnings must equilibrate. But there are often meaningful differences between the two within the explicit modeling time horizon of most investors.

⁷ For a numerical illustration, see Alfred Rappaport and Michael J. Mauboussin, *Expectations Investing: Reading Stock Prices for Better Returns* (Boston, MA: Harvard Business School Press, 2001), 15-16.

⁸ See Warren Buffett's letter to shareholders in the 1986 Berkshire Hathaway annual report.

<http://berkshirehathaway.com/letters/1986.html>.

⁹ Shyam Sunder, "The Relationship Between Accounting Changes and Stock Prices: Problems of Measurement and Some Empirical Evidence," *Journal of Accounting Research*, Vol. 11, Empirical Research in Accounting: Selected Studies, 1973, 1-45.

¹⁰ Mahmoud M. Haddad, Saul Z. Barr, Arnold L. Redman, and Arnold Cowan, "Adoption of FASB 106 and Stock Prices," *International Advances in Economic Research*, Vol. 1, 2, May 1995, 156-163.

¹¹ Towers Perrin Press Release, "Option Expensing Announcement Has No Impact On Share Price, Towers Perrin Event Study Affirms," March 31, 2004. See http://www.towersperrin.com/tp/jsp/hrservices_webcache_html.jsp?webc=HR_Services/United_States/Press_Releases/2004/20040331/2004_03_31.htm&selected=press&language_code=en_NZ.

¹² There is some evidence the market doesn't see through all earnings manipulation. See Scott A. Richardson, Richard G. Sloan, Mark T. Soliman, and İrem Tuna, "Accrual Reliability, Earnings Persistence and Stock Prices," *Journal of Accounting and Economics*, Vol. 39, 2005, 437-485.

¹³ Baruch Lev, *Intangibles: Management, Measurement, and Reporting* (Washington, D.C.: Brookings Institution Press, 2001). Also, John Hand and Baruch Lev, eds., *Intangible Assets: Values, Measures, and Risks* (Oxford: Oxford University Press, 2003).

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