

Improving Financial Reporting

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Introduction

Financial reporting, today, is at a critical point in its history. It has not kept up, well, with changing business characteristics over the past half century, even though the promulgated accounting policies have become increasingly complex. Income statements are founded on an out-dated manufacturing model and, in most cases, do not adequately report economic performance, even though many users continue to focus on reported earnings and earnings per share (eps) results; balance sheets fail to capture many of the assets which drive value; and cash flow statements mix operating, investing, and financing activities such that it is not clear how much cash flow an entity is actually generating for its creditors and investors.

The Financial Accounting Standards Board (FASB) in the U.S., in conjunction with the London-based International Accounting Standards Board and other accounting governing bodies, initiated a project in 2005 aimed at addressing financial reporting. Their preliminary revisions distinguish between the operating, investing, financing, and tax activities for each of the three (income, balance sheet, and cash flow) statements, but, other than more detail, still maintain the manufacturing model for the income statement; deemphasize the focus on net income, and, by inference, eps, but heighten the emphasis on comprehensive income; still fail to capture some of the more value-creating assets on the balance sheet, although unrealized gains on tangible assets are introduced and the

balance sheet has been rearranged such that total net assets equal equity; and move toward the direct method for cash flows, but still fail to clearly distinguish the cash flows which have been generated for creditors and investors. Their preliminary work is headed in the right direction in many areas, but still is very rooted in historical accounting practices and, more importantly, fails to adequately capture the economic performance of the reporting entity.

In July 2007, the U.S. Securities and Exchange Commission (SEC) established the Advisory Committee on Improvements to Financial Reporting (CIFI^R). Subsequently, the Chairman of CIFI^R, Robert Pozen, Chairman of MFS Investment Management, issued a white paper providing a working outline, including a discussion of issues, views and potential consideration points that the Committee may evaluate. The SEC has asked for public comments.

It is in the context of these two leading initiatives that the following material is prepared.

Objectives of Financial Reporting

In November 1978, the FASB issued Statement of Financial Accounting Concepts No. 1, “Objectives of Financial Reporting by Business Enterprises”. It is stated:

- Financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions. The information should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence.
- Financial reporting should provide information to help present and potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of prospective cash receipts from dividends and interest and the proceeds from the sale, redemption, or maturity of securities and loans. Since investors’ and creditors’ cash flows are related to enterprise cash flows, financial reporting should provide information to help investors, creditors, and others assess the amounts, timing, and uncertainty of net cash inflows to the related enterprise.
- Financial reporting should provide information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners’ equity), and the effects of transactions, events, and circumstances that change its resources and claims to those resources.

In July 2006, the FASB issued a set of Preliminary Views on a Conceptual Framework for Financial Reporting: Objectives of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information. In it the FASB reiterates the objective of financial reporting:

- The objective of general purpose external financial reporting is to provide information that is useful to present and potential investors and creditors and others in making investment, credit, and similar resource decisions.
- To help achieve its objective, financial reporting should provide information to help present and potential investors and creditors and others to assess the amounts, timing, and uncertainty of the entity's future cash inflows and outflows (the entity's future cash flows). That information is essential in assessing an entity's ability to generate net cash inflows and thus to provide returns to investors and shareholders.
- To help present and potential investors and creditors and others in assessing an entity's ability to generate net cash inflows, financial reporting should provide information about the economic resources of the entity (its assets) and the claims to those resources (its liabilities and equity). Information about the effects of transactions and other events and circumstances that change resources and claims to them is also essential.
- In developing financial reporting standards, standard setters presume that those who use the resulting information will have a reasonable knowledge of business and economic activities and be able to read a financial report. Standard setters also presume that users of financial reporting information will review and analyze the information with reasonable diligence.

The differences between these objectives of financial reporting prepared almost thirty years apart are slight. As the famous Hall-of-Fame baseball player and philosopher Yogi Berra has been quoted as saying "It's déjà vu all over again."

Financial reporting is intended, primarily, for the use and benefit of outside creditors, investors, and other interested parties such that they may assess historical entity economic performance, make estimates of future entity economic performance, and make their own rational economic credit, investment, and other decisions. It is assumed that users of financial statements have a reasonable understanding of business and economics and that they will study the information provided with reasonable diligence.

Basic Finance 101 would emphasize that "the value of any asset is the net present value of the future stream of cash flows which that asset will generate."

The renowned investor Warren Buffett repeatedly focuses on the term "intrinsic value" in his Letter to Shareholders of Berkshire Hathaway and other writings. "Intrinsic value is an all-important concept that offers the only logical approach to evaluating the relative attractiveness of investments and businesses. Intrinsic value can be defined simply: It is the discounted value of the cash that can be taken out of a business during its remaining life." He goes on to indicate that estimating intrinsic value is not easy and will frequently have to be reevaluated, but that estimates of intrinsic value should drive internal business

and external investment decisions. Business performance should be evaluated on the basis of increases in intrinsic value; external investments should be made on the basis of intrinsic value. Cash flows are the underlying driver of intrinsic value.

Although the FASB's 1978 and 2006 objectives of financial reporting, with the emphasis on cash flow information for the benefit of intelligent and diligent users for rational decision making, are laudatory, the prescribed statement formats in use today and the preliminary proposed statement format examples offered in the FASB's 2006 Preliminary Views fail to provide the economic perspective needed to permit users to more easily make better decisions. Quite frankly, they do not adequately provide cash flow information nor reflect many of the underlying assets which drive those cash flows.

The SEC's CIFIIR is in the early stages of its charge which, in broad terms, is to consider both the process and content of financial reporting. It is the intent of this paper to focus on the content of financial reporting such that financial reports are easier to understand, better reflect current business conditions, and provide clearer economic information by which internal managers and external users may make rational decisions. The suggestions contained in this paper have been developed over a number of years, are central to my teaching of financial statement analysis, and have been applied in both my consulting and investment management responsibilities.

My suggestions are going to focus on three topics:

- Recasting financial statements to put much more focus on cash flows. This will result in a cash flow statement which focuses on the "cash flows available to creditors and investors" (some would call these the unlevered free cash flows) and the "cash flows available to the investors" (some would call these the levered free cash flows); a balance sheet where the equality equation becomes "financing equals investing" in place of assets equals liabilities and equity or the FASB's proposed net assets equals equity; and an income statement which emphasizes "cash earnings" rather than net income.
- Reconsidering the definition of investments. The drivers of future cash flow and intrinsic value of many companies today are the expenditures which are made for R&D (pharmaceutical, high technology, and software companies), brand development (consumer product companies), and intellectual capital (financial services and professional service firms) yet, except in the case of acquisitions, few of these expenditures are booked as an asset and amortized over some appropriate period. As a result, the relationship between market values and book values has widened over the years and less valuable information is provided by accounting book values of assets and equity.
- Rearranging the Earnings Statement to more closely reflect the "value chain" of the business --- product (or service) development, production, sales, service, and underlying administrative support --- rather than the manufacturing

(revenues minus cost of goods sold equals gross margin) model which is almost universally utilized (except for financial service firms) today.

The focus of this paper will be on these three major points. However, inasmuch as the FASB appears headed in the direction of “fair value accounting” (including revaluing tangible assets even though an entity has no intent of selling those assets) and “comprehensive income” to capture such revaluations as well as unrealized gains and losses on financial instruments, exchange rate fluctuations, and other future transactions, I will also comment on these possible directions for financial reporting.

Recasting Financial Statements

Business is, fundamentally, about raising money (“financing”), putting that money to work (“investing”), and generating a return (from “operating”) on those investments which exceeds the cost of the financing. Monies are raised, initially, from investors. In time, if performance supports their doing so, creditors may provide additional financing. Investments may be made in working capital and fixed and other investments. Exhibit 1 portrays this relationship between financing and investing.

The long-considered fundamental relational of the balance sheet has been:

- $\text{Assets} = \text{Liabilities and Equity}$

This may be disaggregated to:

- $\text{Current Assets} + \text{Fixed and Other Assets} = \text{Current Liabilities} + \text{Debt} + \text{Equity}$
- $(\text{C/A} - \text{C/L}) + \text{Fixed and Other Assets} = \text{Debt} + \text{Equity}$
- $\text{Working Capital Investments} + \text{Fixed and Other Investments} = \text{Debt} + \text{Equity}$

And finally,

- $\text{Investing} = \text{Financing}$

Several further modifications are proposed to this balance sheet:

- Cash and cash equivalents and short term investments would be excluded from current investments and would, instead, be considered as an offset, or contra account, to debt. Thus, the current investments accounts could be thought of as operating investments accounts.
- Short-term debt and the current portion of long-term debt would be excluded from current liabilities and would, instead, be included as part of all the debt recognized as a part of financing. Thus the current liabilities accounts could be thought of as operating liability accounts.
- Current liabilities would be considered as an offset, or contra account, to the current investments accounts.

Emphasizing operating working capital by excluding cash, cash equivalents, and short-term investments and short-term debt and the current portion of long-term debt, and netting the operating assets and liabilities, focuses the user of the statements on working capital and its relationship to business activity.

Exhibit 2 presents a revised “Investing = Financing” format.

There are three important realizations which emanate from thinking in terms of investing equals financing. First, weak investment management resulting in the need to carry excess investments (high accounts receivables, excess inventories, idle fixed investments) requires additional financing. Second, undervalued investments (LIFO inventories, old property, plant, and equipment) results in understated equity values and, also, overstated performance metrics (ROA, ROIC, ROE) based on book values. Third, ignored investments (R&D, brand development, human capital investments) have a similar effect on equity values and performance metrics.

Investments are made for the purpose of generating a return on investment which exceeds the cost of financing. There are two ways to think about returns, accrual-based accounting earnings and cash earnings. Accrual-based accounting earnings are typical; cash earnings, although a better representation of economic performance, are not.

Accrual-based accounting earnings have several significant problems. First, they commingle both operating and financial (e.g. interest) expenses, such that the reported earnings fail to cleanly distinguish operating results. Many entities and analysts eliminate the effects of the financial expenses on earnings by adjusting for interest expense on an after tax basis. If an entity has non-operating expenses, as well, these are also commingled. They, too, may be excluded by eliminating them on an after tax basis. By adjusting reported earnings for interest and non-operating expenses, one may get to Net Operating Earnings after Tax. Many entities and analysts make such adjustments in order to determine operating performance and calculate ROA and ROIC.

The most significant limitation of the accrual-based earnings statement is that it does not focus on cash earnings. There are a number of non-cash items which are included in the accrual-based earnings statement including depreciation and amortization, deferred taxes, employee stock option expense, and gains or losses on the sale of PP&E and other transactions. Although these items are available in the operating cash flows section of the statement of cash flows, as currently presented, it would be much clearer and useful if these items were presented as part of the earnings.

Exhibit 3 presents a simplified proposed cash-based earnings statement. The details of the revenues and expenses will be considered later, when the issue of reformatting the income statement is considered. This statement is intended to focus on operating earnings adjusted for non-cash items to identify cash earnings. It is cash earnings which provide the cash needed to reinvest back into the business, and cash flows to service creditor claims and investors.

Exhibit 4 presents the proposed cash flow statement, is intended to reflect the recast balance sheet and earnings statement, and emphasizes the cash flows available to the creditors and investors.

It starts with net operating earnings after tax and adjusts for the non-cash items in the earnings statement to get to cash earnings. Then, any reinvestments back into the entity, in the way of operating working capital and fixed and other operating investments are identified, providing those operating cash flows available to creditors and investors. If there are any non-operating cash flows (on an after tax basis), they may be considered at this point, resulting in cash flows available to creditors and shareholders.

Recognition of creditor cash flows, including interest expense after tax and debt financing inflows and payment outflows results in cash flows available to investors. The recognition of investor cash flows, including proceeds from the sale of stock, repurchases of stock, dividends, and the tax benefits of stock options gets one to the changes in cash and cash equivalents.

Given that cash flows are the underlying foundation for valuation, providing the cash flows available for creditors and investors provides a foundation for making an estimate of entity value and, subsequently, equity value. Providing the cash flows available for investors provides a foundation for equity value directly.

Exhibit 5 presents a summary diagram relating cash earnings; reinvestments in working capital, PP&E, and other investments; cash available for creditors and investors; creditor transactions; cash available for investors; and, finally, changes in cash and cash equivalents.

Cash Flow Based Performance Metrics

The revised financial statements provide the basis for the direct calculation of key performance metrics such as:

- $\text{ROIC (Return on Invested Capital)} = \frac{\text{Net Operating Earnings after Tax}}{\text{Investing}}$

ROIC may be compared with the firm's Weighted Average Cost of Capital (WACC) to determine if the Returns exceed the Costs

- $\frac{\text{Operating Working Capital}}{\text{Revenues}}$

To determine the relationship of Working Capital to Revenues and the cash investment required by increases in Revenues

- $\frac{\text{Cash Earnings}}{\text{Revenues}}$

To determine how much Cash Earnings is generated by Revenues

- Cash Earnings
Change in Working Capital

To determine the ability of Cash Earnings to cover increases in Working Capital. A measure of “liquidity”.

- Cash Earnings + Change in Working Capital
Investments in PP&E and Other Operating Investments

To measure the ability of Cash Earnings and Changes in Working Capital to cover longer-term investments in PP&E and Other Operating Investments

- Cash Available to Creditors and Investors
Revenues

The key measure of a firm’s capability to generate cash for its creditors and investors

- Cash Available to Creditors and Investors
Interest Expense (A.T.)

To measure the ability of available cash flows to cover interest expense. This is a much better cash-based interest coverage metric than EBIT/interest

- Cash Available to Creditors and Investors
Interest Expense(A.T.) +Debt Repayment

To measure the ability of available cash flows to cover interest and debt repayment obligations. A much better measure of “solvency” than debt/equity or debt/total capital

- Cash Available to Investors
Revenues

Finally, the measure of cash available for investors relative to Revenues

The above metrics are intended to be representative examples of the measures which might be utilized to compare and contrast cash-based performance over time and across firms.

Redefining Investments

An investment (asset) is defined as something having “probable future economic benefits obtained or controlled by a particular entity as a result of past transactions” (SFAC No. 3). Future economic benefits mean contributing directly or indirectly to future cash flows. The term “probable” means that which can be reasonably expected or believed to occur, but is neither certain nor proved. Today’s accounting practices are increasingly inconsistent and fail miserably in recording and recognizing investments.

When a firm acquires another firm, the buyer may step up the value of the tangible assets acquired as well as attribute value to intangible assets including R&D, patents, customer lists, and even brands. When the same company spends money internally on R&D, other activities leading to patents, the development of customer lists, and brand building, expenditures must be expensed. Spending money in the context of an acquisition results in the recognition of an investment; spending similar money internally does not. This makes little sense, especially given the capability of internal cost accounting systems to capture data and internal and external audit procedures to monitor them.

The accounting policies for R&D were promulgated in the early 1970’s, at a time when expenditures for R&D in such industries as pharmaceuticals, high technology, and software were modest or non-existent. Today, leading companies spend 15-20% of revenues on R&D to stock their pipelines with future products and services. These expenditures are the drivers of their future cash flow. These expenditures need to be booked as an investment and amortized over some reasonable time frame. Otherwise, the recorded investments on the books of Merck, Pfizer, Intel, Cisco, Microsoft, and Oracle, for example, fail to capture the investments which truly provide future value.

Consumer-product companies spend considerable amounts of money to develop brand recognition and respect. When a company such as Nike makes an acquisition of a much smaller sporting goods company, Nike may attribute value to the brand it is acquiring. Yet Nike is unable, according to current accounting practices, to recognize any value on its books for the “Nike” brand. Does anyone not believe that the Nike brand draws customers to make purchases of products bearing its brand? Does that not define an investment? Should there not be recognition of Nike’s, and other consumer-product companies’, brands on their balance sheet?

Similar arguments may be made for other longer-term strategic expenditures such as the development of operating and information systems and, in the case of service industries and professional service firms, the acquisition costs and training and development of professional staff. When a manufacturing company buys a tangible asset, the cost of getting it to its destination and making it operable are included in the cost of the asset and depreciated over its useful life. When a firm hires an employee, the costs of bringing that employee on board are expensed. Restoring productive capability and extending the life of a tangible asset is capitalized and depreciated; the training and development expense, to further the useful life, of an employee is expensed.

The failure to recognize the principal drivers of future cash flows, and value, on the balance sheets of many companies has reached unacceptable levels. Balance sheets, in

many cases, are dramatically understated. Metrics such as ROA, ROIC, and ROE are overstated. Market values relative to book values are exacerbated.

Recognizing intangible investments will be a challenge. Categories will have to be defined and amortization lives will have to be established. However, just as different classes of tangible investments exist with different depreciable lives, so, too, may a similar structure be developed for intangible investments. R&D expenditures might be amortized over a period of time reflecting the average useful life of the types of product category they address. For example, pharmaceuticals over 9-10 years, high technology over 4-6 years, software over 3-5 years, for example. Brands might be revisited and written down if impaired. Intellectual development costs might be written down over average employment longevity periods.

Unless intangible expenditures get booked as investments and amortized, balance sheets will become increasingly meaningless and any analysis predicated on balance sheets will become useless.

Reorganizing the Earnings Statement

The typical earnings statement, today, has its foundation on an outdated manufacturing model where the principal business activity was selling a purchased or manufactured product. This relationship continues to be presented at the top of the earnings statement. In earlier times, R&D expenditures were low because product lines were narrow and life cycles longer. Sales and marketing expenditures were low because product lines were narrow and channels of distribution few. Service costs were also low. Firms were smaller and more localized such that administrative costs were also relatively low. R&D, sales, marketing, service, and administrative costs were often a much smaller factor. SG&A costs are typically presented after the manufacturing costs. These historical patterns of relative costs do not always apply today. Yet, earnings statements are still presented as though they do. It would be much more understandable if the earnings statement bore a stronger relationship to the flow of activities which constitute the business.

The “value chain” consisting of (i.) market assessment, (ii.) product or service development, (iii.) production or operations, (iv.) distribution, (v.) sales, and (vi.) service, supporting by an underlying administrative structure has been frequently utilized to analyze businesses over the past 20 years. Aligning the earnings statement along such a sequence would be useful.

Exhibit 6 presents one possible format for a revised earnings statement. Expenses are divided into three major categories: customer, strategic, and administrative expenses, before being broken down into more detail. This breakdown provides the costs which directly relate to current revenue, costs which are related to future revenue, and support costs.

Other Issues

Based on the FASB's 2006 Preliminary Views release, it would appear as though the FASB continues to be headed in the direction of fair value accounting and elevating the concept of comprehensive income to greater emphasis. I believe there are appropriate and inappropriate aspects to these emphases.

Today, many companies still utilize LIFO inventory valuation methods for financial reporting. In protracted periods of rising prices, the effect is to markedly undervalue inventory on the balance sheet. Some large manufacturing businesses on LIFO for years understate their inventory by billions of dollars. The use of LIFO should be stopped. This will fix one valuation issue.

The FASB suggests stepping up the value of PP&E and including the revaluation in other comprehensive income. Although it is true that many companies' PP&E is undervalued relative to current costs or replacement value, one has to be very careful with stepping up values for investments which a firm intends to use to obsolescence and has no intent, nor ability, to sell. Should the land under Wal-Mart's stores be revalued upward? What purpose does such a restatement serve creditors and investors?

The practice of reflecting market-determined unrealized gains and losses on financial instruments and foreign currency gains and losses in comprehensive income certainly makes sense, and lets the user appreciate such unrealized effects on shareholders' equity.

Some companies have made investments in other companies and based on their level of ownership use the equity method of accounting for recording the effects of those holdings on reported earnings. Their investments under such circumstances are carried at original cost plus the proportionate share of earnings realized. Were one to consider the market value of such holdings they would be very different than the accounting value. These "see-through" values should be picked up as additional unrealized gains and losses and be reflected in comprehensive income.

The FASB suggests in their Preliminary Views release that comprehensive income be elevated to become an integral part of the income statement. I do not agree. If one were to have a supplementary schedule which tied net earnings to comprehensive income, rather than only including the connection in the Notes to Financial Statements, I would have little problem with that. To mix revaluations of investments and all of the unrealized gains and losses with current income would, in my opinion, suggest that realized and unrealized results are equivalent. It would also take emphasis away from real economic (cash) results which are critically important to creditors and investors. I would recommend a bridging schedule between net earnings and comprehensive income and more detail of the items constituting accumulated comprehensive income in the equity section of the balance sheet.

Conclusions

Financial reporting is clearly at a critical point in its history. Current practices have not kept up with changes in business conditions and practices. Financial statements do not adequately provide the information needed by creditors, investors, and others to make rational economic-based decisions. Much more emphasis needs to be put on the cash flow statement. It has to be reorganized to better distinguish between cash generated from the activities of the business, the cash required to be reinvested into the business to sustain and grow it, and the cash available to creditors and investors. The balance sheet needs to be recast to reflect the sources of capital, the financing, and the uses of capital, the investing. The earnings statement needs to be reorganized to reflect the business' stream of activities rather than continue to utilize an outdated manufacturing model. If the definition of an asset, or investment, is a resource from which future cash flows and value will emanate, expenditures for R&D, patents, market development, customer lists, brands, and human capital acquisition and development need to be captured on the balance sheet. Investments in financial instruments should reflect market values, when they exist. Finally, distinguishing between realized and unrealized gains and losses should be strongly sustained.

Hopefully, these thoughts are useful as discussion evolves regarding improving financial reporting.

Exhibit 1

Revised Balance Sheet Diagram

<u>Working Capital</u>	
<u>Current Investments</u> (excluding Cash and S.T. Investments)	- <u>Current Liabilities</u> (excluding Debt)

+

<u>Property, Plant & Equipment</u>
<u>Other Investments</u>

=

<u>Debt, net of Cash And S.T. Investments</u>
<u>Other Liabilities</u> <u>Equity</u>

Investing

=

Financing

Exhibit 2
Revised Balance Sheet

Investing

Working Capital

Current Investments (Excluding Cash and S.T. Investments)

Accounts Receivable, net		
Inventories		
Prepays and Other		
Subtotal		

less: Current Liabilities (Excluding Debt)

Accounts Payable		
Accrued Expenses		
Taxes Payable		
Other		
Subtotal		

Working Capital		
-----------------	--	--

Working Capital/Revenues		%
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Property, Plant, and Equipment

Land		
Buildings		
Equipment		
Depreciation		()

Property, Plant, and Equipment		
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Other Investments

Financial Investments		
Intangibles		
Goodwill		
Other		

	Other Investments	<input type="text"/>
		<hr/>
	Total Investing	<hr/> <hr/>
	<u>Financing</u>	
	<u>Debt</u>	
	Cash and Cash Equivalents	()
	S.T. Investments	()
	Commercial paper	
	S.T. Debt	
	L.T. Debt	<hr/>
		<hr/>
	Debt	<input type="text"/>
	<u>Other L.T. Liabilities</u>	
	Deferred Taxes	
	Pensions	
	Other	<hr/>
		<hr/>
	Other L.T. Liabilities	<input type="text"/>
	<u>Equity</u>	
	Paid in Capital	
	Treasury Stock	()
	Retained Earnings	
	Accumulated Comprehensive Income	<hr/>
		<hr/>
	Equity	<input type="text"/>
		<hr/>
	Total Financing	<hr/> <hr/>

Exhibit 3			
<u>Revised Earnings Statements</u>			
	Revenues	(see Exhibit 6)	
Less:	Expenses	(see Exhibit 6)	
	Operating Earnings		
Less:	Interest Expense	(Income)	
	<u>Non-Operating Expenses</u>		
	Pre-Tax Earnings		
Less:	Taxes		
	Net Earnings		
Plus:	Interest Expense	(1 - tax rate)	
	<u>Non-Operating Expense</u>	(1 - tax rate)	
	Net Operating Earnings After Tax (NOEAT)		
plus/minus:	<u>Non-Cash Adjustments to Earnings</u>		
	<u>Cash Earnings</u>		

Exhibit 4
Revised Cash Flow Statement

Net Operating Earnings After Tax			
± <u>Non-Cash Adjustments to Earnings</u>			
Depreciation and Amortization			
Employee Stock Option Expense			
Deferred Taxes			
(Gain) Loss on Sale of PP&E			
Other			
	Subtotal		
Cash Earnings			
± <u>Changes in Working Capital</u>			
Accounts Receivable			
Inventories			
Accounts Payable			
Accrued Expenses			
Other			
Changes in Working Capital			
± <u>Investments in PP&E and Other Operating Investments</u>			
Capital Expenditures		()	
Proceeds from Sale of PP&E			
Acquisitions, net of Cash		()	
Other Operating Investments		()	
Investments in PP&E and Other			
Operating Cash Flows Available for Creditors and Investors			
Non-Operating Expenses (A.T.)		()	
Cash Flows Available for Creditors and Investors			
<u>Creditor Transactions</u>			
Interest Expense (A.T.)		()	
Purchase of S.T. Investments		()	
Sale and Maturity of Short-Term Investments			
Commercial Paper _{net}			
S.T. Debt _{net}			

L.T. Debt _{net}		
	Subtotal	_____

Cash Flows Available for Investors		<input type="text"/>
<u>Equity Transactions</u>		
Sale of Stock		
Repurchase of Stock	()
Dividends	()
Stock Option Tax Benefits		_____
	Subtotal	_____

Forex Effect		_____

Change in Cash and Cash Equivalents		
Beginning Cash Balance		_____
Ending Cash Balance		<input type="text"/>

Exhibit 5

Free Cash Flow Statements Relationships

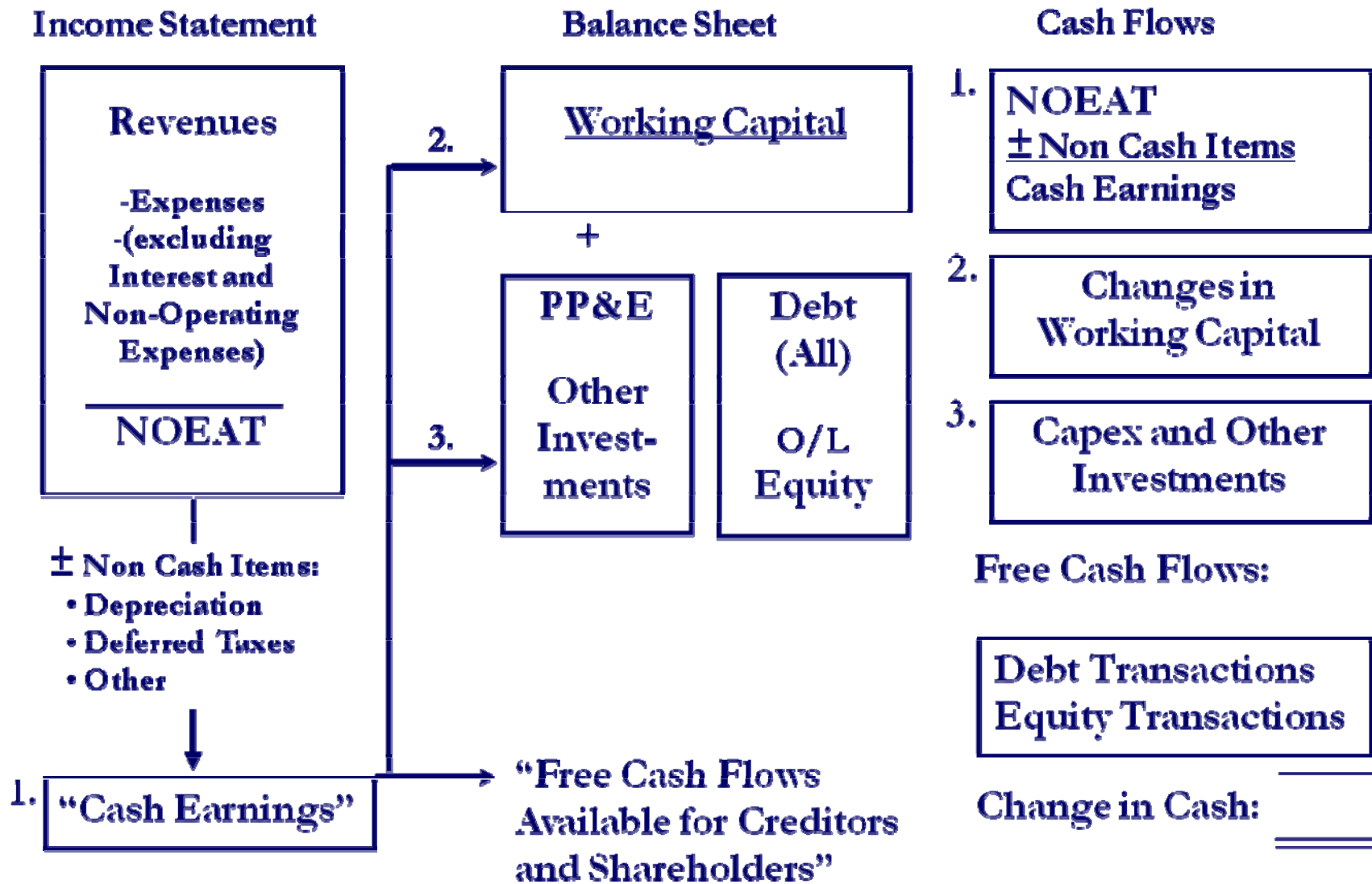


Exhibit 6
"Value Chain-Based" Earnings Statement

Gross Revenues

Returns	()
Allowances	()
Other Adjustments	<u>()</u>

Net Revenues

Customer Costs

Service Costs	()
Sales Expense	<u>()</u>
Subtotal	<u>()</u>

Cost of Goods or Services	()
---------------------------	-----

Strategic Costs

R&D Expenses	()
Market Development	()
Other	<u>()</u>
Subtotal	<u> </u>

Administrative Costs

Operating Expenses

Operating Earnings

=====