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Counting What Counts

Cash Flow as a Universal Language

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- Faced with the complexity of generating cumbersome cash flow models, many investors turn to investment “rules of thumb” based on reported earnings and P/Es.
- The actual difference between earnings and cash flow is wide, however, and these ubiquitous rules of thumb provide investors no insight into the determinants of value.
- The rapid transition to a global economy reliant on intangible capital has forced the accounting treatment of investments into obsolescence.
- This report provides investors an analytical tool that exposes cash flow so investors can get beyond earnings and count what counts.

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Executive Summary

Financial theory and empirical evidence both show that the value of a stock is the expected present value of a future stream of cash flows. Faced with the complexity of generating cumbersome cash flow models, many investors rely on investment shortcuts, or rules of thumb. Frequently, these rules of thumb are based on earnings per share, a ubiquitous measure of profits. Earnings and price-to-earnings multiples do offer convenience, simplicity, and apparent uniformity. Unfortunately, these apparent benefits are offset by significant economic disadvantages. This report unearths the serious and generally underappreciated risk of relying on earnings and earnings-based measures as a proxy for value.

The key conclusions of this report are as follows:

- *Earnings and P/Es do not capture key determinants of value.* For example, earnings-based measures do not account for risk, varying accounting standards, sustainability of franchise, and investment needs. Variations in these items from company to company mean that there is no reliable way to link accounting results with economic reality. As a result, single-period accounting measures like earnings are severely limited in their ability to reflect the prime determinants of value.
- *The actual difference between earnings and cash flow is significant.* Our detailed analysis of the Dow Jones Industrial Average shows that in the most recent fiscal year, on average only \$0.82 in cash flow results from every \$1.00 in reported (operating) earnings. Further, excluding General Motors and International Paper, this number falls to only about \$0.71. But even these data points are misleading. The range of cash flow/earnings ratio within the DJIA fluctuated from negative 0.08 to positive 2.6. This means that earnings and P/E comparisons can be highly misleading because they do not offer insight into a business's underlying economics.
- *Accounting for investments is different in the New Economy versus the Old Economy.* Companies that rely on physical assets capitalize their investments. Earnings, then, tend to meaningfully overstate the cash flow of the business. In contrast, knowledge companies largely expense their investments. By definition, their physical capital needs are modest. So, earnings and cash flow are more aligned. All things being equal, companies that expense their investments will have higher P/Es than those that do not.
- *Accounting-based measures are more unreliable than ever.* Accounting measures have always been limited in their ability to explain value. There is nothing new about that. What is new is that the source of value creation in the global economy is rapidly evolving from one reliant on tangible goods to one reliant on intangible goods. And the ability of the accountants to capture intangible assets leaves a lot to be desired. From employee stock option compensation to reflecting intellectual capital, traditional accounting yardsticks fall short. We offer no alternative to our accounting system, but note that it is only a starting point, not an end point, in understanding value.

Investing is a very competitive activity. Investors that rely on widely disseminated, superficial measures like earnings per share risk missing the key drivers of economic value. A business is ultimately worth the present value of all cash inflows less all cash outflows. And our current accounting system makes it harder than ever to count what counts.

Introduction

“It is much easier for investors to utilize historic P/E ratios or for managers to utilize historic business valuation yardsticks than it is for either group to rethink their premises daily.”

—Warren Buffett¹

Both financial theory and empirical evidence support the view that a business is worth the present value of its expected future free cash flows. While few investors question this notion, many continue to use valuation metrics that are inconsistent with this fundamental tenet of finance.

Specifically, the focus on accounting earnings per share (EPS) has led many to believe stock prices are strongly influenced, if not solely determined, by reported earnings. Indeed, earnings are the least common denominator for companies, investors, and the business press. They are routinely calculated, widely disseminated, and broadly communicated.

It is no surprise, then, that the price-to-earnings (P/E) ratio is widely used to divine value. However, the P/E ratio is nothing more than a shorthand description of a mathematical relationship. As a result, it often attributes causality where none exists. Multiples of earnings do not drive value; they are a function of value.² Ultimately, the magnitude, timing, and riskiness of cash flows determine value. P/Es cannot offer any meaningful insight about these fundamental value drivers.

Think of it this way. We are asking the P/E to reflect a business’s growth, risk, capital intensity, management quality, economic returns, and sustainability of competitive advantage. If it seems like a lot of responsibility to heap on a single number, it is. It is more important than ever to understand the limitations of single-period measures like earnings and P/E ratios.

This report lays out a case for looking beyond ubiquitous earnings-based metrics. Further, it provides a transparent framework, highlighting the difference between accounting convention and economic reality.

What Makes Metrics Fail?

Accounting Earnings Were Never Meant to Represent Cash Flow Financial statements are designed to reflect a firm’s past performance and current position. Stock prices, in contrast, reflect expected future free cash flows. For equity investors, reported history is simply the starting point for assessing a firm’s prospects. Earnings—past or forecasted—serve as a point of departure in understanding cash flows.

Because there is a range of acceptable ways to calculate earnings under GAAP (generally accepted accounting principles), a given level of earnings can represent an equally wide variety of cash realities. Some sources of difference between earnings and cash flow include:³

- *Revenue recognition.* Revenue recognition is one of the most difficult and pressing problems facing the accounting profession.⁴ Accountants are guided to recognize revenue when it is “realized” and “earned.”⁵ However, it is becoming increasingly difficult to apply this conceptual framework in practice. For example, some software companies defer a portion of product revenue to match possible future support costs and upgrades, making reported revenues and cash collected from sales differ materially. Further, improper or illegal overstatement of revenue can call into question future cash flows.⁶

- *Merger accounting.*⁷ Mergers present companies with an accounting choice. Deals structured as a change of ownership are accounted for as a “purchase,” while those that merge ownership interests are “poolings.”⁸ This choice has radical implications for a company’s future reported earnings.

Purchase accounting generates goodwill, defined as the residual between the acquisition price and fair values of the acquired company’s identifiable assets and liabilities. Pooling does not. Purchase companies must then amortize this goodwill over no more than 40 years.

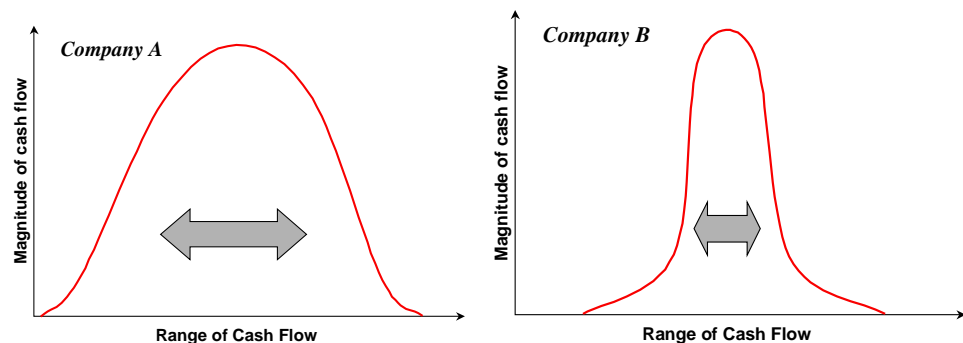
However, goodwill amortization is a noncash, non-tax-deductible charge that reduces reported earnings but does not affect cash flow. This means that two identical companies can consummate the same merger, chose different accounting conventions, and have totally different earnings in spite of identical cash flows.

The key takeaway is that the economic consequence of a merger is not ultimately determined by the accounting choice, but rather by cash flows.

- *Inventory valuation method.* Companies can choose from various inventory valuation methods including last-in, first-out (LIFO) and first-in, first-out (FIFO). In a period of rising prices, LIFO results in a lower reported earnings figure than FIFO, because recorded expenses are higher. But it also decreases the cash taxes a firm pays, boosting cash flows. Empirical evidence shows the market reacts positively when a company announces a shift from FIFO to LIFO in an environment of rising prices.⁹
- *Deferred taxes.* Varying depreciation methods can create a wide difference between a company’s actual tax bill and the provision for income taxes that it shows on the income statement. Taxes deferred by accelerating depreciation are a source of cash. As long as a company remains a growing concern, deferred taxes are a perpetual “loan” from the government.

Risk Earnings do not provide any insight into the risk associated with a company’s operations (although risk is implicit in P/E). Imagine two companies with identical earnings and average expected future free cash flows. However, the potential dispersion of cash flow outcomes for company A is twice that of company B. It stands to reason that the market would reward company B a higher value.

Chart 1
Highly Variant Cash Flows Increase Risk



Source: CSFB analysis.

Different Competitive Advantage Periods (CAP)¹⁰ CAP is defined as the period of time a company generates excess returns on new investments. A fundamental principle of economics is that industries that earn excess rents will attract new competitors, forcing industry returns to fall to the cost of capital. The CAP attempts to evaluate how long a business can generate returns on incremental investment above the cost of capital, and is primarily determined by a firm's return on invested capital, the rate of change in the industry, and barriers to entry.

In practice, it is the forecast period employed in a discounted cash flow model. The longer the time period, the more valuable the company. This can lead to vastly different P/Es for businesses with comparable earnings and near-term earnings growth rates.

For example, consider a company with a stable and predictable business model. Such a business may be rewarded with a relatively long CAP. In contrast, a business that operates in a fast-changing industry may have an excellent near-term outlook, but a limited CAP. The differences in the different CAPs for these companies will be reflected in their respective P/Es. Here again, value dictates the P/E—not the other way around.

Investment Requirements Earnings do not, and were not designed to, capture capital requirements.¹¹ Investments, including working capital changes, capital expenditures, and acquisitions, are cash outflows that are crucial in generating future value. Yet the investment intensity of two businesses that generate similar earnings growth rates need not be alike. The issue is further complicated by the fact that some industries *capitalize* their investments while others *expense* them.

This represents the critical source of divergence between earnings and cash flow.

It should be noted that neither positive free cash flow nor negative free cash flow is inherently good or bad. Indeed, positive free cash flow is undesirable if a company is not pursuing all of value-creating investments available, and negative free cash flow is desirable if economically attractive investment opportunities outstrip current earnings. Our point is that simplistic measures of value, like P/E and cash flow multiples, do not give investors a sense of cash flows or returns on investment. Accordingly, such measures are immanently limited in value.

Counting What Counts: Measuring Investment Requirements

We believe the best way to capture diverse capital needs is by considering the income statement, balance sheet, and statement of cash flows simultaneously. By looking beyond the income statement, investors can quickly size up a business's investment intensity.

The following case study demonstrates the method.

Case Study: Microsoft and Coca-Cola

Microsoft Corporation

Microsoft is a prototypical knowledge-based business. As such, most of its investments are related to human capital, not physical capital. This observation, however, does not come close to capturing the discrepancy between the company's reported earnings and cash flow. In fact, Microsoft's earnings grossly understate its cash flows. Here's why:

- The dichotomy begins with Microsoft's revenue recognition policy. When a customer purchases a Microsoft program, the company defers a portion of the revenue "attributable to . . . technical support and unspecified enhancements."¹² However, Microsoft receives all of the cash from its sales upfront. As Table 1 shows, in fiscal 1999 Microsoft actually collected over \$21 billion in cash sales, meaningfully above the reported sum of \$19.7 billion.
- Working capital changes provided the company a source of cash. Microsoft carries no inventory, and its current asset growth lagged the rise in account payables and other current liabilities. Unlike many growing businesses that see working capital rise with additional sales, MSFT's cash flow economics are unaffected by working capital needs.
- Capital expenditures were well below depreciation and amortization, adding over \$400 million to the company's cash flow. Unlike many traditional, physical-capital-oriented businesses, Microsoft requires few tangible assets to run its business. As most of its investments are expensed, the income statement captures the magnitude of its investments.
- Microsoft's use of employee stock options allowed it to offset taxes. When an employee exercises an option, the employee is taxed on its intrinsic value (the difference between the market and exercise price). Microsoft can then deduct the compensation expense for tax purposes. For fiscal 1999, this tax break was a staggering \$3.1 billion. Said differently, Microsoft's cash tax rate was 8.4% instead of the 34.5% posted on the income statement.
- When combined, these adjustments made Microsoft's cash flow almost \$4.8 billion, or 60.9%, higher than net income. This doesn't take into consideration the \$766 million of put warrants Microsoft sold in fiscal 1999. The income from these warrants, which is not taxable, widens the earnings/cash flow gap even more.

Coca-Cola Company

- Coca-Cola's working capital needs amounted to a net cash outflow of about \$500 million in 1998. Even though the business did not grow much during the year, funds were absorbed into the operations of the company.
- Coca-Cola's capital expenditures exceeded its depreciation and amortization expense by over \$200 million. Given that Coca-Cola has consistently generated very high returns on capital, this relationship is noteworthy but not worrisome.

- Gains booked from noncash asset sales actually made “other income” a cash expense. Unlike a simplistic income statement analysis, our appraisal measures the impact of every item on cash. Companies seeking to boost reported earnings through accounting rather than economic means are exposed.
- The bottom line is Coke’s cash flow was 27.3% lower than its operating net income in 1998. This is not unusual for a growing business. But it does suggest that comparing Coca-Cola’s P/E to that of Microsoft is very misleading given the divergence between earnings and cash flow.

Table 1
Microsoft Corporation: Cash Flow Exceeds Earnings

Fiscal 1999; in millions

	Income Statement	Cash Flow Statement	Adjusted Operating Cash Impact	Operating Cash flow as a % of income statement item
Sales	\$ 19,747.0			
Increase in unearned revenue		5,877.00		
Recognition of unearned revenue from prior periods		(4,526.00)		
Increase in accounts receivable		(687.00)	20,411.00	103.4%
Cost of revenue	(2,814.00)			
Increase in other current assets		(235.00)		
Increase in other current liabilities		966.00	(2,083.00)	74.0%
Depreciation expense		483.00		
Amortization expense		527.00		
Capital expenditures		(583.00)	427.00	88.4%
Research and development	(2,970.00)			
Sales and marketing	(3,231.00)			
General and administrative	(689.00)			
Other expenses	(115.00)		(7,005.00)	
Investment Income	1,803.00		1,803.00	
Gain on sale	160.00		Non - cash	
Income tax expense	(4,106.00)			
- Stock option tax benefits		3,107.00	(999.00)	24.3%
Preferred dividends	(28.00)		(28.00)	
Reported Net Income	7,785.00			
Operating Net Income	7,757.00			
Cash Flow			12,526.00	160.9%
<i>Difference</i>			<i>0.61</i>	
Per Share Data:				
Reported Net Income	\$ 1.39			
Operating Net Income	\$ 1.39			
Cash Flow			\$ 2.24	
<i>Shares outstanding</i>	5,597.34			
Additional cash flow items				
Financing				
Common stock issued		1,350.00		
Common stock repurchased		(2,950.00)		
Put warrant proceeds		766.00		
<i>Net cash from (used for) financing</i>			(834.00)	
Investments				
Cash proceeds from sale of Softimage		79.00		
Purchases of Investments		(36,441.00)		
Maturities of Investments		4,674.00		
Sales of Investments		21,080.00		
<i>Net cash from (used for) investments</i>			(10,608.00)	
Total cash used for investments and financing			(11,442.00)	
Effect of exchange rate changes on cash and cash equivalents		52.00		
Net change in cash and cash equivalents			1,136.00	
Short Term Investments		12,261.00		
Net change in cash and short-term investments			13,397.00	

Source: Company financials.

Table 2
Coca-Cola Company: Earnings Overstate Cash Flow
 Fiscal 1998; in millions

	Income Statement	Cash Flow Statement	Adjusted Operating Cash Impact	Operating Cash flow as a % of income statement item
Sales	\$ 18,813.0		18,813.0	100.0%
Cost of goods sold	(5,562.00)			
Foreign currency adjustments		21.00		
Change in operating assets and liabilities		(550.00)		
Other		124.00	(5,967.00)	107.3%
Depreciation and Amortization		645.00		
Capital expenditures		(863.00)	(218.00)	(33.8)%
Selling, general and administrative expenses	(8,284.00)			
Interest Income	219.00			
Interest expense	(277.00)		(8,342.00)	
Equity Income	32.00			
Equity income, net of dividends		31.00	63.00	196.9%
Other income	230.00			
Gains on sales of assets, including bottling interests		(306.00)	(76.00)	(33.0)%
Gains on issuances of stock by equity investees	27.00		Non - cash	
Income taxes	(1,665.00)			
Change in deferred taxes		(38.00)	(1,703.00)	102.3%
Reported Net Income	3,533.00			
Operating Net Income	3,483.08			
Cash Flow			2,570.00	73.8%
<i>Difference</i>			(27.3)%	
Per Share Data:				
Reported Net Income	\$ 1.42			
Operating Net Income	\$ 1.40			
Cash Flow			\$ 1.03	
<i>Shares outstanding</i>	2,496.00			
Additional cash flow items				
Financing				
Issuances of debt		1,818.00		
Payments of debt		(410.00)		
Issuances of stock		302.00		
Purchase of stock for treasury		(1,563.00)		
Dividends		(1,480.00)		
<i>Net cash from (used for) financing</i>			(1,333.00)	
Investing				
Acquisitions and investments, principally bottling companies		(1,428.00)		
Purchases of investments and other assets		(610.00)		
Proceeds from disposals of investments and other assets		1,036.00		
Proceeds from other divestitures and investments		54.00		
Other investing activities		(350.00)		
<i>Net cash from (used for) investments</i>			(1,298.00)	
Total cash used for investments and financing			(2,631.00)	
Effect of exchange rate changes on cash and cash equivalents		(28.00)		
Net change in cash and cash equivalents			(89.00)	

Source: Company financials

The Dow Jones Industrial Average

We reconciled earnings and cash flow for all the companies that constitute the Dow Jones Industrial Average. The results are instructive. As Table 3 shows, reported earnings substantially overstate actual cash inflows. More specifically, the average company in the DJIA posted cash inflows of only 81.4% of net income in fiscal 1998 and 62.7% of net income in fiscal 1997. Excluding General Motors and International Paper, 1998 cash flows were closer to 70% of earnings.

Of particular note are the New Economy companies, such as Microsoft. These knowledge-based businesses largely expense their investments and need significantly less investment in both working and fixed capital, making earnings systematically understate cash flow.

Table 3
Dow Jones Industrial Average: Earnings and Cash Flow Diverge
In percentage

Ticker	Company Name	Cash Flow as a % of Net Income	
		1998	1997
AA	Alcoa Inc.	94.3%	48.2%
ALD	AlliedSignal Inc.	60.9%	54.2%
AXP	American Express	77.5%	65.9%
T	AT&T Corp.	45.8%	30.5%
BA	Boeing Co.	29.7%	87.8%
CAT	Caterpillar Inc.	56.4%	76.4%
C	Citigroup Inc.	57.0%	55.3%
KO	Coca-Cola Co.	73.8%	76.3%
DIS	Walt Disney Company*	33.4%	(28.9)%
DD	Du Pont (E. I.) De Nemours	65.4%	67.0%
EK	Eastman Kodak Co.	27.0%	13.5%
XON	Exxon Corp.	41.9%	86.1%
GE	General Electric Co.	111.6%	71.3%
GM	General Motors Corp.	257.5%	41.5%
HWP	Hewlett-Packard Co.*	117.0%	63.6%
HD	Home Depot Inc.*	(8.8)%	(34.0)%
INTC	Intel Corp.	90.3%	79.3%
IBM	International Business Machines Corp.	53.4%	45.9%
IP	International Paper Co.	203.0%	41.5%
JNJ	Johnson & Johnson	93.4%	89.4%
MCD	McDonald's Corp.	50.4%	20.2%
MRK	Merck & Co.	64.2%	105.5%
MSFT	Microsoft Corp.*	160.9%	172.6%
MMM	Minnesota Mining & Manufacturing Co.	61.9%	25.4%
JPM	J.P. Morgan & Co.	63.6%	38.0%
MO	Philip Morris Companies Inc.	117.6%	109.5%
PG	Procter & Gamble Co.*	72.2%	61.5%
SBC	SBC Communications Inc.	64.4%	81.7%
UTX	United Technologies Corp.	120.0%	107.2%
WMT	Wal-Mart Stores*	86.8%	127.3%
	Average	81.4%	62.7%

*Fiscal years.

Source: Company financials.

Price to Cash Flow: “Cash P/E”

The dispersion of cash flows is even more apparent in price-to-cash-flow multiples. While the average price-to-reported-earnings figure approximated 25 times in both calendar 1997 and 1998, the price-to-cash-flow multiple actually fell from 44.5 in 1997 to 38.3 times in 1998.

We present these data not to validate the use of P/Es but rather to show how misleading they can be. For example, consider two companies with an identical stream of future cash flows. Company A expenses its investments (marketing, R&D) while company B capitalizes its investments (working capital growth, capital expenditures). Company A will correctly command a higher P/E, even though the business value will be the same.

Table 4
Price to Cash Flow

in dollars; based on fiscal year-end price

Ticker	Company Name	Earnings per share		Cash Flow per share		P/E		Cash P/E	
		1998	1997	1998	1997	1998	1997	1998	1997
AA	Alcoa Inc.	\$ 2.42	\$ 2.17	\$ 2.28	\$ 1.05	15.41	16.22	16.33	33.62
ALD	AlliedSignal Inc.	\$ 2.32	\$ 2.02	\$ 1.41	\$ 1.09	19.10	19.22	31.35	35.45
AXP	American Express	\$ 4.76	\$ 4.15	\$ 3.69	\$ 2.74	21.53	21.50	27.77	32.63
T	AT&T Corp.	\$ 2.90	\$ 2.26	\$ 1.33	\$ 0.69	17.39	18.06	37.92	59.31
BA	Boeing Co.	\$ 1.15	\$ 0.63	\$ 0.34	\$ 0.55	28.37	77.66	95.40	88.44
CAT	Caterpillar Inc.	\$ 4.11	\$ 4.37	\$ 2.32	\$ 3.34	11.19	11.10	19.85	14.53
C	Citigroup Inc.	\$ 1.77	\$ 2.12	\$ 1.01	\$ 1.17	18.71	16.94	32.83	30.63
KO	Coca-Cola Co.	\$ 1.40	\$ 1.42	\$ 1.03	\$ 1.08	48.01	46.95	65.07	61.52
DIS	Walt Disney Company*	\$ 0.62	\$ 0.90	\$ 0.21	\$ (0.26)	41.66	28.19	124.79	NM
DD	Du Pont (E. I.) De Nemours	\$ 2.57	\$ 1.68	\$ 1.68	\$ 1.71	20.65	35.75	31.58	35.17
EK	Eastman Kodak Co.	\$ 4.37	\$ 3.46	\$ 1.18	\$ 0.47	16.48	17.50	61.07	129.66
XON	Exxon Corp.	\$ 2.64	\$ 3.37	\$ 1.11	\$ 2.90	27.70	18.16	66.14	21.09
GE	General Electric Co.	\$ 2.80	\$ 2.46	\$ 3.13	\$ 1.75	36.42	29.83	32.62	41.81
GM	General Motors Corp.	\$ 4.26	\$ 8.62	\$ 10.97	\$ 8.97	16.80	7.05	6.52	6.77
HWP	Hewlett-Packard Co.*	\$ 2.75	\$ 2.95	\$ 3.21	\$ 1.88	21.93	20.88	18.75	32.85
HD	Home Depot Inc.*	\$ 1.06	\$ 0.82	\$ (0.09)	\$ (0.28)	28.54	20.12	NM	NM
INTC	Intel Corp.	\$ 1.77	\$ 1.93	\$ 1.60	\$ 1.53	33.41	18.16	37.01	22.90
IBM	International Business Machines Corp.	\$ 3.29	\$ 3.01	\$ 1.75	\$ 1.38	28.06	17.38	52.54	37.83
IP	International Paper Co.	\$ 1.00	\$ 1.03	\$ 2.03	\$ 1.03	44.81	41.87	22.08	41.87
JNJ	Johnson & Johnson	\$ 2.67	\$ 2.41	\$ 2.49	\$ 2.15	31.41	27.33	33.64	30.58
MCD	McDonald's Corp.	\$ 1.26	\$ 1.15	\$ 0.63	\$ 0.23	30.48	20.76	60.49	102.99
MRK	Merck & Co.	\$ 2.14	\$ 1.87	\$ 1.37	\$ 1.97	34.43	28.36	53.66	26.89
MSFT	Microsoft Corp.*	\$ 1.39	\$ 0.89	\$ 2.24	\$ 1.54	38.96	35.49	24.21	20.56
MMM	Minnesota Mining & Manufacturing Co.	\$ 3.74	\$ 3.88	\$ 2.31	\$ 0.98	19.02	21.15	30.74	83.40
JPM	J.P. Morgan & Co.	\$ 4.71	\$ 7.17	\$ 2.99	\$ 2.72	22.31	15.75	35.10	41.51
MO	Philip Morris Companies Inc.	\$ 2.20	\$ 2.58	\$ 2.59	\$ 2.83	24.31	17.51	20.68	15.99
PG	Procter & Gamble Co.*	\$ 2.59	\$ 2.56	\$ 1.87	\$ 1.58	35.16	27.59	48.71	44.83
SBC	SBC Communications Inc.	\$ 1.92	\$ 0.85	\$ 1.24	\$ 0.69	27.93	43.10	43.35	52.76
UTX	United Technologies Corp.	\$ 2.53	\$ 2.11	\$ 3.04	\$ 2.26	21.49	17.25	17.91	16.09
WMT	Wal-Mart Stores*	\$ 0.99	\$ 0.78	\$ 0.86	\$ 0.99	20.15	15.27	23.21	12.00
	Average					26.73	25.07	40.39	41.92

*Fiscal years.

Source: Company financials. Prices from FactSet.

Conclusion

Earnings and earnings-based metrics, most notably the P/E ratio, fail at the very task for which they are commonly employed: determining value. In fact, multiples are not valuation, they are shorthands for the valuation process. Investors must focus on the key value drivers and the resulting cash flow a business generates to identify investment opportunities.

Reconciling earnings and cash flow provides investors a tool to do just that. By documenting a firm's capital needs, especially those represented on the balance sheet, investors can better understand how a business creates value.

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Alcoa Inc. (AA, 72.125)	Intel Corp. (INTC, 101.4375)
AlliedSignal Inc. (ALD, 47.5)	International Business Machines Corp. (IBM, 109.9375)
American Express (AXP, 169)	International Paper Co. (IP, 48.0625)
AT&T Corp. (T, 52.5)	J.P. Morgan & Co. (JPM, 122.625)
Boeing Co. (BA, 43.75)	Johnson & Johnson (JNJ, 84.8125)
Caterpillar Inc. (CAT, 43.1875)	McDonald's Corp. (MCD, 36.625)
Citigroup Inc. (C, 58.25)	Merck & Co. (MRK, 76.8125)
Coca-Cola Co. (KO, 58.125)	Microsoft Corp. (MSFT, 102.9375)
Du Pont (E. I.) De Nemours (DD, 59.875)	Minnesota Mining & Manufacturing Co. (MMM, 94.125)
Eastman Kodak Co. (EK, 61.0625)	Philip Morris Companies, Inc. (MO, 21)
Exxon Corp. (XON, 83.1875)	Procter & Gamble Co. (PG, 99.5)
General Electric Co. (GE, 136)	SBC Communications Inc. (SBC, 42.375)
General Motors Corp. (GM, 85.25)	United Technologies Corp. (UTX, 53.6875)
Hewlett-Packard Co. (HWP, 105.8125)	Wal-Mart Stores (WMT, 58.6875)
Home Depot Inc. (HD, 61.375)	Walt Disney Company (DIS, 36)

¹ See Berkshire Hathaway Inc., Letters to Shareholders, 1982.

² See “Valuation: Measuring and Managing the Value of Companies,” by Tom Copeland, Tim Koller, and Jack Murrin, John Wiley & Sons, 1995.

Consider the P/E multiple for a range of earnings growth rates and returns on invested capital, assuming: all equity financing, WACC = 10%, and 20-year forecast horizon. The P/E multiple observed is resultant from the underlying returns.

		Return on Invested Capital			
		8%	10%	15%	20%
Earnings Growth	5%	8.5x	10.0x	12x	12.9x
	10%	5.7x	10.0x	15.8x	18.6x
	15%	0.1x	10.0x	23.4x	29.9x
	20%	NM	10.0x	38.2x	52.2x

³ GAAP—Generally accepted accounting principles. See “The Quest for Value” by Bennett Stewart III, HarperBusiness, 1990, as well as Appendix A in “Atoms, Bits, and Cash” by Michael Mauboussin, Alexander Schay, and Stephen Kawaja, Credit Suisse First Boston, November 22, 1999.

⁴ See “Intermediate Accounting” by Donald Kieso and Jerry Weygandt, John Wiley & Sons, 1992.

⁵ See “Recognition and Measurement in Financial Statements of Business Enterprises,” *Statement of Financial Accounting Concepts No. 5*, FASB, 1984.

⁶ Reacting to the March 1999 report “Fradulent Financial Reporting: 1987–1997: An Analysis of U.S. Public Companies,” issued by the Committee of Sponsoring Organizations of the Treadway Commission, the SEC issued a Staff Accounting Bulletin (SAB No. 101) on December 3, 1999, to further clarify the problematic issue of revenue recognition in financial statement.

This report can be found at: <http://www.sec.gov/rules/acctreps/sab101.htm>

⁷ See “Let’s Make a Deal” by Michael Mauboussin and Bob Hiler, April 27, 1998.

⁸ In reality, a company must meet about a dozen requirements to qualify for a pooling transaction.

⁹ See “Stock Price Reactions to LIFO Adoptions: The Association Between Excess Returns and LIFO Tax Savings,” by G. Biddle and F. Lindahl, *Journal of Accounting Research*, Autumn 1982.

¹⁰ See “CAP: The Neglected Value Driver” by Michael Mauboussin and Paul Johnson, January 14, 1997.

¹¹ See “Market Drivers, Market Expectations and Economic Value Added” by Michael Mauboussin, January 10, 1994.

¹² See Microsoft Corporation’s 1999 10-K filing for more information.

Appendix: Cash Flow Exposed

Reconciliation of Earnings and Cash Flow for the Dow Jones Industrials

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Wal-Mart Stores	45

Alcoa Inc.

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$15,339.8			
Other income - net	149.6			
Decrease in receivables		144.7		
Reduction in deferred hedging gains		(50.6)	15,583.5	101.6%
Cost of revenue	(11,804.8)			
Decrease in inventories		100.5		
Decrease in payables and accrued expenses		(68.0)		
Reduction in prepaid expenses and other current assets		22.7		
Net change in noncurrent assets and liabilities		(57.4)		
Other		(22.5)	(11,829.5)	100.2%
Operating, selling, general and administrative expenses	(768.8)			
Research and development expenses	(128.4)		(897.2)	
Depreciation and amortization	(842.4)			
Depreciation and amortization (cash flow impact)		856.2		
Capital expenditures		(931.8)	(918.0)	109.0%
Interest Expense	(197.9)		(197.9)	
Taxes other than payroll taxes	(142.3)			
Increase in taxes, including taxes on income		68.6	(73.7)	51.8%
Provision for taxes on income	(513.5)			
Change in deferred taxes		109.5	(404.0)	78.7%
Minority interests	(238.3)			
Dividends paid and return of capital to minority interests		(222.0)	(460.3)	193.2%
Other operating cash items				
Equity earnings before additional taxes, net of dividends		(2.9)		
Gains from investing activities sale of assets		(32.0)		
Book value of disposal assets		36.6	1.7	
<i>Reported Net Income</i>	<u>853.0</u>			
<i>Operating Net Income</i>	<u>853.0</u>			
<i>Cash Flow</i>			<u>804.6</u>	94.3%
Per share data:				
<i>Reported Net Income</i>	<u>\$2.42</u>			
<i>Operating Net Income</i>	<u>\$2.42</u>			
<i>Cash Flow</i>			<u>\$2.28</u>	
Shares outstanding	352.5			
Additional cash flow items				
Financing				
Net additions (reduction) to short-term borrowings		(75.6)		
Common stock issued and treasury stock sold		87.2		
Repurchase of common stock		(365.1)		
Dividends paid to shareholders		(265.2)		
Additions to long-term debt		2,030.8		
Payments on long-term debt		(1,469.9)		
Minority interests		238.3		
Net cash from (used for) financing			180.5	
Investing				
Acquisitions, net of cash acquired		(1,462.9)		
Sale of assets		55.2		
Sale of (additions to) investments		(125.9)		
Changes in minority interests		32.6		
Repayment from (loan to) WMC				
Changes in short term investments		66.2		
Other		(10.4)		
Net cash from (used for) investing			(1,445.2)	
Total cash used for investments and financing			(1,264.7)	
Effect of exchange rate changes on cash		1.5		
Net change in cash and cash equivalents			<u>(458.6)</u>	

Source: Company financials.

AlliedSignal Inc.

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$15,128.0			
Increase in receivables		(143.0)	14,985.0	99.1%
Cost of revenue	(11,476.0)			
Increase in inventories		(57.0)		
Increase in payables and accrued expenses		37.0		
Decrease in other current assets		3.0		
Decrease in accrued liabilities		(366.0)		
Other		(138.0)	(11,997.0)	104.5%
Selling, general and administrative expenses	(1,690.0)		(1,690.0)	
Depreciation and Amortization		609.0		
Capital expenditures		(684.0)	(75.0)	(12.3)%
Equity in income of affiliated companies	150.0			
Undistributed earnings of equity affiliates		(14.0)	136.0	
Other expense	(7.0)		(7.0)	
Interest Expense	(162.0)		(162.0)	
Provision for taxes on income	(612.0)			
Change in deferred taxes		233.0	(379.0)	61.9%
<i>Reported Net Income</i>	<u>1,331.0</u>			
<i>Operating Net Income</i>	<u>1,331.0</u>			
<i>Cash Flow</i>			<u>811.0</u>	60.9%
Per share data:				
<i>Reported Net Income</i>	<u>\$2.32</u>			
<i>Operating Net Income</i>	<u>\$2.32</u>			
<i>Cash Flow</i>			<u>\$1.41</u>	
Shares outstanding	573.7			
Additional cash flow items				
Financing				
Net increase in commercial paper		952.0		
Net increase in short-term borrowings		5.0		
Proceeds from issuance of preferred stock of subsidiary				
Proceeds from issuance of common stock		156.0		
Proceeds from issuance of long-term debt		435.0		
Payments of long-term debt		(295.0)		
Repurchase of preferred stock of subsidiary				
Repurchases of common stock		(930.0)		
Cash dividends on common stock		(338.0)		
Other				
Net cash from (used for) financing			(15.0)	
Investing				
Proceeds from disposals of property, plant and equipment		82.0		
Decrease in investments				
Increase in investments		(1.0)		
Purchase of investment in AMP Incorporated		(890.0)		
Cash paid for acquisitions		(322.0)		
Proceeds from sale of businesses		306.0		
Decrease in short term investments		430.0		
+ Net taxes paid on sale of businesses		300.0		
Net cash from (used for) investing			(95.0)	
Total cash used for investments and financing			(110.0)	
Net change in cash and cash equivalents			701.0	

Source: Company financials.

American Express

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Revenues	\$260.0			
Interest	(293.0)			
Human resources	(80.0)			
Income tax benefit	107.0		6.0	
Equity in profit of unconsolidated affiliated companies	2,147.0			
Dividends received from subsidiaries and affiliates		1,666.0	1,666.0	77.6%
Reported Net Income	2,141.0			
Operating Net Income	2,141.0			
Cash Flow			1,672.0	78.1%
Per share data:				
Reported Net Income	\$4.76			
Operating Net Income	\$4.76			
Cash Flow			\$ 3.72	
Shares outstanding	449.8			
Additional cash flow items				
Financing				
Issuance of American Express common shares		137.0		
Repurchase of American Express common shares		(1,890.0)		
Dividends paid		(414.0)		
Net increase in debt		6.0		
Issuance of company debentures		515.0		
Other		(112.0)		
Net cash from (used for) financing			(1,758.0)	
Investments				
Net cash from (used for) investments			91.0	
Total cash used for investments and financing			(1,667.0)	
Net change in cash and cash equivalents			5.0	

Source: Company financials.

AT&T Corp.

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Revenues	\$53,223.0			
Increase in receivables		(1,577.0)	51,646.0	97.0%
Operating expenses:				
Access and other interconnection	(15,328.0)			
Network and other communications services	(10,250.0)			
Depreciation and amortization	(4,629.0)			
Selling, general and administrative expenses	(13,015.0)			
Restructuring charges	(2,514.0)			
Restructuring and other charges		2,362.0		
Depreciation and amortization		4,629.0		
Capital expenditures		(7,817.0)		
Provision for uncollectibles		1,389.0		
Decrease in accounts payables		(467.0)		
Net change in other operating assets and liabilities		5.0		
Other adjustments for noncash items		(589.0)	(46,224.0)	101.1%
Other income, net	1,247.0			
Gains on sales		(770.0)	477.0	38.3%
Interest expense	(427.0)			
Provision for income taxes	(3,072.0)		(3,499.0)	
Income from discontinued operations (net of taxes of \$6)	10.0			
Gain on sale of discontinued operations (net of taxes \$799)	1,290.0			
Extraordinary loss	137.0		Non-cash	
<i>Reported Net Income</i>	6,672.0			
<i>Income from continuing operations</i>	5,235.0			
<i>Cash Flow</i>			2,400.0	45.8%
Per share data:				
<i>Reported Net Income</i>	\$3.70			
<i>Operating Net Income</i>	\$2.90			
<i>Cash Flow</i>			\$ 1.33	
Shares outstanding	1,802.2			
Additional cash flow items				
Financing				
Proceeds from long-term debt issuances		17.0		
Retirements of long-term debt		(2,610.0)		
Issuances of common shares related to benefit plans-net		(325.0)		
Treasury shares acquired other than for benefit plans		(2,964.0)		
Dividends paid		(2,187.0)		
Decrease in short-term borrowings-net		(3,033.0)		
Other		53.0		
Net cash from (used for) financing			(11,049.0)	
Investments				
Proceeds from sale or disposal of property, plant, equipment		104.0		
Decrease in other receivables		6,403.0		
Acquisition of licenses		(97.0)		
Sales of marketable securities		2,003.0		
Purchases of marketable securities		(1,696.0)		
Equity investment distributions and sales		1,516.0		
Equity investment contributions		(1,281.0)		
Net dispositions of businesses, net of cash acquired		4,507.0		
Other investing activities		(60.0)		
Net cash from (used for) investments			11,399.0	
Total cash used for investments and financing			350.0	
Net cash provided by discontinued operations		92.0		
Net change in cash and cash equivalents			2,842.0	

Source: Company financials.

Boeing Company

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$56,154.0			
Increase in receivables		(167.0)	55,987.0	99.7%
Cost of revenue	(50,546.0)			
Decrease in inventories		618.0		
Decrease in payables and accrued expenses		(806.0)		
Advances in excess of related costs		(324.0)		
Other		(479.0)	(51,537.0)	102.0%
Depreciation and Amortization	(1,622.0)			
Depreciation and Amortization		1,622.0		
Capital expenditures		(1,584.0)	38.0	97.7%
General and administrative expenses	(1,993.0)			
Research and development expenses	(1,895.0)		(3,888.0)	
Share-based plans	(153.0)			
Share-based plans		(153.0)		
Accrued retiree health care		35.0	35.0	
Other income	283.0			
Interest Expense	(453.0)		(170.0)	
Provision for taxes on income	(277.0)			
Change in deferred taxes		145.0	(132.0)	47.7%
<i>Reported Net Income</i>	<u>1,120.0</u>			
<i>Operating Net Income</i>	<u>1,120.0</u>			
<i>Cash Flow</i>			<u>333.0</u>	29.7%
Per share data:				
<i>Reported Net Income</i>	<u>\$1.15</u>			
<i>Operating Net Income</i>	<u>\$1.15</u>			
<i>Cash Flow</i>			<u>\$0.34</u>	
Shares outstanding	973.8			
Additional cash flow items				
Financing				
New borrowings		811.0		
Debt repayments		(693.0)		
Common shares purchased		(1,397.0)		
Stock options exercised, other		65.0		
Dividends paid		(564.0)		
Net cash from (used for) financing			(1,778.0)	
Investing				
Short-term investments		450.0		
Customer and commercial financing additions		(2,660.0)		
Customer and commercial financing reductions		1,418.0		
Net cash from (used for) investing			(792.0)	
Total cash used for investments and financing			(2,570.0)	
Net change in cash and cash equivalents			<u>(2,237.0)</u>	

Source: Company financials.

Caterpillar Inc.

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Revenues:				
Sales of Machinery and Engines	\$19,972.0			
Revenues of Financial Products	1,005.0			
Increase in receivables		(104.0)	20,873.0	99.5%
Cost of goods sold				
Depreciation and amortization	(15,031.0)	865.0		
Capital expenditures		(925.0)		
Increase in inventory		(104.0)		
Increase in payables		8.0		
Other		(400.0)	(15,587.0)	103.7%
Selling, general and administrative	(2,561.0)			
Research and development expenses	(643.0)			
Interest expense of Financial Products	(489.0)			
Interest expense excluding Financial Products	(264.0)			
Other income	185.0			
Provision for income taxes	(665.0)			
Equity in profit of unconsolidated affiliated companies	4.0		(4,433.0)	
<i>Reported Net Income</i>	1,513.0			
<i>Operating Net Income</i>	1,513.0			
<i>Cash Flow</i>			853.0	56.4%
Per share data:				
<i>Reported Net Income</i>	\$4.11			
<i>Operating Net Income</i>	\$4.11			
<i>Cash Flow</i>			\$2.32	
Shares outstanding	368.1			
Additional cash flow items				
Financing				
Dividends paid		(400.0)		
Common stock issued, including treasury shares reissued		6.0		
Treasury shares purchased		(567.0)		
Net intercompany borrowings				
Proceeds from longterm debt issued		4,590.0		
Payments on longterm debt		(1,153.0)		
Shortterm borrowings net		388.0		
Net cash from (used for) financing			2,864.0	
Investments				
Expenditures for equipment leased to others		(344.0)		
Proceeds from disposals of property, plant, equipment		141.0		
Additions to finance receivables		(8,537.0)		
Collection of finance receivables		4,635.0		
Proceeds from sale of finance receivables		1,705.0		
Net intercompany borrowings				
Investments and acquisitions		(1,428.0)		
Other net		173.0		
Net cash from (used for) investments			(3,655.0)	
Total cash used for investments and financing			(791.0)	
Effect of exchange rate changes on cash		6.0		
Net change in cash and cash equivalents			68.0	

Source: Company financials.

Citigroup Inc.

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Revenues:				
Loan interest, including fees	\$22,543.0			
Other interest and dividends	23,696.0			
Insurance premiums	9,850.0			
Commissions and fees	11,589.0			
Principal transactions	1,780.0			
Asset management and administration fees	2,292.0			
Realized gains from sales of investments	840.0			
Other income	3,841.0			
Change in brokerage receivables net of brokerage payables		2,506.0	<u>78,937.0</u>	103.28%
Interest expense	(27,495.0)		<u>(27,495.0)</u>	
Provisions for benefits, claims and credit losses:				
Policyholder benefits and claims	(8,365.0)			
Provision for credit losses	(2,751.0)			
Amortization of deferred policy acquisition costs and value of insurance force		1,509.0		
Additions to deferred policy acquisition costs		(1,784.0)		
Change in insurance policy and claims reserves		208.0	<u>(11,183.0)</u>	100.60%
Operating expenses:				
Noninsurance compensation and benefits	(13,336.0)			
Insurance underwriting, acquisition, and operating	(3,274.0)			
Restructuring charges and merger related costs	(795.0)			
Other operating	(11,146.0)			
Depreciation and amortization		1,470.0		
Capital expenditures on premises and equipment		(1,805.0)		
Provision for credit losses		2,751.0		
Change in trading account assets		60,243.0		
Change in trading account liabilities		(32,568.0)		
Change in federal funds sold and securities purchased under agreements to resell		25,136.0		
Change in federal funds sold and securities purchased under agreements to repurchase		(51,078.0)		
Net gain on sale of securities		(840.0)		
Venture capital activity		(698.0)		
Restructuring charges and mergerrelated costs		795.0		
Other		(8,148.0)	<u>(33,293.0)</u>	116.6%
Provision for income taxes	(3,234.0)			
Deferred tax benefit		(194.0)	<u>(3,428.0)</u>	106.0%
Minority interest	(228.0)		<u>(228.0)</u>	
<i>Reported Net Income</i>	<u>5,807.0</u>			
<i>Operating Net Income</i>	<u>5,807.0</u>			
<i>Cash Flow</i>			<u>3,310.0</u>	57.0%
Per share data:				
<i>Reported Net Income</i>	<u>\$1.77</u>			
<i>Income from continuing operations</i>	<u>\$1.77</u>			
<i>Cash Flow</i>			<u>\$1.01</u>	
Shares outstanding	3,280.8			

Source: Company financials.

Citigroup Inc. continued

Fiscal 1998; in millions

Additional cash flow items

Financing

Dividends paid	(1,846.0)	
Issuance of common stock	418.0	
Issuance of preferred stock	1,325.0	
Issuance of mandatory redeemable securities of subsidiary	(1,040.0)	
Redemption of preferred stock	(3,085.0)	
Treasury stock acquired	(520.0)	
Stock tendered for payment of withholding taxes	14,295.0	
Issuance of onterm debt	(12,307.0)	
Change in deposits	29,528.0	
Change in shortterm borrowings including investment banking and brokerage borrowings	(304.0)	
Contract holder fund deposits	4,422.0	
Contract holder fund withdrawals	(2,579.0)	
Other	(345.0)	
Net cash from (used for) financing		<u>27,962.0</u>

Investments

Change in deposits at interest with banks	1,406.0	
Change in loans	(165,237.0)	
Proceeds from sales of loans and credit card receivables	146,477.0	
Purchases of investments	(88,229.0)	
Proceeds from sales of investments	45,717.0	
Proceeds from maturities of investments	33,819.0	
Other investments, primarily shortterm, net	(427.0)	
Proceeds from sales of premises and equipment, subsidiaries and affiliates, and other real estate owned	764.0	
Business acquisitions	(3,890.0)	
Other, net	(214.0)	
Net cash from (used for) investments		<u>(29,814.0)</u>
Total cash used for investments and financing		<u>(1,852.0)</u>
Effect of exchange rate changes	31.0	
Net change in cash and cash equivalents		<u>1,489.0</u>

Source: Company financials.

Walt Disney Company

Fiscal 1999; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Revenues	\$23,402.0			
Change in receivables		376.0	23,778.0	101.6%
Costs and expenses	(19,715.0)			
Other		80.0		
Increase in inventories		103.0		
Other, current		(165.0)		
Accounts and taxes payable and accrued liabilities		477.0		
Film and television broadcast rights		(319.0)	(19,539.0)	99.1%
Amortization of intangible assets	(456.0)			
Amortization of film and television costs		2,472.0		
Film and television costs		(3,020.0)		
Depreciation		851.0		
Investments in property		(2,134.0)		
Amortization of intangible assets		456.0	(1,831.0)	402%
Restructuring charges	(132.0)			
Gain on sale of Starwave	345.0			
Gain on sale of Starwave		(345.0)	(132.0)	(62.0)%
Equity in Infoseek loss	(322.0)			
Equity in Infoseek loss		322.0	0.0	0.0%
Corporate activities and other	(196.0)			
Net interest expense	(612.0)			
Income taxes	(1,014.0)			
Change in Deferred taxes		(20.0)	(1,842.0)	101.1%
Reported Net Income	1,300.0			
Operating Net Income	1,300.0			
Cash Flow			434.0	33.4%
Per share data:				
<i>Reported Net Income</i>	\$0.62			
<i>Income from continuing operations</i>	\$0.62			
<i>Cash Flow</i>			\$0.21	
Shares outstanding	2,083.0			
Additional cash flow items				
Financing				
Borrowings		(451.0)		
Reduction in borrowings		2,306.0		
Repurchases of common stock		(2,031.0)		
Dividends		(19.0)		
Exercise of stock options and other		204.0		
Net cash from (used for) financing			9.0	
Investments				
Acquisitions		(319.0)		
Proceeds from sale of marketable securities and other investments		202.0		
Purchases of marketable securities		(39.0)		
Net cash from (used for) investments			(156.0)	
Total cash used for investments and financing			(147.0)	
Net change in cash and cash equivalents			287.0	

Source: Company financials.

E.I. DuPont de Nemours

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$24,767.0			
Other income	981.0			
Increase in receivables		(580.0)	25,168.0	101.6%
Costs and expenses:				
Cost of goods sold and other operating charges	(15,664.0)			
Other noncash charges and credits		(319.0)		
Decrease in inventory		34.0		
Increase in payable		254.0		
Increase in accrued interest and income taxes		126.0	(15,569.0)	99.4%
Selling, general and administrative expenses	(2,115.0)		(2,115.0)	100.0%
Depreciation and Amortization	(1,452.0)			
Depreciation and Amortization		1,452.0		
Capital expenditures		(2,240.0)	(2,240.0)	154.3%
Research and development	(1,308.0)			
Interest expense	(520.0)		(1,828.0)	
Purchased in-process research and development	(1,443.0)			
Purchased in-process research and development		1,443.0	0.0	0.0%
Employee separation costs and write-down of assets	(633.0)			
Provision for taxes	(941.0)			
Minority interest	(24.0)		(1,598.0)	
Income from operations of discontinued business, net of income taxes	594.0			
Gain on disposal of discontinued business	2,439.0			
Net income from discontinued operations		(3,033.0)	0.0	0.0%
Extinguishment of debt	(201.0)			
Extraordinary charge from early retirement of debt		275.0	74.0	(36.8)%
Reported Net Income	4,480.0			
Operating Net Income	2,894.0			
Cash Flow			1,892.0	65.4%
Per share data:				
Reported Net Income	\$3.98			
Income from continuing operations	\$2.57			
Cash Flow			\$1.68	
Shares outstanding	1,126.1			
Additional cash flow items				
Financing				
Dividends paid to stockholders		(1,549.0)		
Net increase in short-term borrowings		1,574.0		
Long-term and other borrowings - receipts		6,335.0		
Long-term and other borrowings - payments		(8,966.0)		
Acquisition of treasury stock		(704.0)		
Proceeds from exercise of stock options		257.0		
Net cash from (used for) financing			(3,053.0)	
Investments				
Investments in affiliates		(63.0)		
Payments for businesses		(3,282.0)		
Proceeds from sales of assets		946.0		
Net proceeds from sale of interest in petroleum operations		4,206.0		
Net decrease in short-term financial instruments		131.0		
Miscellaneous - net		124.0		
Net cash from (used for) investments			2,062.0	
Total cash used for investments and financing			(991.0)	
Net cash flow from discontinued operations		(568.0)		
Effect of exchange rate on cash and cash equivalents		97.0		
Net change in cash and cash equivalents			430.0	

Source: Company financials.

Eastman Kodak Co.

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$ 13,406.0			
Increase in receivables		(1.0)	13,405.0	100.0%
Cost of goods sold	(7,293.0)			
Depreciation and amortization		853.0		
Capital expenditures		(1,108.0)		
Increase in inventory		(43.0)		
Decrease in liabilities excluding borrowings		(516.0)		
Other		(278.0)	(8,385.0)	115.0%
Selling, general and administrative expenses	(3,303.0)			
Research and development costs	(880.0)			
Purchased research and developments	(42.0)			
Interest expense	(110.0)		(4,293.0)	100.0%
Other income	328.0			
Gain on sale/retirement of assets		(166.0)	162.0	49.4%
Provision for taxes	(716.0)			
Provision for deferred taxes		202.0	(514.0)	71.8%
<i>Reported Net Income</i>	<u>1,390.0</u>			
<i>Operating Net Income</i>	<u>1,390.0</u>			
<i>Cash Flow</i>			<u>375.0</u>	27.0%
Per share data:				
<i>Reported Net Income</i>	<u>\$4.37</u>			
<i>Income from continuing operations</i>	<u>\$4.37</u>			
<i>Cash Flow</i>			<u>\$1.18</u>	
Shares outstanding	318.1			

Additional cash flow items**Financing**

Net increase in borrowings with original maturities of 90 days or less	894.0		
Proceeds from other borrowings	1,133.0		
Repayment of other borrowings	(1,251.0)		
Dividends to shareholders	(569.0)		
Exercise of employee stock options	128.0		
Stock repurchase programs	(258.0)		
Net cash from (used for) financing			<u>77.0</u>

Investments

Proceeds from sale of assets	297.0		
Cash flow related to sales of businesses	(59.0)		
Acquisitions, net of cash acquired	(949.0)		
Marketable securities sales	162.0		
Marketable securities purchases	(182.0)		
Net cash from (used for) investments			<u>(731.0)</u>
Total cash used for investments and financing			<u>(654.0)</u>
Effect of exchange rate on cash and cash equivalents	8.0		
Net change in cash and cash equivalents			<u>(271.0)</u>

Source: Company financials.

Exxon Corp.

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Revenue:				
Sales and other operating revenue, including excise taxes	\$115,417.0			
Earnings from equity interests and other revenue	2,355.0			
Accounts receivable		1,321.0		
Dividends received greater than equity in current earnings of equity companies		103.0	119,196.0	101.2%
Costs and expenses:				
Crude oil and product purchases	(45,020.0)			
Decrease in inventories		6.0	(45,014.0)	100.0%
Operating expenses				
Decrease accounts and other payables	(11,540.0)	(2,060.0)		
Annuity and accrued liability provisions		(296.0)		
Other		(232.0)	(14,128.0)	122.4%
Selling, general and administrative expenses	(8,372.0)		(8,372.0)	
Depreciation and depletion				
Depreciation and depletion	(5,340.0)			
Capital expenditures		5,340.0	(8,359.0)	156.5%
Exploration expenses, including dry holes	(863.0)			
Interest expense	(100.0)			
Excise taxes	(14,720.0)			
Other taxes and duties	(22,576.0)		(38,259.0)	
Income applicable to minority and preferred interests				
Cash dividends to minority interests	(185.0)	185.0	0.0	
Income taxes				
Deferred income tax charges	(2,616.0)	408.0		
Prepaid taxes and expenses		(89.0)	(2,297.0)	87.8%
Cumulative effect of accounting change	(70.0)		(70.0)	
Net Income	6,370.0			
Operating Net Income	6,440.0			
Cash Flow			2,697.0	41.9%
Per share data:				
Reported Net Income	\$2.61			
Operating Net Income	\$2.64			
Cash Flow			\$1.11	
Shares Outstanding	2,439.4			
Additional cash flow items				
Financing				
Additions to long-term debt		64.0		
Reductions in long-term debt		(132.0)		
Additions to short-term debt		270.0		
Reductions in short-term debt		(1,136.0)		
Additions in debt with less than 90 day maturity		2,110.0		
Cash dividends to Exxon shareholders		(4,012.0)		
Changes in minority interests and sales of affiliate stock		(115.0)		
Common stock acquired		(95.0)		
Common stock sold		(3,055.0)		
Net cash from (used for) financing		403.0	(5,698.0)	
Investments				
Sales of subsidiaries and plant, property and equipment		556.0		
Additional investments and advances		(641.0)		
Sales of investments and collection of advances		456.0		
Additions to other marketable securities		(61.0)		
Sales of other marketable securities		57.0		
Net cash from (used for) investments			367.0	
Total cash used for investments and financing			(5,331.0)	
Effect of exchange rate changes on cash		28.0		
Net change in cash and cash equivalents			(2,606.0)	

Source: Company financials.

General Electric Co.

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Revenues:				
Sales of goods	\$43,749.0			
Sales of services	14,938.0			
Other income	649.0			
GECS revenue from services	41,133.0			
Decrease in receivables		649.0	101,118.0	100.6%
Cost of goods sold	(31,772.0)			
Depreciation		4,377.0		
Capital expenditures		(8,982.0)		
Amortization of goodwill and other intangibles		1,483.0		
Decrease in inventory		150.0		
Increase in payables		1,576.0		
Other		(4,593.0)	(37,761.0)	118.8%
Cost of services sold	(10,508.0)			
Interest and other financial charges	(9,753.0)		(20,261.0)	207.7%
Insurance losses and policyholder and annuity benefits	(9,608.0)			
Increase in insurance liabilities, reserves and annuity benefits		3,670.0	(5,938.0)	61.8%
Provision for losses on financing receivables	(1,609.0)			
Provision for losses on financing receivables		1,609.0	0.0	0.0%
Other costs and expenses	(23,477.0)			
Minority interest in net earnings of consolidated affiliates	(265.0)		(23,742.0)	
Provision for taxes	(4,181.0)			
Change in Deferred taxes		1,143.0	(3,038.0)	72.7%
<i>Reported Net Income</i>	9,296.0			
<i>Operating Net Income</i>	9,296.0			
<i>Cash Flow</i>			10,378.0	111.6%
Per share data:				
<i>Reported Net Income</i>	\$2.80			
<i>Operating Net Income</i>	\$2.80			
<i>Cash Flow</i>			\$3.13	
Shares outstanding	3,319.2			
Additional cash flow items				
Financing				
Net increase in borrowings		16,881.0		
Newly issued debt		42,008.0		
Repayments and other reductions		(32,814.0)		
Net purchase of GE shares for treasury		(2,819.0)		
Dividends paid to share owners		(3,913.0)		
All other financing activities		(114.0)		
Net cash from (used for) financing			19,229.0	
Investments				
Dispositions of property, plant and equipment		4,043.0		
Net increase in GECS financing receivables		(6,301.0)		
Payments for principal businesses purchased		(18,610.0)		
All other investing activities		(10,283.0)		
Net cash from (used for) investments			(31,151.0)	
Total cash used for investments and financing			(11,922.0)	
Net change in cash and cash equivalents			(1,544.0)	

Source: Company financials.

General Motors Corp.

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Revenues:				
Manufactured products sales and revenues	\$ 140,433.0			
Financing revenues	13,585.0			
Other income	7,297.0		<u>161,315.0</u>	
Costs and expenses:				
Cost of sales and other operating charges	(117,973.0)			
Postretirement benefits other than pensions, net of payments and VEBA contributions		(151.0)		
Pension expense, net of contributions		284.0		
Originations and purchases of mortgage loans		(54,433.0)		
Proceeds on sales of mortgage loans		51,582.0		
Originations and purchases of mortgage securities		(2,237.0)		
Proceeds on sales of mortgage securities		849.0		
Change in other investments and miscellaneous assets		1,300.0		
Change in other operating assets and liabilities		3,914.0		
Other		802.0	<u>(116,063.0)</u>	98.4%
Selling, general and administrative expenses	(17,330.0)		<u>(17,330.0)</u>	100.0%
Depreciation and amortization expense	(12,201.0)			
Depreciation and amortization expense		12,201.0		
Expenditures for property		(9,618.0)	<u>(9,618.0)</u>	78.8%
Interest expense	(6,893.0)			
Other expense	(2,306.0)			
Income tax expense	(1,463.0)			
Minority interests	(9.0)			
Losses of nonconsolidated associates	(184.0)		<u>(10,855.0)</u>	
Dividends on preference stocks	(63.0)			
<i>Reported Net Income</i>	<u>2,893.0</u>			
<i>Operating Net Income</i>	<u>2,893.0</u>			
<i>Cash Flow</i>			<u>7,449.0</u>	257.5%
Per share data:				
<i>Reported Net Income</i>	<u>\$4.26</u>			
<i>Operating Net Income</i>	<u>\$4.26</u>			
<i>Cash Flow</i>			<u>\$10.97</u>	
Shares outstanding	679.1			
Additional cash flow items				
Financing				
Net increase in loans payable		6,683.0		
Increase in long-term debt		11,228.0		
Repurchases of common and preference stock		(3,089.0)		
Proceeds from issuing common stocks		343.0		
Cash dividends paid to shareholders		(1,388.0)		
Net cash from (used for) financing			<u>13,777.0</u>	
Investments				
Investments in other marketable securities - acquisitions		(34,857.0)		
Investments in other marketable securities - liquidations		38,661.0		
Mortgage servicing rights - acquisitions		(1,862.0)		
Mortgage servicing rights - liquidations		80.0		
Finance receivables - acquisitions		(155,613.0)		
Finance receivables - liquidations		114,662.0		
Proceeds from sales of finance receivables		27,681.0		
Operating leases - acquisitions		(23,525.0)		
Operating leases - liquidations		15,386.0		
Proceeds from borrowings of Hughes Defense prior to the Hughes defense spin-off				
Investments in companies, net of cash acquired		(1,345.0)		
Special inter-company payment from EDS				
Other		(1,193.0)		
Net cash from (used for) investments			<u>(21,925.0)</u>	
Total cash used for investments and financing			<u>(8,148.0)</u>	
Effect of exchange rate changes on cash and cash equivalents		306.0		
Net change in cash and cash equivalents			<u>(393.0)</u>	

Source: Company financials.

Hewlett-Packard Company

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Revenues:				
Products	\$40,105.0			
Services	6,956.0			
Increase in receivables		(1,019.0)	<u>46,042.0</u>	97.8%
Costs and expenses:				
Cost of products sold	(27,477.0)			
Depreciation and amortization		1,869.0		
Capital expenditures		(1,997.0)		
Decrease in inventory		563.0		
Increase in payables		1.0		
Other current assets		788.0		
Other		342.0	<u>(25,911.0)</u>	94.3%
Cost of services	(4,595.0)			
Research and development	(3,355.0)			
Selling, general and administrative	(7,793.0)			
Interest income and other, net	485.0			
Interest expense	(235.0)		<u>(15,493.0)</u>	
Provision for taxes	(1,146.0)			
Change in Deferred taxes		(1,263.0)		
Taxes on earnings		1,216.0	<u>(1,193.0)</u>	104.1%
Reported Net Income	<u>2,945.0</u>			
Operating Net Income	<u>2,945.0</u>			
Cash Flow			<u>3,445.0</u>	117.0%
Per share data:				
Reported Net Income	<u>\$2.75</u>			
Operating Net Income	<u>\$2.75</u>			
Cash Flow			<u>\$3.21</u>	
Shares outstanding	1,072.0			
Additional cash flow items				
Financing				
Change in notes payable and short-term borrowings		(734.00)		
Issuance of long-term debt		223.00		
Payment of long-term		(580.00)		
Issuance of common stock under employee stock plans		467.00		
Repurchase of common stock		(2,424.00)		
Dividends		(625.00)		
Other				
Net cash from (used for) financing			<u>(3,673.00)</u>	
Investments				
Disposition of property, plant and equipment		413.00		
Purchase of short-term investments		(3,297.00)		
Maturities of short-term investments		4,773.00		
Purchase of long-term investments		(762.00)		
Other		75.00		
Net cash from (used for) investments			<u>1,202.00</u>	
Total cash used for investments and financing			<u>(2,471.00)</u>	
Net change in cash and cash equivalents			<u>974.00</u>	

Source: Company financials.

Home Depot Inc.

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Net Sales	\$30,219.0			
Decrease in receivables		85.0	30,304.0	100.3%
Cost of Merchandise Sold	(21,614.0)		(21,614.0)	
Operating Expenses:				
Selling and store operating	(5,341.0)			
Preopening	(88.0)			
General and administrative	(515.0)			
Nonrecurring charge				
Depreciation and amortization		373.0		
Capital expenditures		(2,059.0)		
Increase in merchandise inventories		(698.0)		
Increase in accounts payable		423.0		
Other		54.0	(7,851.0)	132.1%
Interest, net	(7.0)		(7.0)	
Income Taxes	(1,040.0)			
Deferred income tax		7.0		
Increase in income taxes payable		59.0	(974.0)	
<i>Net Income</i>	1,614.0			
<i>Operating Net Income</i>	1,614.0			
<i>Cash Flow</i>			(142.0)	(8.8)%
Per share data:				
<i>Reported Net Income</i>	\$1.06			
<i>Operating Net Income</i>	\$1.06			
<i>Cash Flow</i>			(\$0.09)	
Shares outstanding	1,522.5			
Additional cash flow items				
Financing				
Issuance of commercial paper obligations, net		246.0		
Proceeds from long-term borrowings				
Repayments of notes receivable from ESOP				
Principal repayments of long-term debt		(8.0)		
Proceeds from sale of common stock, net		167.0		
Cash dividends paid to stockholders		(168.0)		
Minority interest contributions to partnership		11.0		
Net cash from (used for) financing			248.0	
Investments				
Purchase of remaining interest in Home Depot Canada		(261.0)		
Proceeds from sales of property and equipment		45.0		
Proceeds from sales of investments				
Purchases of investments		(2.0)		
Proceeds from maturities of investments		4.0		
Repayments of advances secured by real estate		2.0		
Net cash from (used for) investments			(212.0)	
Total cash used for investments and financing			36.0	
Effect of exchange rate changes on cash and cash equivalents		(4.0)		
Net change in cash and cash equivalents			(110.0)	

Source: Company financials.

Intel Corp.

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$26,273.0			
Increase in receivables		(38.0)	26,235.0	99.9%
Cost of revenue	(12,144.0)			
Net loss on retirements of property, plant and equipment		282.0		
Decrease in inventories		167.0		
Decrease in payables		(180.0)		
Increase in accrued liabilities		17.0		
Other		(378.0)	(12,236.0)	100.8%
Depreciation and Amortization				
Depreciation expense		2,807.0		
Capital expenditures		(3,557.0)	(750.0)	126.7%
Research and development	(2,509.0)			
Marketing, general and administrative	(3,076.0)			
Purchased inprocess research and development	(165.0)			
Interest expense	(34.0)			
Interest income and other, net	792.0		(4,992.0)	
Provision for taxes	(3,069.0)			
Deferred taxes		77.0		
Income taxes payable		(211.0)		
Tax benefit of employee stock options		415.0	(2,788.0)	90.8%
<i>Net Income</i>	<u>6,068.0</u>			
<i>Operating Net Income</i>	<u>6,224.8</u>			
<i>Cash Flow</i>			<u>5,469.0</u>	87.9%
Per share data:				
<i>Reported Net Income</i>	<u>\$1.73</u>			
<i>Operating Net Income</i>	<u>\$1.77</u>			
<i>Cash Flow</i>			<u>\$1.56</u>	
Shares outstanding	3,517.0			

Additional cash flow items**Financing**

Increase in short-term debt, net	(83.0)		
Additions to long-term debt	169.0		
Retirement of long-term debt			
Proceeds from sales of shares	507.0		
Proceeds from exercise of warrants	1,620.0		
Proceeds from sale of warrants	40.0		
Repurchase and retirement of common stock	(6,785.0)		
Payment of dividends to stockholders	(217.0)		
Net cash from (used for) financing			<u>(4,749.0)</u>

Investments

Purchase of Chips and Technologies, net of cash acquired	(321.0)		
Purchase of Digital Equipment Corporation semiconductor operations	(585.0)		
Purchase of available-for-sale investments	(10,925.0)		
Sales of available-for-sale investments	201.0		
Maturities and other changes in available-for-sale investments	8,681.0		
Net cash from (used for) investments			<u>(2,949.0)</u>
Total cash used for investments and financing			<u>(7,698.0)</u>
Net change in cash and cash equivalents			<u>(2,229.0)</u>

Source: Company financials.

International Business Machines

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales:				
Hardware segments	\$35,419.0			
Global services segment	28,916.0			
Software segment	11,863.0			
Global financing segment	2,877.0			
Enterprise investments segment/other	2,592.0			
Increase in accounts receivable		(2,736.0)	78,931.0	96.6%
Costs and expenses:				
Hardware segments	(24,214.0)			
Global services segment	(21,125.0)			
Software segment	(2,260.0)			
Global financing segment	(1,494.0)			
Enterprise investments segment/other	(1,702.0)			
Depreciation		4,475.0		
Capital expenditures		(6,520.0)		
Inventories		73.0		
Other assets		880.0		
Accounts payable		362.0		
Other liabilities		596.0	(50,929.0)	100.3%
Selling, general and administrative	(16,662.0)		(16,662.0)	
Research, development and engineering	(5,046.0)			
Amortization of software		517.0	(4,529.0)	
Other income, principally interest	589.0			
Interest expense	(713.0)		(124.0)	
Income taxes	(2,712.0)			
Deferred income taxes		(606.0)	(3,318.0)	122.3%
Preferred stock dividends	(20.0)			
Reported Net Income	6,308.0			
Operating Net Income	6,308.0			
Cash Flow			3,369.0	53.4%
Per share data:				
Reported Net Income	\$3.29			
Operating Net Income	\$3.29			
Cash Flow			\$1.75	
Shares outstanding	1,920.1			
Additional cash flow items				
Financing				
Proceeds from new debt		7,567.0		
Short-term borrowings less than 90 days - net		499.0		
Payments to settle debt		(5,942.0)		
Preferred stock transactions		(5.0)		
Common stock transactions		(6,278.0)		
Cash dividends		(834.0)		
Net cash from (used for) financing			(4,993.0)	
Investments				
Proceeds from disposition of plant, rental machines and other property		905.0		
Acquisition of Tivoli Systems, Inc.				
Investment in software		(250.0)		
Purchases of marketable securities and other investments		(4,211.0)		
Proceeds and marketable securities and other investments		3,945.0		
Net cash from (used for) investments			389.0	
Total cash used for investments and financing			(4,604.0)	
Effect of exchange rate changes on cash and cash equivalents		120.0		
Effect of restructuring charges		(355.0)		
Gain on disposition of fixed and other assets		(261.0)		
Net change in cash and cash equivalents			(1,731.0)	

Source: Company financials.

International Paper Co.

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$19,541.0			
Accounts receivable		81.0	19,622.0	100.4%
Cost of revenue	(14,761.0)			
Inventories		48.0		
Accounts payable and accrued liabilities		(70.0)		
Other		4.0	(14,779.0)	100.1%
Selling and administrative expenses	(1,532.0)		(1,532.0)	
Depreciation and amortization	(1,186.0)			
Depreciation and amortization		1,186.0		
Capital expenditures		(1,049.0)	(1,049.0)	88.4%
Distribution expenses	(865.0)			
Taxes other than payroll and income taxes	(181.0)		(1,046.0)	
Oil and gas impairment charge	(111.0)			
Restructuring and other charges	(105.0)		Non-cash	
Equity losses from investment in Scitex	(15.0)		(15.0)	
Reversals of reserves no longer required	83.0			
Restructuring charge / write-off		(149.0)	(66.0)	(79.5)%
Gains on sales of businesses	20.0		Non-cash	
Interest expense	(496.0)		(496.0)	
Income tax provision	(80.0)			
Deferred income tax provision		139.0	59.0	(73.8)%
Minority interest expense	(76.0)		(76.0)	
Reported Net Income	236.0			
Operating Net Income	306.5			
Cash Flow			622.0	203.0%
Per share data:				
Reported Net Income	\$0.77			
Operating Net Income	\$1.00			
Cash Flow			\$2.03	
Shares outstanding	306.5			

Additional cash flow items

Financing				
Issuance of common stock		94.0		
Issuance of preferred securities by subsidiaries		1,525.0		
Issuance of debt		267.0		
Reduction of debt		(2,144.0)		
Change in bank overdrafts		68.0		
Dividends paid		(306.0)		
Other		(50.0)		
Cash used for financing activities			(546.0)	
Investments				
Mergers and acquisitions, net of cash acquired		(498.0)		
Proceeds from divestitures		523.0		
Other		(22.0)		
Cash used for investing activities			3.0	
Change in cash and temporary investments			79.0	

Source: Company financials.

Johnson & Johnson

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$23,657.0			
Increase in accounts receivable		(74.0)	23,583.0	99.7%
Cost of products sold (includes \$60 of inventory writeoffs for restructuring)	(7,496.0)			
Increase in inventories		(80.0)		
Increase in accounts payable		622.0		
Decrease in either current and noncurrent assets		139.0		
Increase in either current and noncurrent liabilities		49.0		
Depreciation and amortization expense		1,246.0		
Capital expenditures		(1,460.0)	(6,980.0)	93.1%
Selling, marketing and administrative expenses	(8,907.0)			
Research expense	(2,269.0)			
Purchased inprocess research and development	(164.0)			
Interest income	262.0			
Interest expense, net of portion capitalized	(110.0)			
Other expense, net	(151.0)			
Restructuring charge	(553.0)			
Provision for income taxes	(1,210.0)			
Decrease in deferred income taxes		239.0	(12,863.0)	98.2%
<i>Reported Net Income</i>	3,059.0			
<i>Operating Net Income</i>	3,669.0			
<i>Cash Flow</i>			3,740.0	101.9%
Per share data:				
<i>Reported Net Income</i>	\$2.23			
<i>Operating Net Income</i>	\$2.67			
<i>Cash Flow</i>			\$2.72	
Shares outstanding	1,374.1			
Additional cash flow items				
Financing				
Dividends of common stock		(1,305.0)		
Repurchase of common stock		(930.0)		
Proceeds from short-term debt		2,424.0		
Retirement of short-term debt		(226.0)		
Proceeds from long-term debt		86.0		
Retirement of long-term debt		(416.0)		
Proceeds from the exercise of stock options		269.0		
Net cash from (used for) financing			(98.0)	
Investments				
Proceeds from the disposal of assets		71.0		
Acquisition of businesses, net of cash acquired		(3,481.0)		
Other		(769.0)		
Net cash from (used for) investments			(4,179.0)	
Total cash used for investments and financing			(4,277.0)	
Effect of exchange rate changes on cash and equivalents		25.0		
Net change in cash and cash equivalents			(512.0)	

Source: Company financials.

McDonald's Corp.

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales:				
Sales by company operated restaurants	\$8,894.9			
Revenues from franchised and affiliated restaurants	3,526.5			
Increase in accounts receivable		(29.9)	12,391.5	99.8%
Costs and expenses:				
Food and packaging	(2,997.4)			
Increase in inventories		(18.1)		
Decrease in accounts payable		(12.7)	(3,028.2)	101.0%
Payroll and other employee benefits	(2,220.3)		(2,220.3)	100.0%
Occupancy and other operating expenses	(2,043.9)			
Depreciation and amortization expense		881.1		
Capital expenditures		(1,879.3)	(3,042.1)	148.8%
Franchised restaurants occupancy expenses	(678.0)			
Selling, general and administrative expenses	(1,458.5)			
Made for you costs	(161.6)			
Special charges	(160.0)		(2,458.1)	
Other operating (income) expense net	60.2			
Refund of U.S. Securities deposits		22.9	83.1	138.0%
Interest expense	(413.8)			
Non-operating expense	(40.7)		(454.5)	
Provision for income taxes	(757.3)			
Increase in deferred income taxes		35.4		
Taxes and other liabilities		337.5	(384.4)	50.8%
Reported Net Income	1,550.1			
Operating Net Income	1,760.3			
Cash Flow			887.0	50.4%
Per share data:				
Reported Net Income	\$1.11			
Operating Net Income	\$1.26			
Cash Flow			\$0.63	
Shares outstanding	1,397.1			
Additional cash flow items				
Financing				
Net short-term borrowings		(604.2)		
Long-term financing issuances		1461.5		
Long-term financing repayments		(594.9)		
Treasury stock purchases		(1089.8)		
Common and preferred stock dividends		(240.5)		
Series E preferred stock redemption				
Other		207.6		
Net cash from (used for) financing			(860.3)	
Investments				
Purchases of restaurant businesses		(118.4)		
Sales of restaurant businesses		149.0		
Property sales		42.5		
Other		(142.0)		
Net cash from (used for) investments			(68.9)	
Total cash used for investments and financing			(929.2)	
Net change in cash and cash equivalents			(42.2)	

Source: Company financials.

Merck & Company

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$26,898.2			
Increase in accounts receivable		(579.1)	26,319.1	97.8%
Materials and production	(13,925.4)			
Increase in inventories		(409.5)		
Increase in accounts payable		250.1		
Non-current liabilities		(13.0)		
Other		166.4	(13,931.4)	100.0%
Marketing and administrative	(4,511.4)		(4,511.4)	
Research and development expense	(1,821.1)			
Depreciation and amortization expense		1,015.1		
Capital expenditures		(1,973.4)	(2,779.4)	152.6%
Acquired research	(1,039.5)			
Gains on sales of businesses	2,147.7		Non-cash	
Equity income in affiliates	884.3			
Other expense, net	(499.7)		384.6	
Provision for income taxes	(2,884.9)			
Income taxes paid		(2,126.6)	(2,126.6)	73.7%
<i>Reported Net Income</i>	<u>5,248.2</u>			
<i>Operating Net Income</i>	<u>5,228.7</u>			
<i>Cash Flow</i>			<u>3,354.9</u>	64.2%
Per share data:				
<i>Reported Net Income</i>	<u>\$2.15</u>			
<i>Operating Net Income</i>	<u>\$2.14</u>			
<i>Cash Flow</i>			<u>\$1.37</u>	
Shares Outstanding	2,441.2			
Additional cash flow items				
Financing				
Net change in short-term borrowings		(457.2)		
Proceeds from issuance of debt		2,379.5		
Payments of debt		(340.6)		
Redemption of preferred stock of subsidiary				
Purchase of treasury stock		(3,625.5)		
Dividends paid to stockholders		(2,253.1)		
Proceeds from exercise of stock options		490.1		
Other		(114.1)		
Net cash from (used for) financing			(3,920.9)	
Investments				
Purchase of securities		(29,675.4)		
Proceeds from sale of securities		28,618.9		
Proceeds from sale of businesses		2,586.2		
Other		432.3		
Net cash from (used for) investments			1,962.0	
Total cash used for investments and financing			(1,958.9)	
Effect of exchange rate changes on cash and equivalents		85.1		
Net change in cash and cash equivalents			<u>1,481.1</u>	

Source: Company financials.

Minnesota Mining and Manufacturing Co.

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$15,021.0			
Increase in receivables		(160.0)	14,861.0	98.9%
Cost of goods sold	(8,705.0)			
Decrease in inventories		195.0		
Other		381.0	(8,129.0)	93.4%
Depreciation and Amortization		866.0		
Capital expenditures		(1,430.0)	(564.0)	165.1%
Restructuring charge inventory	(39.0)			
Selling, general and administrative expenses	(3,784.0)		(3,823.0)	
Restructuring charge other	(454.0)			
Implant litigation		(255.0)		
Asset impairment charge		182.0	(527.0)	116.1%
Interest Expense	(139.0)			
Investment and other income net	42.0			
Gain on divestiture net	10.0			
Income tax paid related to divestiture		(4.0)		
Gain on divestiture		(6.0)	(97.0)	
Provision for taxes on income	(685.0)			
Minority interests	(54.0)			
Extraordinary loss from early extinguishment of debt	(38.0)		(777.0)	
<i>Reported Net Income</i>	<u>1,175.0</u>			
<i>Operating Net Income</i>	<u>1,525.8</u>			
<i>Cash Flow</i>			<u>944.0</u>	61.9%
Per share data:				
<i>Reported Net Income</i>	<u>\$2.88</u>			
<i>Operating Net Income</i>	<u>\$3.74</u>			
<i>Cash Flow</i>			<u>\$2.31</u>	
Shares Outstanding	408.0			
Additional cash flow items				
Financing				
Change in short term debt		55.0		
Repayment of long-term debt		(129.0)		
Proceeds from long-term debt		645.0		
Purchases of treasury stock		(618.0)		
Reissuances of treasury stock		292.0		
Payment of dividends		(887.0)		
Other		(96.0)		
Net cash from (used for) financing			(738.0)	
Investing				
Proceeds from sale of property, plant and equipment		25.0		
Acquisitions and other investments		(265.0)		
Proceeds from other divestitures and investments		98.0		
Net cash from (used for) investing			(142.0)	
Effect of exchange rate changes on cash and cash equivalents		(83.0)		
Net change in cash and cash equivalents			(19.0)	

Source: Company financials.

J.P. Morgan & Co.

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Revenues:				
Equity in undistributed earnings of subsidiaries	\$212.0			
Dividends from subsidiary bank	472.0			
Dividends from other	264.0			
Interest from subsidiaries	1,298.0			
Other interest revenue	38.0			
Investment banking revenue allocations from subsidiaries	141.0			
Service fees from subsidiaries	250.0			
Investment securities revenue	46.0			
Other revenue	7.0			
Equity in undistributed earnings of subsidiaries		(212.0)	<u>2,516.0</u>	92.2%
Costs and expenses:				
Interest	(1,525.0)			
Net increase in other balance sheet items		(93.0)		
Net investment securities losses included in cash flows from investing activities		(46.0)	<u>(1,664.0)</u>	109.1%
Employee compensation and benefits	(248.0)			
Other expenses	(139.0)			
Income tax benefit	147.0		<u>(240.0)</u>	
<i>Reported Net Income</i>	<u>963.0</u>			
<i>Operating Net Income</i>	<u>963.0</u>			
<i>Cash Flow</i>			<u>612.0</u>	63.6%
Per share data:				
<i>Reported Net Income</i>	<u>\$4.71</u>			
<i>Operating Net Income</i>	<u>\$4.71</u>			
<i>Cash Flow</i>			<u>\$2.99</u>	
Shares outstanding	204.5			

Additional cash flow items**Financing**

Net increase in securities sold under agreements to repurchase		(351.0)		
Net increase in commercial paper		19.0		
Net increase in other liabilities for borrowed money		(390.0)		
Long-term debt proceeds		9,655.0		
Long-term debt payments		(1,848.0)		
Capital stock issued or distributed		179.0		
Capital stock purchased		(755.0)		
Dividends paid		(707.0)		
Cash receipts from subsidiaries for common stock issuable		338.0		
Other changes, net		36.0		
Net cash from (used for) financing			<u>6,176.0</u>	

Investments

Net increase in interest earning deposits with subsidiary bank		(152.0)		
Proceeds from sales and maturities (debt)		2,330.0		
Purchases of debt		(2,373.0)		
Net increase in advances to subsidiaries		(5,605.0)		
Capital to subsidiaries		(252.0)		
Net payments for insurance contracts		(703.0)		
Other changes, net		(33.0)		
Net cash from (used for) investments			<u>(6,788.0)</u>	

Total cash used for investments and financing (612.0)**Net change in cash and cash equivalents** **0.0**

Source: Company financials.

Philip Morris Cos., Inc.

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$74,391.0			
Increase in accounts receivable		(352.0)	74,039.0	99.5%
Cost of sales	(26,820.0)			
Increase in inventories		(192.0)		
Decrease in accounts payable		(150.0)		
Accrued liabilities and other current assets		254.0		
Other		671.0		
Other (financial)		(14.0)	(26,251.0)	97.9%
Excise taxes on products	(16,578.0)			
Marketing, administration and research costs	(17,051.0)			
Settlement charges	(3,381.0)		(37,010.0)	
Amortization of goodwill	(584.0)			
Depreciation and amortization expense		1,690.0		
Capital expenditures		(1,804.0)	(698.0)	119.5%
Interest and other debt expense, net	(890.0)		(890.0)	
Income taxes	(3,715.0)			
Increase in deferred income taxes		11.0		
Income taxes		565.0		
Increase in deferred income taxes (financial)		265.0	(2,874.0)	77.4%
Reported Net Income	5,372.0			
Operating Net Income	5,372.0			
Cash Flow			6,316.0	117.6%
Per share data:				
Reported Net Income	\$2.20			
Operating Net Income	\$2.20			
Cash Flow			\$2.59	
Shares outstanding	2,441.2			
Additional cash flow items				
Financing				
Consumer products				
Net issuance (repayment) of short-term borrowings		61.0		
Long-term debt proceeds		2,065.0		
Long-term debt repaid		(1,616.0)		
Financial services				
Net issuance (repayment) of short-term borrowings				
Long-term debt proceeds				
Long-term debt repaid		(178.0)		
Repurchase of common stock		(307.0)		
Dividends paid		(3,984.0)		
Issuance of common stock		265.0		
Other		(200.0)		
Net cash from (used for) financing			(3,894.0)	
Investments				
Consumer products				
Purchase of businesses, net of acquired cash		(17.0)		
Proceeds from sales of businesses		16.0		
Other		(154.0)		
Financial services				
Investments in finance assets		(736.0)		
Proceeds from finance assets		141.0		
Proceeds from sale of business				
Total cash used for investments			(750.0)	
Total cash used for investments and financing			(4,644.0)	
Effect of exchange rates on cash and cash equivalents		127.0		
Net change in cash and cash equivalents			1,799.0	

Source: Company financials.

Procter & Gamble Co.

Fiscal 1999; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$38,125.0			
Increase in receivables		(207.0)	37,918.0	99.5%
Cost of products sold	(21,206.0)			
Increase in inventories		(96.0)		
Increase in payables and accrued expenses		792.0		
Increase in other operating current assets		(926.0)		
Other		130.0	(21,306.0)	100.5%
Depreciation and Amortization		2,148.0		
Capital expenditures		(2,828.0)	(680.0)	131.7%
Marketing, research and administrative expenses	(10,666.0)			
Interest Expense	(650.0)			
Other income, net	235.0		(11,081.0)	
Provision for taxes on income	(2,075.0)			
Change in deferred taxes		(60.0)	(2,135.0)	102.9%
<i>Reported Net Income</i>	<u>3,763.0</u>			
<i>Operating Net Income</i>	<u>3,763.0</u>			
<i>Cash Flow</i>			<u>2,716.0</u>	72.2%
Per share data:				
<i>Reported Net Income</i>	<u>\$2.59</u>			
<i>Operating Net Income</i>	<u>\$2.59</u>			
<i>Cash Flow</i>			<u>\$1.87</u>	
Shares Outstanding	1,452.9			

Additional cash flow items**Financing**

Dividends to shareholders	(1,626.0)		
Change in short-term debt	689.0		
Additions to long-term debt	986.0		
Reductions of long-term debt	(334.0)		
Proceeds from stock options	212.0		
Treasury purchases	(2,533.0)		
Net cash from (used for) financing			(2,606.0)

Investing

Proceeds from asset sales	434.0		
Acquisitions	(137.0)		
Change in investment securities	356.0		
Net cash from (used for) investing			653.0
Effect of exchange rate changes on cash and cash equivalents	(18.0)		

Net change in cash and cash equivalents**745.0**

Source: Company financials.

SBC Communications Inc.

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales:				
Landline local service	\$11,100.0			
Wireless subscriber	3,783.0			
Network access	6,512.0			
Long distance service	2,355.0			
Directory advertising	2,420.0			
Other	2,607.0			
Increase in accounts receivable		(959.0)		
Provision for uncollectible accounts		513.0	28,331.0	98.5%
Costs and expenses:				
Operations and support	(16,714.0)			
Other current assets		(8.0)		
Decrease in accounts payable and accrued liabilities		(187.0)		
Other, net		(628.0)	(17,537.0)	104.9%
Depreciation and amortization	(5,177.0)			
Depreciation and amortization expense		5,177.0		
Amortization of investment tax credits		(72.0)		
Capital expenditures		(5,927.0)	(5,999.0)	115.9%
Interest expense	(993.0)		(993.0)	
Equity in net income of affiliates	236.0			
Undistributed earnings from investments in equity affiliates		(56.0)	180.0	76.3%
Other income	245.0		245.0	
Income Taxes	(2,306.0)			
Increase in deferred income taxes		533.0	(1,773.0)	76.9%
Extraordinary loss from early extinguishment of debt, net of tax	(60.0)			
Cumulative effect of accounting change	15.0		Non-cash	
Reported Net Income	4,023.0			
Operating Net Income	3,809.1			
Cash Flow			2,454.0	64.4%
Per share data:				
Reported Net Income	<u>\$2.03</u>			
Operating Net Income	<u>\$1.92</u>			
Cash Flow			<u>\$1.24</u>	
Shares Outstanding	1,983.9			
Additional cash flow items				
Financing				
Net change in short term borrowings with original maturities of three months or less		(367.0)		
Issuance of other short-term borrowings		2.0		
Repayment of other short-term borrowings		(8.0)		
Issuance of long-term debt		413.0		
Repayment of long-term debt		(1,121.0)		
Early extinguishment of debt and related call premiums		(765.0)		
Issuance of trust originated preferred securities				
Purchase of fractional shares				
Issuance of common shares		64.0		
Purchase of treasury shares		(498.0)		
Issuance of treasury shares		308.0		
Dividends paid		(1,811.0)		
Other				
Net cash from (used for) financing			(3,783.0)	
Investments				
Investments in affiliates		(85.0)		
Purchase of short-term investments		(42.0)		
Proceeds from short-term investments		355.0		
Dispositions		1,140.0		
Acquisitions				
Other		11.0		
Net cash from (used for) investments			1,379.0	
Total cash used for investments and financing			(2,404.0)	
Net change in cash and cash equivalents			50.0	

Source: Company financials.

United Technologies Corp.

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales:				
Product sales	\$20,248.0			
Service sales	5,439.0			
Financing revenue and other income, net	28.0			
Decrease in accounts receivable		14.0	25,729.0	100.1%
Costs and expenses:				
Cost of products sold	(15,815.0)			
Increase in inventories and contracts in progress		(99.0)		
Decrease in other current assets		208.0		
Increase in accounts payable		162.0		
Other, net		282.0	(15,262.0)	96.5%
Depreciation expense		854.0		
Capital expenditures		(866.0)	(12.0)	101.4%
Cost of services sold	(3,461.0)			
Research and development	(1,315.0)			
Selling, general and administrative	(2,957.0)			
Interest	(204.0)		(7,937.0)	
Income Taxes	(623.0)			
Decrease in deferred income taxes		(252.0)	(875.0)	140.4%
Minority interests subsidiaries' earnings	(85.0)			
Dividends to minority interests and other		(137.0)	(137.0)	161.2%
<i>Reported Net Income</i>	1,255.0			
<i>Operating Net Income</i>	1,255.0			
<i>Cash Flow</i>			1,506.0	120.0%
Per share data:				
<i>Reported Net Income</i>	\$2.53			
<i>Operating Net Income</i>	\$2.53			
<i>Cash Flow</i>			\$3.04	
Shares Outstanding	496.0			

Additional cash flow items

Financing				
Issuance of long-term debt		402.0		
Repayment of long-term debt		(149.0)		
Increase (decrease) in short-term borrowings		289.0		
Common stock issued under employee stock plans		220.0		
Dividends paid on common stock		(316.0)		
Common stock repurchase		(650.0)		
Net cash from (used for) financing			(204.0)	
Investments				
Increase in customer financing assets		(356.0)		
Decrease in customer financing assets		143.0		
Acquisitions of businesses		(1,241.0)		
Dispositions of businesses				
Other, net		51.0		
Net cash from (used for) investments			(1,403.0)	
Total cash used for investments and financing			(1,607.0)	
Effect of exchange rates		(4.0)		
Net change in cash and cash equivalents			(105.0)	

Source: Company financials.

Wal-Mart Stores

Fiscal 1998; in millions

	Earnings	Adjustment	Cash Flow	Cash flow as a % of income stmt item
Sales	\$137,634.0			
Other income net	1,574.0			
Increase in receivables		(148.0)	139,060.0	101.0%
Cost of revenue	(108,725.0)			
Increase in inventories		(379.0)		
Increase in payables		1,108.0		
Increase in accrued liabilities		1,259.0		
Other		78.0	(106,659.0)	98.1%
Depreciation and Amortization		1,872.0		
Capital expenditures		(3,734.0)	(1,862.0)	199.5%
Operating, selling, general and administrative expenses	(22,363.0)		(22,363.0)	
Interest Costs:				
Debt	(529.0)			
Capital leases	(268.0)		(797.0)	
Income tax expense	(2,740.0)			
Deferred taxes		(640.0)	(3,380.0)	123.4%
Minority interest and equity in unconsolidated subsidiaries	(153.0)		(153.0)	
<i>Net Income</i>	<u>4,430.0</u>			
<i>Operating Net Income</i>	<u>4,430.0</u>			
<i>Cash Flow</i>			<u>3,846.0</u>	86.8%
Per share data:				
<i>Reported Net Income</i>	<u>\$0.99</u>			
<i>Operating Net Income</i>	<u>\$0.99</u>			
<i>Cash Flow</i>			<u>\$0.86</u>	
Shares Outstanding	4,484.0			
Additional cash flow items				
Financing				
Increase in commercial paper				
Proceeds from issuance of long-term debt		536.0		
Purchase of company stock		(1,202.0)		
Payment of long-term debt		(1,075.0)		
Payment of capital lease obligations		(101.0)		
Other financing activities		(195.0)		
Dividends		(693.0)		
Net cash from (used for) financing			(2,730.0)	
Investments				
Proceeds from sale				
Acquisitions		(855.0)		
Other investment activity		171.0		
Investment unconsolidated subsidiary exchanged for acquisition				
Net cash from (used for) investments			(684.0)	
Total cash used for investments and financing			(3,414.0)	
Net change in cash and cash equivalents			<u>432.0</u>	

Source: Company financials.

Americas

Eleven Madison Avenue
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1 212 325 2000

Atlanta	1 404 656 9500	Mexico City	1 525 202 6000
Baltimore	1 410 223 3000	Pasadena	1 626 395 5100
Boston	1 617 556 5500	Philadelphia	1 215 851 1000
Buenos Aires	1 541 394 3100	San Francisco	1 415 836 7600
Chicago	1 312 750 3000	São Paulo	55 11 822 4862
Houston	1 713 220 6700	Toronto	1 416 352 4500

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44 171 888 8888

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Budapest	36 1 202 2188	Prague	42 2 248 10937
Frankfurt	49 69 75380	Vienna	43 1 512 3023
Geneva	41 22 707 0130	Warsaw	48 22 695 0050
Madrid	34 91 532 0303	Zug	41 41 726 1020
Milan	39 02 7702 1	Zurich	41 1 335 7711
Moscow	7 501 967 8200		

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Beijing	86 10 6410 6611	Singapore	65 538 6322
Melbourne	61 3 9 280 1666	Sydney	61 2 9394 4400
Mumbai	91 22 284 6888	Taipei	8862 2718 5919
Osaka	81 6 243 0789	Tokyo	81 3 5404 9000
Seoul	82 2 3707 3700	Wellington	64 4 474 4400

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