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Calculating Sustainable Cash Flow

A Study of the S&P 100 Using 2003 Data

Executive Summary

Operating cash flow in 2000, 2001, 2002 and 2003 for the S&P 100 was adjusted to remove items that may provide misleading signals of operating performance. Ten adjustments were made, separated into three categories - (1) where flexibility in GAAP for cash flow reporting was used to alter cash flow, (2) where the requirements of GAAP result in misleading operating cash flow amounts, and (3) where nonrecurring operating cash receipts and payments lead to operating cash flow that is non-sustainable. Adjustments resulted in an average company change in operating cash flow in 2001 of 1.5%, in 2002 of 4.2%, and in 2003 of 0.7%. Certain individual company adjustments were quite significant, resulting in some cases, in much more operating cash flow than actually reported, and in other cases, much less. Many companies had an increase or decrease in operating cash flow of greater than 10% including 35 in 2001, 26 in 2002, and 22 in 2003.

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Georgia Tech Financial Analysis Lab

The Georgia Tech Financial Analysis Lab conducts independent stock market research. Independent and unbiased information is vital to effective investment decision-making. Accordingly, we think that independent research organizations, such as our own, have an important role to play in providing information to market participants.

Because our Lab is housed within a university, all of our research reports have an educational quality, as they are designed to impart knowledge and understanding to those who read them. Our focus is on issues that we believe will be of interest to a large segment of stock market participants. Depending on the issue, we may focus our attention on individual companies, groups of companies, or on large segments of the market at large.

A recurring theme in our work is the identification of reporting practices that give investors a misleading signal, whether positive or negative, of corporate earning power. We define earning power as the ability to generate a sustainable stream of earnings that is backed by cash flow. Accordingly, our research may look into reporting practices that affect either earnings or cash flow, or both. At times our research may look at stock prices, generally though from a fundamental and not technical point of view.

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Calculating Sustainable Cash Flow

A Study of the S&P 100 Using 2003 Data

Introduction

Already a key focus when measuring corporate financial health, operating cash flow has taken on a new importance of late. Many investment professionals, burned by the trust they have placed in reported and pro-forma earnings, have redirected their attention to cash flow as a more trustworthy measure of operating performance. Indeed, many analysts and money managers have espoused a new-found affection for cash flow with such observations as,

"It's virtually impossible to manage cash flow,"

"Cash flow is real and not subject to the vagaries of GAAP or the whims of the accountants," and

"Profit is an opinion, cash is fact."

In these views, cash flow is measured by a standardized, immutable process, without the assumptions and interpretations that are inherent in the measurement of accrual-based income.

Because they can be readily confirmed, the balance in cash at period's end and the total change in cash during a reporting period are not prone to misstatement. However, changes in the components of total cash flow - the operating, investing, and financing components - are subject to being reported in a misleading fashion. Increases in operating cash flow, signifying improvements in financial performance, may be offset with increased uses of cash in the investing or financing sections. The end result is that, with no difference in total cash flow, apparent operating performance is improved.

There are three general ways in which operating cash flow may provide a misleading signal of operating performance. In the first, companies ply the existing flexibility in generally accepted accounting principles, (GAAP) to boost operating cash flow. Examples here include the cash flow reporting of cash overdrafts, purchases and sales of trading securities, capitalized operating costs, and the non-operating classification of customer-related receivables. In the second, it is actually the requirements of GAAP that result in misleading measures of operating cash flow. Included here are taxes on non-operating gains and losses and the ubiquitous tax benefits from stock options. A third area that can result in misleading operating cash flow amounts is the reporting of nonrecurring sources and uses of operating cash flow. Nonrecurring cash flows result from such transactions as accounts receivable securitizations, tax benefits from the amortization of goodwill for tax purposes, other non-recurring transactions, discontinued operations, and the increased use of vendor financing.

Flexibility in GAAP and Operating Cash Flow

Contrary to the belief of many, the calculation of operating cash flow does not follow a standardized, immutable process. GAAP offers plenty of flexibility in the reporting of cash flow and its classification among the operating, investing, and financing sections of the cash flow statement. Consider the following examples:

Cash Overdrafts

Overdrafts, the excess of outstanding checks over reported cash balances, are often grouped with accounts payable. The risk of reclassifying overdrafts to accounts payable is that it may lead to the inclusion of changes in overdraft amounts in operating cash flow. Overdrafts are inherently a financing agreement since the company actually owes money to its bank, not its vendors. Accordingly, most companies list overdrafts in the financing section of the cash flow statement. There are exceptions, however, where overdrafts are classified as operating cash flow. GAAP are generally silent on the appropriate treatment.

Trading Securities

Under GAAP, a company can choose to classify its investments as trading, available-for-sale, or held-to-maturity. Investments classified as trading are reported in the operating section of the cash flow statement whereas available-for-sale and held-to-maturity investments are reported in the investing section. A cash flow reporting problem arises when a non-financial company classifies its investments, which are often used as a short-term cash flow management tool, as trading securities. Including trades as cash provided or used from operating activities for non-financial companies is suspect. Even though such treatment follows GAAP, the cash flows associated with investments in and sales of investments classified as trading securities are not inherently recurring.

Capitalized Operating Costs

A company has the option of capitalizing certain operating costs, including interest costs during construction and software development costs. By capitalizing these costs they are reported in the investing section of the cash flow statement. As a result, current operating cash flow is not reduced. Further, the future amortization of capitalized costs will reduce earnings but will not reduce operating cash flow.

Customer-Related Notes Receivable

It is common for companies to report changes in financing receivables in the investing section of the cash flow statement. Such receivables may include amounts due to finance a manufacturer's own sales to its customers (dealers) as well as amounts used to finance its dealers' customers (end users). Financings of sales to a manufacturer's own customers could be construed as operating cash activity. Reporting such amounts in the investing section of the statement of cash flows may make it appear as though the company in question is generating more operating cash flow than would otherwise be the case.

GAAP requirements and Operating Cash Flow

In addition to flexibility provided by GAAP in the reporting of operating cash flow, other GAAP requirements can cloud it. That is, certain GAAP guidelines will yield misleading cash flow signals. Consider the following:

Taxes on Non-operating Gains and Losses

Taxes paid or saved on non-operating items are included with operating cash flow even though the underlying transactions that resulted in these taxes are investing-related. The gains and losses are inherently non-recurring in nature and, by including taxes on them in operating cash flow, they misrepresent a company's ability to generate a sustainable cash flow stream.

Tax Benefits from Stock Options

Theoretically, a company receives a reduction in cash taxes paid in the year of exercise of non-qualified options equal to its marginal tax rate times an option-related tax deduction. That deduction equals the difference between the exercise price and the underlying stock's market price on the date of exercise. Notwithstanding the financing nature of the deduction, the entire amount of the tax benefit is included in operating cash flow as mandated by GAAP. Understanding its non-recurring nature, many analysts are quick to remove it from operating cash flow. Unfortunately, the company does not always receive such a reduction in cash taxes paid for the reported stock-option benefit. Often, this benefit is offset by an increase in a deferred tax account, which may not provide cash flow in the near term, or even the extended term. As a result, cash flow from the tax benefits of stock options may be overstated.

Non-recurring Sources and Uses of Operating Cash Flow

Accounts Receivable Securitizations

The securitization of accounts receivable is an easy way to boost a company's current operating cash flow. In a securitization transaction, a company essentially sells its accounts receivable, boosting current but sacrificing future operating cash flow. Since the securitization is accounted for as a sale of accounts receivable, the proceeds are reported in the operating section of the cash flow statement. However, because securitizations give only a temporary boost to operating cash flow, cash flow provided by increased securitization transactions should not be considered to be sustainable.

Nonrecurring Operating Items

Some sources and uses of cash are properly reported in the operating section but are inherently nonrecurring. Examples include the cash portion of nonrecurring items such as restructuring charges, litigation settlements, and merger and acquisition costs.

Discontinued Operations

Cash provided by operating activities is defined to include cash provided by continuing and discontinued operations. Sustainable operating cash flow does not include cash generated by discontinued operations. In most cases, companies clearly disclose the amount of cash generated by discontinued operations. Unfortunately, however, GAAP does not require this disclosure. As a result, there are instances where cash provided by discontinued operations is not disclosed, giving the impression that total operating cash flow has been generated by continuing operations. Regardless of disclosure, however, cash provided by discontinued operations should be removed from operating cash flow in deriving a more sustainable measure of cash flow performance.

Increased Vendor Reliance

Increases in accounts payable are reported as operating sources of cash. Normally, accounts payable are expected to grow along with corporate operations. A short-term, nonrecurring boost to operating cash flow can be gained by lengthening the time taken to settle accounts payable. While reported as operating cash flow, cash flow obtained in this fashion is borrowed from future periods and is not sustainable.

Tax Benefits from Goodwill Amortization

While goodwill is no longer amortized for financial statement purposes, for tax purposes, in some acquisition transactions, goodwill is still a deductible expense. Such tax deductions provide a boost to operating cash flow that is linked to an acquisition and not to fundamental operations. In our sample, we noted no such tax benefits that were material.

The purpose of the study

Given the importance of operating cash flow in today's investment environment, we developed a technique for adjusting it to derive a more sustainable measure. We applied our adjustment approach to the 2000, 2001, 2002 and 2003 operating cash flow of the S & P 100 to measure its effects on this important collection of firms.

The adjustments

Adjustments to operating cash flow were located throughout the annual report, including the financial statements, notes, and M D & A. The process started with cash provided by operating activities as reported on the statements of cash flows. Adjustments made consisted of the following:

Cash Overdrafts

We adjusted for changes in cash overdrafts included in operating cash flow.

Example:

E.I. du Pont De Nemours and Company, annual report 2003

Note 18. ACCOUNTS PAYABLE

December 31	2003	2002
Payables to banks	181	160

Payables to banks represent checks issued on certain disbursement accounts but not presented to the banks for payment.

In 2003, DuPont appears to have included overdrafts in operating cash flow. That year overdrafts increased \$21 million, from \$160 million to \$181 million. We adjusted operating cash flow by subtracting \$21 million.

Trading Securities

For non-financial firms, adjustments were made to operating cash flow for increases and decreases in investments classified as trading securities.

Example:

Intel Corporation, annual report 2003

From the Cash Flow Statement:

Three Years Ended December 27, 2003

(In Millions)	2003	2002	2001
Cash flows provided by (used for) operating activities:			
Net income	5,641	3,117	1,291
Adjustments to reconcile net income to net cash provided by operating activities:			
...			
Changes in assets and liabilities:			
Trading assets	(511)	(444)	898
...			
Total adjustments	5,874	6,012	7,498
Net cash provided by operating activities	11,515	9,129	8,789

In 2003, the increase in the trading securities account at Intel Corporation used \$511 million in operating cash flow. The adjustment for 2003 was to add back \$511 million to operating cash flow. In 2002, the increase in the trading securities account used \$444 million in operating cash flow for Intel. The adjustment for 2002 was to add back \$444 million to operating cash flow.

Capitalized Operating Costs

Capitalized operating costs are often reported as cash outflows in the investing section of the cash flow statement. The amounts capitalized represent increases to noncurrent assets and entail corporate investments. For costs capitalized into noncurrent accounts and reported on the cash flow statement in the investing activities section, operating cash flow does not reflect a charge for amounts capitalized. Accordingly, we adjusted operating cash flow to remove capitalized operating expenditures. Among our adjustments were capitalized interest and capitalized software development costs.

Example:

Raytheon Company, 2003 annual report

From the Cash Flow Statement:

(in millions)	Year ended December 31		
	2003	2002	2001
Cash flows from investing activities:			
...			
Capitalized expenditures for internal use software	(98)	(138)	(149)
...			
Net cash used in investing activities	(243)	(719)	(47)

Raytheon Corporation capitalized software development costs in each of the three years reported. We adjusted operating cash flow by subtracting \$98 million in 2003 and \$138 million in 2002.

Customer-Related Notes Receivable

Companies often report changes in customer-related notes receivables in the investing section of the cash flow statement. Reporting such amounts in the investing section of the statement of cash flows may make it appear as though the company in question is generating more operating cash flow than would otherwise be the case. The financing of sales to a manufacturer's own customers should be considered as operating cash activity and adjusted.

Example:

Ford Motor Company, 2003 annual report

From the notes:

NOTE 8. FINANCE RECEIVABLES — FINANCIAL SERVICES SECTOR

Net finance receivables at December 31 were as follows (in millions):		
	2003	2002
Retail	\$ 80,973	\$ 71,479
Wholesale	22,910	16,827
Other finance receivables	9,115	11,054
Total finance receivables	112,998	99,360

Calculating Sustainable Cash Flow

Allowance for credit losses	(2,436)	(2,667)
Other	331	314

Net finance and other receivables	\$ 110,893	\$ 97,007
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NOTE 8. continued...

The Financial Services sector sold receivables in off-balance sheet securitizations and whole-loan transactions and retained servicing rights. In off-balance sheet securitizations, we retain interests in the sold receivables, and with respect to subordinated retained interests, we have credit risk. At December 31, 2003, outstanding sold receivables were as follows (in billions):

2003	

Ford Credit — outstanding sold receivables	
Off-balance sheet securitizations	\$ 49.4
Whole-loan sale transactions	7.3

Total	\$ 56.7

Retained interests in sold receivables were as follows (in millions):

	2003	2002

Wholesale receivables sold to securitization entities	\$ 9,249	\$ 12,454
Subordinated securities	1,568	2,845
Interest-only strips	1,169	1,696
Senior securities	520	—
Restricted cash held for the benefit of securitization entities	511	623

Total	\$ 13,017	\$ 17,618

From the Balance Sheet:

(in millions)	December 31, 2003	December 31, 2002

ASSETS		
Cash and cash equivalents	\$ 21,770	\$ 12,221
Marketable securities	11,872	18,271
Loaned securities	5,667	—
Receivables, less allowances of \$384 and \$374	2,721	2,047
Finance receivables, net	110,893	97,007
Net investment in operating leases	31,859	39,727
Retained interest in sold receivables	13,017	17,618
Inventories	9,181	6,977
Equity in net assets of affiliated companies	2,959	3,569
Net property	43,598	37,923
Deferred income taxes	7,389	2,978
Goodwill	6,147	5,468
Other intangible assets	1,115	1,060
Assets of discontinued/held-for-sale operations	456	3,029
Other assets	35,950	29,227

Total assets	\$ 304,594	\$ 277,122

In order to find the adjustment for customer-related finance receivables, we need to calculate the change in customer-related or wholesale notes receivable reported as investing cash flow, net of amounts sold or securitized. The first step is to verify that the net customer-related finance receivables disclosed in the note are on the balance sheet to verify that we are working with the correct figures. As seen above, Ford Motor Company disclosed the same totals on the balance sheet and in Note 8 for 2002 and 2003. The next step is to find the net change in customer-related note receivables by adding the change in net wholesale financing receivables plus the change in wholesale receivables sold to securitization entities.

For The Ford Motor Company:

	2002	2003	change
Net Wholesale Finance Receivables	\$16,827 - \$22,910 = \$ (6,083)		
Wholesale Receivables securitized	\$12,454 - \$ 9,249 = \$ 3,205		
Net change in customer-related finance receivables			= \$ (2,878)

By classifying the net change in customer-related receivables as investing cash flow instead of operating cash flow, Ford Motor Company increased its operating cash flow in 2003. As a result, we adjusted operating cash flow by subtracting \$2,878 million in 2003.

Taxes on Non-operating Gains and Losses

GAAP requires that all taxes, regardless of their source of income or loss, must be reported in the operating section of the cash flow statement. As a result, income taxes paid or received related to non-operating items should be removed from operating cash flow. Non-operating items, such as gains or losses on sales of investments, real estate, and businesses, were added together, then multiplied by the marginal tax rate to find the adjustment. Taxes paid on net capital gains were added back to operating cash flow while taxes to be received from net capital losses (capital losses in excess of capital gains) were carried over.

Example:

International Business Machines Corporation, 2003 annual report

(in millions)	2003	2002	2001
FOR THE YEAR ENDED DECEMBER 31:			
<i>Cash Flow from Operating Activities from Continuing Operations:</i>			
Income from continuing operations	\$ 7,613	\$ 5,334	\$ 8,146
Adjustments to reconcile income from continuing operations to cash provided by operating activities:			
Depreciation	3,961	3,691	3,881
Amortization of software	740	688	625
Deferred income taxes	1,126	(67)	664
Net gain on assets sales and other	(275)	(343)	(340)
Other than temporary declines in securities and other investments	50	58	405
Noncash portion of special actions	—	1,350	—
Change in operating assets and liabilities, net of			

Calculating Sustainable Cash Flow

acquisitions/divestitures:			
Receivables	2,024	4,125	2,837
Inventories	293	793	287
Pension assets	(1,409)	(4,227)	(1,758)
Other assets	(352)	70	1,244
Accounts payable	617	(55)	(918)
Pension liabilities	(286)	83	(69)
Other liabilities	467	2,288	(1,038)
<i>Net Cash Provided by Operating Activities from Continuing Operations</i>	14,569	13,788	13,966

For International Business Machines Corporation in 2003, the net gain on asset sales and other on the cash flow statement was \$275 million. In addition, the marginal tax rate (federal + state) was 36.0% in 2003. To find the final adjustment, we multiplied the marginal tax rate times the net gain and obtained \$99 million ($\$275\text{m} \times .36 = \99m). This tax amount was added back to operating cash flow in 2003.

Tax Benefits from Stock Options

Tax benefits from exercises of non-qualified stock options are typically disclosed clearly in operating cash flow. A question arises, however, as to whether the company actually realized that benefit in cash. Instead, the benefit may have resulted in a non-cash increase in a deferred tax asset account. Before making an adjustment for the tax benefit of stock options, we first estimated the portion of the benefit that was actually realized. Under GAAP, current tax expense is grossed up to include the realized portion of the tax benefits from stock options. These same benefits reduce the disclosed amount of income taxes paid. The other primary difference that exists between current tax expense and income taxes paid is the change in tax refunds receivable or income taxes payable. Thus, we estimated the realized portion of tax benefits from stock options by finding the difference between current tax expense, adjusted for changes in tax refunds receivable and income taxes payable, and reported income taxes paid. The lesser of this estimated realized benefit or the reported tax benefit from stock options was removed from operating cash flow.

Example:
Amgen Inc., 2003 annual report

Cash Flow Statement			
(In millions)			
Years Ended December 31	2003	2002	2001

Cash flows from operating activities:			
Net income (loss)	\$ 2,260	\$ (1,392)	\$ 1,120
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
...			
Tax benefits from employee stock option plans	269	252	245
...			

Net cash provided by operating activities	3,567	2,249	1,480

From the notes:
Income Taxes

The provision for income taxes consisted of the following (in millions):

Years Ended December 31	2003	2002	2001

Current provision:			
Federal (including U.S. possessions)	\$ 923.3	\$ 457.0	\$ 625.1
State	72.1	15.9	78.3
Foreign	107.8	59.8	11.5

Total current provision	1,103.2	532.7	714.9
Deferred (benefit) provision:			
Federal (including U.S. possessions)	(170.5)	146.1	(104.3)
State	(19.1)	28.6	(44.0)

Total deferred provision (benefit)	(189.6)	174.7	(148.3)

	\$ 913.6	\$ 707.4	\$ 566.6

From the Tax Note:

Income taxes paid during the years ended December 31, 2003, 2002, and 2001, totaled \$396.9 million, \$438.4 million, and \$516.2 million, respectively.

Note 12. Accrued liabilities

Accrued liabilities consisted of the following (in millions):

December 31,	2003	2002

Sales incentives, royalties, and allowances	\$ 523.8	\$ 287.7
Employee compensation and benefits	444.5	370.4
Income taxes	421.1	—
Clinical development costs	113.0	112.9
Due to affiliated companies and corporate partners	59.0	152.1
Other	357.7	228.6

	\$ 1,919.1	\$ 1,151.7

For Amgen Inc. in 2003, tax benefits from stock options of \$269 million are listed on the statement of cash flows. Our estimate of the realized portion consists of the following:

Current tax expense	\$ 1,103m	(\$923m + \$72m + \$108m = \$1,103m)
- increase in taxes payable	- 421m	
- Taxes paid	- 397m	
Estimate of cash tax benefits from stock options	\$ 285m	

In this case, our calculated tax benefit of \$285 million was slightly greater than the company's disclosed amount of \$269 million. To be conservative, we used the lesser of the two, \$269 million, and adjusted operating cash flow accordingly.

Accounts Receivable Securitizations

In a securitization transaction, a company sells its accounts receivable in a financing transaction. The net effect is to boost current but sacrifice future operating cash flow. Since the securitization is treated as a sale of accounts receivable, the proceeds are reported in the operating section of the cash flow statement. However, cash generated in this manner is not sustainable and was deducted from reported operating cash flow.

Example:

Halliburton Company, 2003 annual report

(Millions of dollars)	Years ended December 31		
	2003	2002	2001

Cash flows from operating activities:			
Net income (loss)	\$ (820)	\$ (998)	\$ 809
...			
Sale (reduction) of receivables in securitization program	(180)	180	-
...			

Total cash flows from operating activities	(775)	1,562	1,029

For Halliburton Company, the adjustment to operating cash flow was found in the statement of cash flows. In 2003, the securitized balance declined by \$180 million. In this case, we added \$180 million to operating cash flow to account for the reduced amount of accounts receivable securitized that year.

Nonrecurring Operating Items

Some sources and uses of cash are properly reported in the operating section but are inherently nonrecurring. Examples include the cash portion of nonrecurring items such as restructuring charges, litigation settlements, and mergers and acquisitions. Such nonrecurring cash payments or receipts may be disclosed on the cash flow statement or in the notes. The cash amount should first be tax-effected at the marginal income tax rate before adjusting operating cash flow.

Example:

Xerox Corporation, 2003 annual report

(in millions)	Year ended December 31,		
	2003	2002	2001

Cash Flows from Operating Activities:			
Net income (loss)	\$ 360	\$ 91	\$ (94)
Adjustments required to reconcile net income (loss) to cash flows from operating activities:			
Provision for litigation	239	—	—
Depreciation and amortization	748	1,035	1,332
Impairment of goodwill	—	63	—
Provisions for receivables and inventory	302	468	748
Restructuring and other charges	176	670	715

Deferred tax benefit	(70)	(178)	(10)
Loss (gain) on early extinguishment of debt	73	(1)	(63)
Cash payments for restructurings	(345)	(392)	(484)
Contributions to pension benefit plans	(672)	(138)	(42)
Net gains on sales of businesses, assets and affiliate's sale of stock	(1)	(1)	(765)
Undistributed equity in net income of unconsolidated affiliates	(37)	(23)	(20)
Decrease in inventories	62	16	319
Increase in on-lease equipment	(166)	(127)	(271)
Decrease in finance receivables	496	754	88
(Increase) decrease in accounts receivable and billed portion of finance receivables	164	(266)	189
Increase (decrease) in accounts payable and accrued compensation	414	330	(228)
Net change in income tax assets and liabilities	(3)	(260)	428
Decrease in other current and long-term liabilities	(43)	(109)	(95)
Early termination of derivative contracts	136	56	(148)
Other, net	46	(8)	155

Net cash provided by operating activities	1,879	1,980	1,754

On its cash flow statement, Xerox Corporation reported the cash portion of its restructuring activities. For 2003, restructuring activities consumed \$345 million. From the tax note, the marginal tax rate (federal + state) for Xerox Corporation in 2003 is 37.7%. Accordingly, an adjustment for \$345m X (1 - .377), or \$215m was added back to operating cash flow.

Discontinued Operations

Cash provided or used by discontinued operations was removed from operating cash flow. In most cases, cash from discontinued operations was clearly disclosed. When it was not, an estimate, namely operating income of the discontinued segment adjusted for the operating-related balance sheet accounts, if disclosed, was used.

Example:

Wal-Mart Stores, Inc., 2003 annual report

Dollar amounts in millions For The Years Ended January 31,	2003	2002	2001
Net cash provided by operating activities of continuing operations	15,946	12,923	10,483
Net cash provided by operating activities of discontinued operation	50	82	36
Net cash provided by operating activities	15,996	13,005	10,519

In the case of Wal-Mart Stores, Inc., for 2003, we subtracted \$50 million from the reported operating cash flow figure of \$15,996 million. For 2002, we subtracted \$82 million.

Increased Vendor Reliance

Increases in accounts payable are reported as operating sources of cash. Normally, accounts payable are expected to grow along with corporate operations. A short-term, nonrecurring boost to operating cash flow can be gained by lengthening the time taken to settle accounts payable. While reported as operating cash flow, cash flow obtained in this fashion is effectively borrowed from future periods. Operating cash flow was adjusted to remove nonrecurring sources derived from extended vendor payment terms. The amount of increased operating cash flow derived in this manner was calculated by computing the amount by which accounts payable increased faster than revenue. For this study, we made an adjustment for increased vendor reliance when accounts payable increased at a rate that was more than 25% faster than revenue.

Example:

United Technologies Corporation, 2003 annual report

Balance Sheet information:

amounts in millions,	Fiscal Year Ended	
	December 31, 2003	December 31, 2002
Accounts Payable	\$ 2,867	\$ 2,095

Income Statement information:

amounts in millions,	Fiscal Year Ended		
	December 31, 2003	December 31, 2002	December 31, 2001
Revenues			
Product sales	\$ 22,363	\$ 21,189	\$ 20,907
Service sales	8,360	6,791	6,579
Financing revenues and other income, net	311	232	411
Total Revenues	31,034	28,212	27,897

In 2003, United Technologies Corporation's accounts payable increased from \$2,095 million to \$2,867 million, or 36.8%. That same year revenue increased from \$28,212 million to \$31,034 million, or just 10.0%. In this case, accounts payable increased 26.8 percentage points faster than revenue. We calculated an adjustment by multiplying the prior year accounts payable balance times one plus the revenue growth percentage to determine an accounts payable balance that assumed a rate of increase equal to the rate of increase in revenue. We then subtracted this calculated accounts payable balance from the actual balance to find the adjustment.

For United Technologies Corporation,

Actual accounts payable at Dec. 31, 2003	\$ 2,867m
Minus projected accounts payable at Dec. 31, 2003	$\text{minus } (\$2,095\text{m} \times 1.10) = \$ 2,305\text{m}$
Adjustment	= \$ 562m

As a result, we subtracted \$562 million from United Technologies Corporation's operating cash flow to adjust for increased vendor reliance for 2003.

Results

Company Summary Table

The results of the cash flow adjustment process are summarized in the following table. The companies of the S & P 100 are presented in alphabetical order for easy reference and include the adjustments for 2001, 2002, and 2003.

Alphabetical Summary	2001	2001	2001	2002	2002	2002	2003	2003	2003
Company Name	Operating C/F - Reported	Operating C/F - Adjusted	Percent Difference Improved / (Worsened)	Operating C/F - Reported	Operating C/F - Adjusted	Percent Difference Improved / (Worsened)	Operating C/F - Reported	Operating C/F - Adjusted	Percent Difference Improved / (Worsened)
The AES Corporation	1,691	1,537	-9.1%	1,444	1,587	9.9%	1,576	1,422	-9.8%
Alcoa Inc.	2,411	2,425	0.6%	1,839	1,967	6.9%	2,430	2,486	2.3%
Allegheny Technologies Inc.	123	123	0.0%	204	209	2.5%	82	90	9.8%
American Electric Power	2,818	2,258	-19.9%	2,067	2,179	5.4%	2,308	2,441	5.8%
American Express Company	4,996	5,077	1.6%	8,500	6,689	-21.3%	2,538	2,811	10.8%
American International Group, Inc.	8,801	9,373	6.5%	19,093	19,198	0.6%	36,155	36,130	-0.1%
Amgen Inc.	1,480	1,350	-8.8%	2,249	1,910	-15.1%	3,567	3,269	-8.4%
Anheuser-Busch Companies, Inc.	2,361	2,355	-0.2%	2,765	2,687	-2.8%	2,971	2,902	-2.3%
Time Warner Inc.	5,281	2,554	-51.6%	7,032	5,546	-21.1%	6,601	5,715	-13.4%
AT&T Corp.	10,005	10,617	6.1%	10,483	10,682	1.9%	8,530	8,950	4.9%
Avon Products, Inc.	755	727	-3.7%	565	572	1.2%	745	785	5.3%
Baker Hughes Incorporated	748	650	-13.1%	708	628	-11.3%	663	661	-0.3%
Bank of America Corporation	(13,618)	(13,524)	0.7%	(14,443)	(14,709)	-1.8%	24,313	24,153	-0.7%
Bank One Corporation	2,342	2,339	-0.1%	5,399	5,421	0.4%	174	173	-0.7%
Baxter International Inc.	1,181	1,160	-1.7%	1,193	1,222	2.5%	1,425	1,465	2.8%
The Black & Decker Corporation	380	385	1.4%	452	459	1.5%	571	587	2.8%
The Boeing Company	3,735	3,897	4.3%	4,236	4,215	-0.5%	3,881	2,714	-30.1%
Boise Cascade Corp	408	430	5.3%	308	316	2.5%	335	291	-13.2%
Bristol-Myers Squibb Company	5,372	5,504	2.5%	945	2,955	212.7%	3,512	3,932	12.0%
Burlington Northern Santa Fe Co.	2,197	2,201	0.2%	2,106	2,164	2.7%	2,285	2,297	0.5%
Campbell Soup Company	1,106	978	-11.6%	1,017	1,029	1.2%	873	890	1.9%
CIGNA Corporation	1,063	1,095	3.0%	1,378	1,418	2.9%	2,308	2,394	3.7%
Cisco Systems, Inc.	6,392	5,172	-19.1%	6,587	6,698	1.7%	5,240	5,092	-2.8%
Citigroup Inc.	26,761	26,486	-1.0%	26,029	25,778	-1.0%	(14,854)	(14,599)	1.7%
Clear Channel Communications, Inc.	610	672	10.2%	1,748	1,737	-0.6%	1,677	1,935	15.4%
The Coca-Cola Company	4,110	4,296	4.5%	4,742	4,817	1.6%	5,456	5,600	2.6%
Colgate-Palmolive Company	1,504	1,451	-3.5%	1,611	1,557	-3.4%	1,768	1,774	0.3%
Computer Sciences	1,305	1,382	5.9%	1,148	1,155	0.6%	1,678	1,693	0.9%
Delta Air Lines, Inc.	236	(308)	-230.5%	285	160	-43.9%	453	128	-71.7%
The Dow Chemical Co.	1,789	1,973	10.3%	2,108	2,139	1.5%	3,780	3,320	-12.2%
E. I. du Pont De Nemours and Company	2,454	5,289	115.5%	2,439	2,815	15.4%	2,589	3,173	22.5%
Eastman Kodak Company	2,206	2,207	0.0%	2,204	2,408	9.3%	1,645	1,789	8.7%
El Paso Corporation	4,120	2,976	-27.8%	436	910	108.7%	2,329	2,814	20.8%
EMC Corporation	1,631	1,425	-12.7%	1,446	1,376	-4.8%	1,521	1,446	-4.9%
Entergy Corporation	2,216	2,252	1.6%	2,182	1,875	-14.1%	2,006	2,006	0.0%
Exelon Corporation	3,615	3,424	-5.3%	3,642	3,099	-14.9%	3,384	3,400	0.5%
Exxon Mobil Corporation	22,889	22,632	-1.1%	21,268	20,046	-5.7%	28,498	26,727	-6.2%
FedEx Corporation	2,044	2,030	-0.7%	2,228	2,126	-4.6%	1,871	1,861	-0.5%

Calculating Sustainable Cash Flow

Alphabetical Summary	2001	2001	2001	2002	2002	2002	2003	2003	2003
Company Name	Operating C/F - Reported	Operating C/F - Adjusted	Percent Difference Improved / (Worsened)	Operating C/F - Reported	Operating C/F - Adjusted	Percent Difference Improved / (Worsened)	Operating C/F - Reported	Operating C/F - Adjusted	Percent Difference Improved / (Worsened)
Ford Motor Company	21,780	31,822	46.1%	18,513	18,926	2.2%	20,195	15,854	-21.5%
General Dynamics Corporation	1,101	1,078	-2.1%	1,125	1,139	1.2%	1,723	1,732	0.5%
General Electric Company	32,892	29,862	-9.2%	30,001	30,346	1.2%	30,289	30,392	0.3%
General Motors Corporation	12,180	23,515	93.1%	15,482	9,830	-36.5%	7,600	3,899	-48.7%
The Gillette Company	2,092	2,175	4.0%	2,077	1,922	-7.5%	2,640	2,718	3.0%
The Goldman Sachs Group, Inc.	2,865	2,831	-1.2%	(10,077)	(10,077)	0.0%	(15,655)	(15,661)	0.0%
H.J. Heinz Company	260	305	17.5%	714	719	0.7%	906	997	10.1%
Halliburton Company	1,029	1,016	-1.2%	1,562	1,450	-7.2%	(775)	(776)	-0.1%
Harrah's Entertainment, Inc.	787	750	-4.7%	732	706	-3.6%	737	720	-2.4%
The Hartford Financial Services Group, Inc.	2,261	2,201	-2.7%	2,577	2,517	-2.3%	3,896	3,879	-0.4%
HCA Inc.	1,413	2,001	41.6%	2,750	2,686	-2.3%	2,166	2,720	25.6%
Hewlett-Packard Company	2,573	3,025	17.6%	5,444	6,159	13.1%	6,057	6,933	14.5%
Home Depot Inc.	5,963	4,801	-19.5%	4,802	4,764	-0.8%	6,545	6,514	-0.5%
Honeywell International Inc.	1,996	2,540	27.3%	2,380	2,960	24.4%	2,199	3,153	43.4%
Intel Corp.	8,789	7,625	-13.2%	9,129	9,642	5.6%	11,515	11,835	2.8%
International Business Machines Co.	13,966	13,235	-5.2%	13,788	14,662	6.3%	14,569	15,447	6.0%
International Paper Company	1,714	1,983	15.7%	2,094	2,392	14.2%	1,822	1,927	5.8%
J.P. Morgan Chase & Co.	(3,107)	(1,012)	67.4%	(25,134)	(24,212)	3.7%	14,601	15,342	5.1%
Johnson & Johnson	8,864	8,870	0.1%	8,176	8,113	-0.8%	10,595	10,382	-2.0%
Lehman Brothers Holdings Inc.	301	(125)	-141.5%	6,017	5,670	-5.8%	2,547	2,333	-8.4%
The Limited, Inc.	1,005	1,099	9.4%	795	795	0.0%	1,062	1,138	7.2%
Lucent Technologies, Inc.	(3,421)	(2,580)	24.6%	(756)	791	204.6%	(948)	(653)	31.1%
The May Department Stores Company	1,644	1,631	-0.8%	1,460	1,481	1.5%	1,675	1,670	-0.3%
McDonald's Corporation	2,688	2,706	0.7%	2,890	2,913	0.8%	3,269	3,404	4.1%
MedImmune, Inc.	251	245	-2.4%	264	256	-3.1%	358	347	-3.0%
Medtronic, Inc.	1,832	1,998	9.1%	1,590	1,793	12.8%	2,078	2,037	-2.0%
Merck & Co., Inc.	8,343	8,330	-0.2%	8,711	8,623	-1.0%	8,427	8,455	0.3%
Merrill Lynch & Co., Inc.	8,549	8,198	-4.1%	19,947	20,558	3.1%	9,484	9,278	-2.2%
Microsoft Corp.	13,422	12,959	-3.4%	14,509	13,746	-5.3%	15,797	15,180	-3.9%
Minnesota Mining and Manufacturing Co.	3,078	3,174	3.1%	2,992	3,181	6.3%	3,773	3,797	0.6%
Morgan Stanley Dean Witter & Co.	(25,175)	(25,635)	-1.8%	(5,013)	(5,239)	-4.5%	2,355	2,099	-10.9%
National Semiconductor Corporation	492	506	2.9%	108	97	-10.5%	221	237	7.4%
Nextel Communications, Inc.	1,129	1,071	-5.1%	2,523	2,486	-1.5%	3,312	3,277	-1.1%
Norfolk Southern Corporation	654	755	15.4%	803	1,085	35.1%	1,054	1,134	7.6%
Oracle Corporation	2,179	1,036	-52.4%	3,243	3,236	-0.2%	3,023	2,939	-2.8%
Pepsico Inc.	3,820	4,050	6.0%	4,627	4,312	-6.8%	4,328	4,395	1.6%
Pfizer Inc.	8,861	8,971	1.2%	9,864	10,323	4.7%	11,725	13,936	18.9%
The Allstate Corporation	2,285	2,303	0.8%	4,418	4,500	1.9%	5,691	5,766	1.3%
Altria Group	8,893	9,212	3.6%	10,612	11,778	11.0%	10,816	10,840	0.2%
The Procter and Gamble Co.	5,804	6,024	3.8%	7,742	8,238	6.4%	8,700	8,933	2.7%
RadioShack Corporation	776	780	0.6%	522	406	-22.3%	652	630	-3.3%
Raytheon Company	155	422	171.9%	1,039	1,461	40.6%	1,569	2,587	64.9%
Rockwell International Corporation	335	368	9.9%	476	476	0.0%	436	436	0.0%
Sara Lee Corporation	1,496	1,872	25.2%	1,735	1,767	1.8%	1,824	1,810	-0.8%
SBC Communications Inc.	14,805	14,999	1.3%	15,210	15,471	1.7%	13,517	13,480	-0.3%
Schlumberger N.V.	1,561	1,083	-30.6%	2,174	1,909	-12.2%	2,113	2,017	-4.5%
Sears, Roebuck and Co.	2,315	2,379	2.8%	(505)	(319)	36.9%	2,524	2,524	0.0%
The Southern Company	2,384	2,349	-1.5%	2,853	2,816	-1.3%	3,066	3,093	0.9%

Alphabetical Summary	2001	2001	2001	2002	2002	2002	2003	2003	2003
Company Name	Operating C/F - Reported	Operating C/F - Adjusted	Percent Difference Improved / (Worsened)	Operating C/F - Reported	Operating C/F - Adjusted	Percent Difference Improved / (Worsened)	Operating C/F - Reported	Operating C/F - Adjusted	Percent Difference Improved / (Worsened)
Texas Instruments Incorporated	1,819	2,071	13.9%	1,992	2,020	1.4%	2,151	2,238	4.0%
Toys "R" Us, Inc.	504	575	14.2%	574	574	0.0%	789	793	0.5%
Tyco International Ltd.	6,430	6,415	-0.2%	6,876	5,564	-19.1%	5,366	5,594	4.2%
U.S. Bancorp	2,182	2,696	23.5%	3,786	4,119	8.8%	8,682	8,787	1.2%
Unisys Corporation	202	300	48.6%	325	356	9.4%	529	530	0.1%
United Technologies Corporation	2,976	2,797	-6.0%	2,853	2,706	-5.2%	2,875	1,979	-31.2%
Verizon Communications Inc.	19,526	19,497	-0.2%	22,099	22,100	0.0%	22,482	22,949	2.1%
Viacom Inc.	3,509	3,150	-10.2%	3,124	2,980	-4.6%	3,497	3,424	-2.1%
Wal-Mart Stores, Inc.	10,519	10,295	-2.1%	13,005	12,844	-1.2%	15,996	15,963	-0.2%
The Walt Disney Company	3,048	3,074	0.9%	2,286	2,358	3.1%	2,901	2,883	-0.6%
Wells Fargo & Company	(10,112)	(10,200)	-0.9%	(15,458)	(15,388)	0.5%	31,195	31,898	2.3%
Weyerhaeuser Company	1,118	1,062	-5.0%	1,510	1,471	-2.6%	1,814	1,827	0.7%
The Williams Companies, Inc.	1,829	1,311	-28.3%	(515)	(1,148)	-122.9%	770	574	-25.5%
Xerox Corporation	1,754	2,215	26.3%	1,980	2,372	19.8%	1,879	2,048	9.0%
Average S & P 100 Adjustment Effects			1.5%			4.2%			.7%
Total Cash Flow for the S & P 100	364,701	380,934		391,066	389,217		503,883	501,331	

Summary by Percentage Change 2003

The next table ranks the companies by the percentage change in operating cash flow resulting from the adjustments for 2003.

Summary By Percentage Change				
Rank	Company Name	2003 Operating C/F - Reported	2003 Operating C/F - Adjusted	2003 Percent Difference
1	Raytheon Company	1,569	2,587	64.9%
2	Honeywell International Inc.	2,199	3,153	43.4%
3	Lucent Technologies, Inc.	(948)	(653)	31.1%
4	HCA Inc.	2,166	2,720	25.6%
5	E.I. du Pont De Nemours and Company	2,589	3,173	22.5%
6	El Paso Corporation	2,329	2,814	20.8%
7	Pfizer Inc.	11,725	13,936	18.9%
8	Clear Channel Communications, Inc.	1,677	1,935	15.4%
9	Hewlett-Packard Company	6,057	6,933	14.5%
10	Bristol-Myers Squibb Company	3,512	3,932	12.0%
11	American Express Company	2,538	2,811	10.8%
12	H.J. Heinz Company	906	997	10.1%
13	Allegheny Technologies Inc.	82	90	9.8%
14	Xerox Corporation	1,879	2,048	9.0%
15	Eastman Kodak Company	1,645	1,789	8.7%
16	Norfolk Southern Corporation	1,054	1,134	7.6%
17	National Semiconductor Corporation	221	237	7.4%
18	The Limited, Inc.	1,062	1,138	7.2%
19	International Business Machines Corporation	14,569	15,447	6.0%
20	International Paper Company	1,822	1,927	5.8%
21	American Electric Power	2,308	2,441	5.8%
22	Avon Products, Inc.	745	785	5.3%
23	J.P. Morgan Chase & Co.	14,601	15,342	5.1%
24	AT&T Corp.	8,530	8,950	4.9%
25	Tyco International Ltd.	5,366	5,594	4.2%
26	McDonald's Corporation	3,269	3,404	4.1%
27	Texas Instruments Incorporated	2,151	2,238	4.0%
28	CIGNA Corporation	2,308	2,394	3.7%
29	The Gillette Company	2,640	2,718	3.0%
30	Baxter International Inc.	1,425	1,465	2.8%
31	The Black & Decker Corporation	571	587	2.8%
32	Intel Corp.	11,515	11,835	2.8%
33	The Procter and Gamble Co.	8,700	8,933	2.7%
34	The Coca-Cola Company	5,456	5,600	2.6%
35	Alcoa Inc.	2,430	2,486	2.3%
36	Wells Fargo & Company	31,195	31,898	2.3%
37	Verizon Communications Inc.	22,482	22,949	2.1%
38	Campbell Soup Company	873	890	1.9%
39	Citigroup Inc.	(14,854)	(14,599)	1.7%
40	Pepsico Inc.	4,328	4,395	1.6%
41	The Allstate Corporation	5,691	5,766	1.3%
42	U.S. Bancorp	8,682	8,787	1.2%

	Summary By Percentage Change	2003	2003	2003
Rank	Company Name	Operating C/F - Reported	Operating C/F - Adjusted	Percent Difference
43	The Southern Company	3,066	3,093	0.9%
44	Computer Sciences	1,678	1,693	0.9%
45	Weyerhaeuser Company	1,814	1,827	0.7%
46	Minnesota Mining and Manufacturing Co.	3,773	3,797	0.6%
47	Burlington Northern Santa Fe Corporation	2,285	2,297	0.5%
48	General Dynamics Corporation	1,723	1,732	0.5%
49	Toys "R" Us, Inc.	789	793	0.5%
50	Exelon Corporation	3,384	3,400	0.5%
51	General Electric Company	30,289	30,392	0.3%
52	Merck & Co., Inc.	8,427	8,455	0.3%
53	Colgate-Palmolive Company	1,768	1,774	0.3%
54	Altria Group	10,816	10,840	0.2%
55	Unisys Corporation	529	530	0.1%
56	Sears, Roebuck and Co.	2,524	2,524	0.0%
57	Rockwell International Corporation	436	436	0.0%
58	Entergy Corporation	2,006	2,006	0.0%
59	The Goldman Sachs Group, Inc.	(15,655)	(15,661)	0.0%
60	American International Group, Inc.	36,155	36,130	-0.1%
61	Halliburton Company	(775)	(776)	-0.1%
62	Wal-Mart Stores, Inc.	15,996	15,963	-0.2%
63	SBC Communications Inc.	13,517	13,480	-0.3%
64	Baker Hughes Incorporated	663	661	-0.3%
65	The May Department Stores Company	1,675	1,670	-0.3%
66	The Hartford Financial Services Group, Inc.	3,896	3,879	-0.4%
67	Home Depot Inc.	6,545	6,514	-0.5%
68	FedEx Corporation	1,871	1,861	-0.5%
69	The Walt Disney Company	2,901	2,883	-0.6%
70	Bank of America Corporation	24,313	24,153	-0.7%
71	Bank One Corporation	174	173	-0.7%
72	Sara Lee Corporation	1,824	1,810	-0.8%
73	Nextel Communications, Inc.	3,312	3,277	-1.1%
74	Medtronic, Inc.	2,078	2,037	-2.0%
75	Johnson & Johnson	10,595	10,382	-2.0%
76	Viacom Inc.	3,497	3,424	-2.1%
77	Merrill Lynch & Co., Inc.	9,484	9,278	-2.2%
78	Anheuser-Busch Companies, Inc.	2,971	2,902	-2.3%
79	Harrah's Entertainment, Inc.	737	720	-2.4%
80	Oracle Corporation	3,023	2,939	-2.8%
81	Cisco Systems, Inc.	5,240	5,092	-2.8%
82	MedImmune, Inc.	358	347	-3.0%
83	RadioShack Corporation	652	630	-3.3%
84	Microsoft Corp.	15,797	15,180	-3.9%
85	Schlumberger N.V.	2,113	2,017	-4.5%
86	EMC Corporation	1,521	1,446	-4.9%
87	Exxon Mobil Corporation	28,498	26,727	-6.2%
88	Amgen Inc.	3,567	3,269	-8.4%
89	Lehman Brothers Holdings Inc.	2,547	2,333	-8.4%
90	The AES Corporation	1,576	1,422	-9.8%

Calculating Sustainable Cash Flow

Summary By Percentage Change		2003	2003	2003
Rank	Company Name	Operating C/F - Reported	Operating C/F - Adjusted	Percent Difference
91	Morgan Stanley Dean Witter & Co.	2,355	2,099	-10.9%
92	The Dow Chemical Co.	3,780	3,320	-12.2%
93	Boise Cascade Corp	335	291	-13.2%
94	Time Warner Inc.	6,601	5,715	-13.4%
95	Ford Motor Company	20,195	15,854	-21.5%
96	The Williams Companies, Inc.	770	574	-25.5%
97	The Boeing Company	3,881	2,714	-30.1%
98	United Technologies Corporation	2,875	1,979	-31.2%
99	General Motors Corporation	7,600	3,899	-48.7%
100	Delta Air Lines, Inc.	453	128	-71.7%

In 2003, the cash flow adjustments improved the results of many of the S & P 100 companies. After making the adjustments, 23 companies had an improvement in operating cash flow of 5% or greater, while fourteen companies saw their operating cash flow worsen by 5% or more. There were twelve companies that had changes of 20% or greater, a considerable difference from reported results. Of the companies with changes greater than 20%, six improved while six declined. When compared to prior years, 2003 had a similar number of very large percentage adjustments with two companies that had cash flow adjustments of 50% or more, compared to four in 2002 and eight in 2001.

Adjusted operating cash flow for the average S & P 100 company increased 0.7% from reported numbers in 2003. The relatively unchanged results as a whole saw positive adjustments due to after-tax nonrecurring restructuring costs and taxes on nonoperating gains, offset by the negative adjustments for increased vendor reliance, tax benefits from stock options, and after-tax nonrecurring operating gains, which includes adjustments for customer-related receivables.

Summary by Percentage Change 2002

The next table ranks the companies by the percentage change in operating cash flow resulting from the adjustments for 2002.

Summary By Percentage Change				
Rank	Company Name	2002 Operating C/F - Reported	2002 Operating C/F - Adjusted	2002 Percent Difference
1	Bristol-Myers Squibb Company	945	2,955	212.7%
2	Lucent Technologies, Inc.	(756)	791	204.6%*
3	El Paso Corporation	436	910	108.7%
4	Raytheon Company	1,039	1,461	40.6%
5	Sears, Roebuck and Co.	(505)	(319)	36.9%
6	Norfolk Southern Corporation	803	1,085	35.1%
7	Honeywell International Inc.	2,380	2,960	24.4%
8	Xerox Corporation	1,980	2,372	19.8%
9	E.I. du Pont De Nemours and Company	2,439	2,815	15.4%
10	International Paper Company	2,094	2,392	14.2%
11	Hewlett-Packard Company	5,444	6,159	13.1%
12	Medtronic, Inc.	1,590	1,793	12.8%
13	Altria Group	10,612	11,778	11.0%
14	The AES Corporation	1,444	1,587	9.9%
15	Unisys Corporation	325	356	9.4%
16	Eastman Kodak Company	2,204	2,408	9.3%
17	U.S. Bancorp	3,786	4,119	8.8%
18	Alcoa Inc.	1,839	1,967	6.9%
19	The Procter and Gamble Co.	7,742	8,238	6.4%
20	International Business Machines Corporation	13,788	14,662	6.3%
21	Minnesota Mining and Manufacturing Co.	2,992	3,181	6.3%
22	Intel Corp.	9,129	9,642	5.6%
23	American Electric Power	2,067	2,179	5.4%
24	Pfizer Inc.	9,864	10,323	4.7%
25	J.P. Morgan Chase & Co.	(25,134)	(24,212)	3.7%
26	The Walt Disney Company	2,286	2,358	3.1%
27	Merrill Lynch & Co., Inc.	19,947	20,558	3.1%
28	CIGNA Corporation	1,378	1,418	2.9%
29	Burlington Northern Santa Fe Corporation	2,106	2,164	2.7%
30	Boise Cascade Corp	308	316	2.5%
31	Baxter International Inc.	1,193	1,222	2.5%
32	Allegheny Technologies Inc.	204	209	2.5%
33	Ford Motor Company	18,513	18,926	2.2%
34	AT&T Corp.	10,483	10,682	1.9%
35	The Allstate Corporation	4,418	4,500	1.9%
36	Sara Lee Corporation	1,735	1,767	1.8%
37	SBC Communications Inc.	15,210	15,471	1.7%
38	Cisco Systems, Inc.	6,587	6,698	1.7%
39	The Coca-Cola Company	4,742	4,817	1.6%
40	The Black & Decker Corporation	452	459	1.5%
41	The Dow Chemical Co.	2,108	2,139	1.5%
42	The May Department Stores Company	1,460	1,481	1.5%

Calculating Sustainable Cash Flow

	Summary By Percentage Change	2002	2002	2002
Rank	Company Name	Operating C/F - Reported	Operating C/F - Adjusted	Percent Difference
43	Texas Instruments Incorporated	1,992	2,020	1.4%
44	Avon Products, Inc.	565	572	1.2%
45	General Dynamics Corporation	1,125	1,139	1.2%
46	General Electric Company	30,001	30,346	1.2%
47	Campbell Soup Company	1,017	1,029	1.2%
48	McDonald's Corporation	2,890	2,913	0.8%
49	H.J. Heinz Company	714	719	0.7%
50	Computer Sciences	1,148	1,155	0.6%
51	American International Group, Inc.	19,093	19,198	0.6%
52	Wells Fargo & Company	(15,458)	(15,388)	0.5%
53	Bank One Corporation	5,399	5,421	0.4%
54	Verizon Communications Inc.	22,099	22,100	0.0%
55	The Goldman Sachs Group, Inc.	(10,077)	(10,077)	0.0%
56	Toys "R" Us, Inc.	574	574	0.0%
57	Rockwell International Corporation	476	476	0.0%
58	The Limited, Inc.	795	795	0.0%
59	Oracle Corporation	3,243	3,236	-0.2%
60	The Boeing Company	4,236	4,215	-0.5%
61	Clear Channel Communications, Inc.	1,748	1,737	-0.6%
62	Johnson & Johnson	8,176	8,113	-0.8%
63	Home Depot Inc.	4,802	4,764	-0.8%
64	Citigroup Inc.	26,029	25,778	-1.0%
65	Merck & Co., Inc.	8,711	8,623	-1.0%
66	Wal-Mart Stores, Inc.	13,005	12,844	-1.2%
67	The Southern Company	2,853	2,816	-1.3%
68	Nextel Communications, Inc.	2,523	2,486	-1.5%
69	Bank of America Corporation	(14,443)	(14,709)	-1.8%
70	HCA Inc.	2,750	2,686	-2.3%
71	The Hartford Financial Services Group, Inc.	2,577	2,517	-2.3%
72	Weyerhaeuser Company	1,510	1,471	-2.6%
73	Anheuser-Busch Companies, Inc.	2,765	2,687	-2.8%
74	MedImmune, Inc.	264	256	-3.1%
75	Colgate-Palmolive Company	1,611	1,557	-3.4%
76	Harrar's Entertainment, Inc.	732	706	-3.6%
77	Morgan Stanley Dean Witter & Co.	(5,013)	(5,239)	-4.5%
78	FedEx Corporation	2,228	2,126	-4.6%
79	Viacom Inc.	3,124	2,980	-4.6%
80	EMC Corporation	1,446	1,376	-4.8%
81	United Technologies Corporation	2,853	2,706	-5.2%
82	Microsoft Corp.	14,509	13,746	-5.3%
83	Exxon Mobil Corporation	21,268	20,046	-5.7%
84	Lehman Brothers Holdings Inc.	6,017	5,670	-5.8%
85	Pepsico Inc.	4,627	4,312	-6.8%
86	Halliburton Company	1,562	1,450	-7.2%
87	The Gillette Company	2,077	1,922	-7.5%
88	National Semiconductor Corporation	108	97	-10.5%
89	Baker Hughes Incorporated	708	628	-11.3%
90	Schlumberger N.V.	2,174	1,909	-12.2%

Summary By Percentage Change		2002	2002	2002
Rank	Company Name	Operating C/F - Reported	Operating C/F - Adjusted	Percent Difference
91	Entergy Corporation	2,182	1,875	-14.1%
92	Exelon Corporation	3,642	3,099	-14.9%
93	Amgen Inc.	2,249	1,910	-15.1%
94	Tyco International Ltd.	6,876	5,564	-19.1%
95	Time Warner Inc.	7,032	5,546	-21.1%
96	American Express Company	8,500	6,689	-21.3%
97	RadioShack Corporation	522	406	-22.3%
98	General Motors Corporation	15,482	9,830	-36.5%
99	Delta Air Lines, Inc.	285	160	-43.9%
100	The Williams Companies, Inc.	(515)	(1,148)	-122.9%

In 2002, the cash flow adjustments improved the results of many of the S & P 100 companies. After making the adjustments, 23 companies had an improvement in operating cash flow of 5% or greater, while 20 companies saw their operating cash flow worsen by 5% or more. There were thirteen companies that had changes of 20% or greater, a considerable difference from reported results. Of the companies with changes greater than 20%, seven improved while six declined. 2002 had fewer very large percentage adjustments as only four companies had cash flow adjustments of 50% or more, compared to eight in 2001.

Adjusted operating cash flow for the average S & P 100 company increased 4.2% from reported numbers in 2002. Adding back the nonrecurring restructuring charges was again the main cause of the improved results. Companies continued to implement restructuring efforts in 2002 to try to improve their financial results. In addition, there were fewer adjustments for the tax benefits from stock options adjustment in 2002 than in 2001 or 2000.

* While the change in cash flow from a negative number to a positive number, or the reverse, is technically not defined in percentage terms, we used the percentage in this study to show the magnitude of the impact from the adjustments on a relative basis.

Summary by Percentage Change 2001

This table ranks the companies by the percentage change in operating cash flow resulting from the adjustments for 2001.

Summary By Percentage Change				
Rank	Company Name	2001 Operating C/F - Reported	2001 Operating C/F - Adjusted	2001 Percent Difference
1	Raytheon Company	155	422	171.9%
2	E.I. du Pont De Nemours and Company	2,454	5,289	115.5%
3	General Motors Corporation	12,180	23,515	93.1%
4	J.P. Morgan Chase & Co.	(3,107)	(1,012)	67.4%
5	Unisys Corporation	202	300	48.6%
6	Ford Motor Company	21,780	31,822	46.1%
7	HCA Inc.	1,413	2,001	41.6%
8	Honeywell International Inc.	1,996	2,540	27.3%
9	Xerox Corporation	1,754	2,215	26.3%
10	Sara Lee Corporation	1,496	1,872	25.2%
11	Lucent Technologies, Inc.	(3,421)	(2,580)	24.6%
12	U.S. Bancorp	2,182	2,696	23.5%
13	Hewlett-Packard Company	2,573	3,025	17.6%
14	H.J. Heinz Company	260	305	17.5%
15	International Paper Company	1,714	1,983	15.7%
16	Norfolk Southern Corporation	654	755	15.4%
17	Toys "R" Us, Inc.	504	575	14.2%
18	Texas Instruments Incorporated	1,819	2,071	13.9%
19	The Dow Chemical Co.	1,789	1,973	10.3%
20	Clear Channel Communications, Inc.	610	672	10.2%
21	Rockwell International Corporation	335	368	9.9%
22	The Limited, Inc.	1,005	1,099	9.4%
23	Medtronic, Inc.	1,832	1,998	9.1%
24	American International Group, Inc.	8,801	9,373	6.5%
25	AT&T Corp.	10,005	10,617	6.1%
26	Pepsico Inc.	3,820	4,050	6.0%
27	Computer Sciences	1,305	1,382	5.9%
28	Boise Cascade Corp	408	430	5.3%
29	The Coca-Cola Company	4,110	4,296	4.5%
30	The Boeing Company	3,735	3,897	4.3%
31	The Gillette Company	2,092	2,175	4.0%
32	The Procter and Gamble Co.	5,804	6,024	3.8%
33	Altria Group	8,893	9,212	3.6%
34	Minnesota Mining and Manufacturing Co.	3,078	3,174	3.1%
35	CIGNA Corporation	1,063	1,095	3.0%
36	National Semiconductor Corporation	492	506	2.9%
37	Sears, Roebuck and Co.	2,315	2,379	2.8%
38	Bristol-Myers Squibb Company	5,372	5,504	2.5%
39	Entergy Corporation	2,216	2,252	1.6%
40	American Express Company	4,996	5,077	1.6%
41	The Black & Decker Corporation	380	385	1.4%
42	SBC Communications Inc.	14,805	14,999	1.3%

	Summary By Percentage Change	2001	2001	2001
Rank	Company Name	Operating C/F - Reported	Operating C/F - Adjusted	Percent Difference
43	Pfizer Inc.	8,861	8,971	1.2%
44	The Walt Disney Company	3,048	3,074	0.9%
45	The Allstate Corporation	2,285	2,303	0.8%
46	Bank of America Corporation	(13,618)	(13,524)	0.7%
47	McDonald's Corporation	2,688	2,706	0.7%
48	Alcoa Inc.	2,411	2,425	0.6%
49	RadioShack Corporation	776	780	0.6%
50	Burlington Northern Santa Fe Corporation	2,197	2,201	0.2%
51	Johnson & Johnson	8,864	8,870	0.1%
52	Eastman Kodak Company	2,206	2,207	0.0%
53	Allegheny Technologies Inc.	123	123	0.0%
54	Bank One Corporation	2,342	2,339	-0.1%
55	Merck & Co., Inc.	8,343	8,330	-0.2%
56	Verizon Communications Inc.	19,526	19,497	-0.2%
57	Tyco International Ltd.	6,430	6,415	-0.2%
58	Anheuser-Busch Companies, Inc.	2,361	2,355	-0.2%
59	FedEx Corporation	2,044	2,030	-0.7%
60	The May Department Stores Company	1,644	1,631	-0.8%
61	Wells Fargo & Company	(10,112)	(10,200)	-0.9%
62	Citigroup Inc.	26,761	26,486	-1.0%
63	Exxon Mobil Corporation	22,889	22,632	-1.1%
64	The Goldman Sachs Group, Inc.	2,865	2,831	-1.2%
65	Halliburton Company	1,029	1,016	-1.2%
66	The Southern Company	2,384	2,349	-1.5%
67	Baxter International Inc.	1,181	1,160	-1.7%
68	Morgan Stanley Dean Witter & Co.	(25,175)	(25,635)	-1.8%
69	General Dynamics Corporation	1,101	1,078	-2.1%
70	Wal-Mart Stores, Inc.	10,519	10,295	-2.1%
71	MedImmune, Inc.	251	245	-2.4%
72	The Hartford Financial Services Group, Inc.	2,261	2,201	-2.7%
73	Microsoft Corp.	13,422	12,959	-3.4%
74	Colgate-Palmolive Company	1,504	1,451	-3.5%
75	Avon Products, Inc.	755	727	-3.7%
76	Merrill Lynch & Co., Inc.	8,549	8,198	-4.1%
77	Harrar's Entertainment, Inc.	787	750	-4.7%
78	Weyerhaeuser Company	1,118	1,062	-5.0%
79	Nextel Communications, Inc.	1,129	1,071	-5.1%
80	International Business Machines Corporation	13,966	13,235	-5.2%
81	Exelon Corporation	3,615	3,424	-5.3%
82	United Technologies Corporation	2,976	2,797	-6.0%
83	Amgen Inc.	1,480	1,350	-8.8%
84	The AES Corporation	1,691	1,537	-9.1%
85	General Electric Company	32,892	29,862	-9.2%
86	Viacom Inc.	3,509	3,150	-10.2%
87	Campbell Soup Company	1,106	978	-11.6%
88	EMC Corporation	1,631	1,425	-12.7%
89	Baker Hughes Incorporated	748	650	-13.1%
90	Intel Corp.	8,789	7,625	-13.2%

Calculating Sustainable Cash Flow

Summary By Percentage Change		2001	2001	2001
Rank	Company Name	Operating C/F - Reported	Operating C/F - Adjusted	Percent Difference
91	Cisco Systems, Inc.	6,392	5,172	-19.1%
92	Home Depot Inc.	5,963	4,801	-19.5%
93	American Electric Power	2,818	2,258	-19.9%
94	El Paso Corporation	4,120	2,976	-27.8%
95	The Williams Companies, Inc.	1,829	1,311	-28.3%
96	Schlumberger N.V.	1,561	1,083	-30.6%
97	Time Warner Inc.	5,281	2,554	-51.6%
98	Oracle Corporation	2,179	1,036	-52.4%
99	Lehman Brothers Holdings Inc.	301	(125)	-141.5%*
100	Delta Air Lines, Inc.	236	(308)	-230.5%*

In 2001, the cash flow adjustments slightly improved the results of the average S & P 100 company. After making the adjustments, 52% of the S & P 100 had a change in operating cash flow of 5% or greater. 28 companies had an improvement in operating cash flow of 5% or greater, while 24 companies saw their operating cash flow worsen by 5% or more. There were nineteen companies that had changes of 20% or greater, a considerable difference from reported results. Of the companies with greater than 20% changes, twelve of the companies improved while seven declined. In addition, eight companies had very large cash flow adjustments of 50% or more.

Adjusted operating cash flow for the average S & P 100 company increased 1.5% from reported numbers in 2001. Adding back the nonrecurring restructuring charges was the main cause of the improved results. As the markets and the economy tightened, more companies implemented restructuring efforts in 2001 to try to improve their results. In addition, there were fewer adjustments for the tax benefits from stock options adjustment in 2001 than in 2000.

* While the change in cash flow from a negative number to a positive number, or the reverse, is technically not defined in percentage terms, we used the percentage in this study to show the magnitude of the impact from the adjustments on a relative basis.

Year-over-Year Change in Adjusted to Reported Operating Cash Flow

This table ranks the companies by the percentage change in adjusted operating cash flow from 2002 to 2003 divided by the percentage change in reported operating cash flow.

Company Name	2002 Reported Operating Cash Flow	2003 Reported Operating Cash Flow	Percent Increase (Decrease)	2002 Adjusted Operating Cash Flow	2003 Adjusted Operating Cash Flow	Percent Increase (Decrease)	Change in Adj. CF divided by Change in Rep. CF
Harrah's Entertainment, Inc.	732	737	.7%	706	720	2.0%	↑ 2.9
RadioShack Corporation	522	652	24.9%	406	630	55.4%	↑ 2.2
Verizon Communications Inc.	22,099	22,482	1.7%	22,100	22,949	3.8%	↑ 2.2
E.I. du Pont De Nemours and Company	2,439	2,589	6.2%	2,815	3,173	12.7%	↑ 2.1
Pfizer Inc.	9,864	11,725	18.9%	10,323	13,936	35.0%	↑ 1.9
The Gillette Company	2,077	2,640	27.1%	1,922	2,718	41.4%	↑ 1.5
Raytheon Company	1,039	1,569	51.0%	1,461	2,587	77.1%	↑ 1.5
Sears, Roebuck and Co.	(505)	2,524	599.8%	(319)	2,524	892.5%	↑ 1.5
H.J. Heinz Company	714	906	26.9%	719	997	38.7%	↑ 1.4
Colgate-Palmolive Company	1,611	1,768	9.7%	1,557	1,774	13.9%	↑ 1.4
National Semiconductor Corporation	108	221	104.6%	97	237	145.7%	↑ 1.4
Texas Instruments Incorporated	1,992	2,151	8.0%	2,020	2,238	10.8%	↑ 1.4
The Southern Company	2,853	3,066	7.5%	2,816	3,093	9.8%	↑ 1.3
The Limited, Inc.	795	1,062	33.6%	795	1,138	43.2%	↑ 1.3
McDonald's Corporation	2,890	3,269	13.1%	2,913	3,404	16.8%	↑ 1.3
Viacom Inc.	3,124	3,497	11.9%	2,980	3,424	14.9%	↑ 1.2
Amgen Inc.	2,249	3,567	58.6%	1,910	3,269	71.2%	↑ 1.2
Weyerhaeuser Company	1,510	1,814	20.1%	1,471	1,827	24.3%	↑ 1.2
Microsoft Corp.	14,509	15,797	8.9%	13,746	15,180	10.4%	↑ 1.2
Avon Products, Inc.	565	745	31.9%	572	785	37.2%	↑ 1.2
Hewlett-Packard Company	5,444	6,057	11.3%	6,159	6,933	12.6%	↑ 1.1
The Coca-Cola Company	4,742	5,456	15.1%	4,817	5,600	16.3%	↑ 1.1
Anheuser-Busch Companies, Inc.	2,765	2,971	7.4%	2,687	2,902	8.0%	↑ 1.1
The Black & Decker Corporation	452	571	26.3%	459	587	28.0%	↑ 1.1
The Hartford Financial Services Group, Inc.	2,577	3,896	51.2%	2,517	3,879	54.1%	↑ 1.1
Wal-Mart Stores, Inc.	13,005	15,996	23.0%	12,844	15,963	24.3%	↑ 1.1
J.P. Morgan Chase & Co.	(25,134)	14,601	158.1%	(24,212)	15,342	163.4%	↑ 1.0
American Electric Power	2,067	2,308	11.7%	2,179	2,441	12.0%	↑ 1.0
Baxter International Inc.	1,193	1,425	19.4%	1,222	1,465	19.9%	↑ 1.0
CIGNA Corporation	1,378	2,308	67.5%	1,418	2,394	68.8%	↑ 1.0
Wells Fargo & Company	(15,458)	31,195	301.8%	(15,388)	31,898	307.3%	↑ 1.0
Nextel Communications, Inc.	2,523	3,312	31.3%	2,486	3,277	31.8%	↑ 1.0
Toys "R" Us, Inc.	574	789	37.5%	574	793	38.1%	↑ 1.0
Home Depot Inc.	4,802	6,545	36.3%	4,764	6,514	36.7%	↑ 1.0
Computer Sciences	1,148	1,678	46.2%	1,155	1,693	46.6%	↑ 1.0
MedImmune, Inc.	264	358	35.6%	256	347	35.8%	↑ 1.0
American International Group, Inc.	19,093	36,155	89.4%	19,198	36,130	88.2%	↑ 1.0
EMC Corporation	1,446	1,521	5.2%	1,376	1,446	5.1%	↑ 1.0
Bank of America Corporation	(14,443)	24,313	268.3%	(14,709)	24,153	264.2%	↑ 1.0
Exxon Mobil Corporation	21,268	28,498	34.0%	20,046	26,727	33.3%	↑ 1.0
General Dynamics Corporation	1,125	1,723	53.2%	1,139	1,732	52.1%	↑ 1.0
The Allstate Corporation	4,418	5,691	28.8%	4,500	5,766	28.1%	↑ 1.0

Calculating Sustainable Cash Flow

Company Name	2002 Reported Operating Cash Flow	2003 Reported Operating Cash Flow	Percent Increase (Decrease)	2002 Adjusted Operating Cash Flow	2003 Adjusted Operating Cash Flow	Percent Increase (Decrease)	Change in Adj. CF divided by Change in Rep. CF
Morgan Stanley Dean Witter & Co.	(5,013)	2,355	147.0%	(5,239)	2,099	140.1%	↑ 1.0
Johnson & Johnson	8,176	10,595	29.6%	8,113	10,382	28.0%	↑ 0.9
International Business Machines Corp.	13,788	14,569	5.7%	14,662	15,447	5.4%	↑ 0.9
U.S. Bancorp	3,786	8,682	129.3%	4,119	8,787	113.3%	↑ 0.9
Intel Corp.	9,129	11,515	26.1%	9,642	11,835	22.8%	↑ 0.9
The May Department Stores Company	1,460	1,675	14.7%	1,481	1,670	12.7%	↑ 0.9
The Walt Disney Company	2,286	2,901	26.9%	2,358	2,883	22.3%	↑ 0.8
Alcoa Inc.	1,839	2,430	32.1%	1,967	2,486	26.4%	↑ 0.8
Unisys Corporation	325	529	62.8%	356	530	48.9%	↑ 0.8
Minnesota Mining and Manufacturing Co.	2,992	3,773	26.1%	3,181	3,797	19.4%	↑ 0.7
Burlington Northern Santa Fe Corporation	2,106	2,285	8.5%	2,164	2,297	6.2%	↑ 0.7
The Dow Chemical Co.	2,108	3,780	79.3%	2,139	3,320	55.2%	↑ 0.7
The Procter and Gamble Co.	7,742	8,700	12.4%	8,238	8,933	8.4%	↑ 0.7
The Williams Companies, Inc.	(515)	770	249.5%	(1,148)	574	150.0%	↑ 0.6
Sara Lee Corporation	1,735	1,824	5.1%	1,767	1,810	2.5%	↑ 0.5
El Paso Corporation	436	2,329	434.2%	910	2,814	209.3%	↑ 0.5
Medtronic, Inc.	1,590	2,078	30.7%	1,793	2,037	13.6%	↑ 0.4
General Electric Company	30,001	30,289	1.0%	30,346	30,392	0.1%	↑ 0.2
Norfolk Southern Corporation	803	1,054	31.3%	1,085	1,134	4.6%	↑ 0.1
Bristol-Myers Squibb Company	945	3,512	271.6%	2,955	3,932	33.1%	↑ 0.1
Merck & Co., Inc.	8,711	8,427	-3.3%	8,623	8,455	-1.9%	↓ 0.6
FedEx Corporation	2,228	1,871	-16.0%	2,126	1,861	-12.5%	↓ 0.8
American Express Company	8,500	2,538	-70.1%	6,689	2,811	-58.0%	↓ 0.8
AT&T Corp.	10,483	8,530	-18.6%	10,682	8,950	-16.2%	↓ 0.9
Allegheny Technologies Inc.	204	82	-59.8%	209	90	-56.9%	↓ 1.0
Campbell Soup Company	1,017	873	-14.2%	1,029	890	-13.5%	↓ 1.0
Citigroup Inc.	26,029	(14,854)	-157.1%	25,778	(14,599)	-156.6%	↓ 1.0
Rockwell International Corporation	476	436	-8.4%	476	436	-8.4%	↓ 1.0
Bank One Corporation	5,399	174	-96.8%	5,421	173	-96.8%	↓ 1.0
The Goldman Sachs Group, Inc.	(10,077)	(15,655)	-55.4%	(10,077)	(15,661)	-55.4%	↓ 1.0
Eastman Kodak Company	2,204	1,645	-25.4%	2,408	1,789	-25.7%	↓ 1.0
Lehman Brothers Holdings Inc.	6,017	2,547	-57.7%	5,670	2,333	-58.9%	↓ 1.0
Halliburton Company	1,562	(775)	-149.6%	1,450	(776)	-153.5%	↓ 1.0
Merrill Lynch & Co., Inc.	19,947	9,484	-52.5%	20,558	9,278	-54.9%	↓ 1.0
SBC Communications Inc.	15,210	13,517	-11.1%	15,471	13,480	-12.9%	↓ 1.2
Cisco Systems, Inc.	6,587	5,240	-20.4%	6,698	5,092	-24.0%	↓ 1.2
General Motors Corporation	15,482	7,600	-50.9%	9,830	3,899	-60.3%	↓ 1.2
Oracle Corporation	3,243	3,023	-6.8%	3,236	2,939	-9.2%	↓ 1.4
International Paper Company	2,094	1,822	-13.0%	2,392	1,927	-19.4%	↓ 1.5
Xerox Corporation	1,980	1,879	-5.1%	2,372	2,048	-13.7%	↓ 2.7
The Boeing Company	4,236	3,881	-8.4%	4,215	2,714	-35.6%	↓ 4.2
Lucent Technologies, Inc.	(756)	(948)	-25.4%	791	(653)	-182.6%	↓ 7.2
Clear Channel Communications, Inc.	1,748	1,677	-4.1%	1,737	1,935	11.4%	↑ *
Schlumberger N.V.	2,174	2,113	-2.8%	1,909	2,017	5.7%	↑ *
Exelon Corporation	3,642	3,384	-7.1%	3,099	3,400	9.7%	↑ *

Company Name	2002 Reported Operating Cash Flow	2003 Reported Operating Cash Flow	Percent Increase (Decrease)	2002 Adjusted Operating Cash Flow	2003 Adjusted Operating Cash Flow	Percent Increase (Decrease)	Change in Adj. CF divided by Change in Rep. CF
Entergy Corporation	2,182	2,006	-8.1%	1,875	2,006	7.0%	↑ *
Honeywell International Inc.	2,380	2,199	-7.6%	2,960	3,153	6.5%	↑ *
Baker Hughes Incorporated	708	663	-6.4%	628	661	5.3%	↑ *
Time Warner Inc.	7,032	6,601	-6.1%	5,546	5,715	3.0%	↑ *
Pepsico Inc.	4,627	4,328	-6.5%	4,312	4,395	1.9%	↑ *
HCA Inc.	2,750	2,166	-21.2%	2,686	2,720	1.3%	↑ *
Tyco International Ltd.	6,876	5,366	-22.0%	5,564	5,594	0.5%	↑ *
Delta Air Lines, Inc.	285	453	58.9%	160	128	-20.0%	↓ *
Boise Cascade Corp	308	335	8.8%	316	291	-7.9%	↓ *
The AES Corporation	1,444	1,576	9.1%	1,587	1,422	-10.4%	↓ *
Ford Motor Company	18,513	20,195	9.1%	18,926	15,854	-16.2%	↓ *
Altria Group	10,612	10,816	1.9%	11,778	10,840	-8.0%	↓ *
United Technologies Corporation	2,853	2,875	0.8%	2,706	1,979	-26.9%	↓ *

Table Legend

- ↑ Increasing year-over-year change in reported and adjusted operating cash flow
- ↓ Decreasing year-over-year change in reported and adjusted operating cash flow
- 1.0 No meaningful difference in year-over-year change for reported and adjusted operating cash flow.
- * Directional difference in year-over-year change in operating cash flow for reported and adjusted operating cash flow. The up or down arrow represents the direction of the change in adjusted operating cash flow relative to reported cash flow.

Changes in operating cash flow from one period to the next can signal increasing or declining financial strength and performance. The purpose of the ratio of the year-over-year change in adjusted to reported operating cash flow is to gauge whether evaluations of financial performance based on changes in operating cash flow might be altered through the use of adjusted amounts.

The ratio, the change between 2002 and 2003 in adjusted operating cash flow divided by the change in reported operating cash flow was given a upward arrow (↑) when the year-over-year change in adjusted operating cash flow and reported operating cash flow were both positive. A ratio of ↑2.0 indicates that adjusted operating cash flow increased at a rate that was twice as fast (i.e., 100% faster) as reported operating cash flow. A ratio of ↑.5 indicates that adjusted operating cash flow increased at a rate that was half as fast (i.e., 50% slower) as reported operating cash flow.

The same ratio was given a downward arrow (↓) when the year-over-year change in adjusted operating cash flow and reported operating cash flow were both negative. A ratio of ↓2.0 indicates that adjusted operating cash flow declined at a rate that was twice as fast as reported

operating cash flow. A ratio of $\downarrow 1.5$ indicates that adjusted operating cash flow declined at a rate that was half as fast as reported operating cash flow.

Companies whose ratio of the change in adjusted operating cash flow to the change in reported operating cash flow were marked with an asterisk (*) and saw a directional difference in the year-over-year change in adjusted operating cash flow versus reported operating cash flow (i.e., one change was positive and one was negative). Companies marked with an upward arrow asterisk (\uparrow^*) saw an improvement in their adjusted operating cash flow versus reported operating cash flow. Companies with a downward arrow asterisk (\downarrow^*) saw a worsening in adjusted operating cash flow versus reported operating cash flow. Summary values of the ratio of the change in adjusted to reported operating cash flow were not provided for these companies because it was not considered to be a meaningful measure.

Many companies saw improvements in the year-over-year change in operating cash flow when adjusted data were employed. For example, eight companies saw a 50% or greater increase in operating cash flow between 2002 and 2003 using adjusted data versus reported data (i.e., a ratio of $\uparrow 1.5$ or greater).

Other companies saw a worsening in the year-over-year change in operating cash flow when adjusted data were employed. For example, six companies saw an increase in operating cash flow that was 50% or less than the amount calculated using reported operating cash flow (i.e., a ratio of $\uparrow 1.5$ or less). Four companies with declining operating cash flow saw a 50% or greater decline in operating cash flow between 2002 and 2003 when adjusted data were employed (i.e., ratio of $\downarrow 1.5$ or greater).

The more interesting findings were with companies marked with an asterisk (*). For example, using reported operating cash flow, Honeywell International Inc. saw a decline of 7.6% in reported operating cash flow between 2002 and 2003. However, using adjusted data, Honeywell saw operating cash flow increase by 6.5%. Delta Air Lines, Inc.'s results switched in the opposite way. Delta Air Lines saw reported operating cash flow increase by 58.9% between 2002 and 2003 while adjusted operating cash flow declined by 20.0%. Similarly, at Ford Motor Company, reported operating cash flow increased by 9.1% between 2002 and 2003 while adjusted operating cash flow declined by 16.2%.

This table ranks the companies by the percentage change in adjusted operating cash flow from 2001 to 2002 divided by the percentage change in reported operating cash flow.

Company Name	2001 Reported Operating Cash Flow	2002 Reported Operating Cash Flow	Percent Increase (Decrease)	2001 Adjusted Operating Cash Flow	2002 Adjusted Operating Cash Flow	Percent Increase (Decrease)	Change in Adj. CF divided by Change in Rep. CF
Cisco Systems, Inc.	6,392	6,587	3.1%	5,172	6,698	29.5%	↑ 9.7
Delta Air Lines, Inc.	236	285	20.8%	(308)	160	151.9%	↑ 7.3
Intel Corp.	8,789	9,129	3.9%	7,625	9,642	26.5%	↑ 6.8
Baxter International Inc.	1,181	1,193	1.0%	1,160	1,222	5.3%	↑ 5.2
Oracle Corporation	2,179	3,243	48.8%	1,036	3,236	212.3%	↑ 4.3
Time Warner Inc.	5,281	7,032	33.2%	2,554	5,546	117.2%	↑ 3.5
General Dynamics Corporation	1,101	1,125	2.2%	1,078	1,139	5.6%	↑ 2.6
Lehman Brothers Holdings Inc.	301	6,017	1899.0%	(125)	5,670	4636.0%	↑ 2.4
Schlumberger N.V.	1,561	2,174	39.3%	1,083	1,909	76.3%	↑ 1.9
Norfolk Southern Corporation	654	803	22.8%	755	1,085	43.7%	↑ 1.9
Lucent Technologies, Inc.	(3,421)	(756)	77.9%	(2,580)	791	130.7%	↑ 1.7
Altria Group	8,893	10,612	19.3%	9,212	11,778	27.9%	↑ 1.4
Pfizer Inc.	8,861	9,864	11.3%	8,971	10,323	15.1%	↑ 1.3
SBC Communications Inc.	14,805	15,210	2.7%	14,999	15,471	3.1%	↑ 1.1
Merrill Lynch & Co., Inc.	8,549	19,947	133.3%	8,198	20,558	150.8%	↑ 1.1
The Procter and Gamble Co.	5,804	7,742	33.4%	6,024	8,238	36.8%	↑ 1.1
Weyerhaeuser Company	1,118	1,510	35.1%	1,062	1,471	38.5%	↑ 1.1
Nextel Communications, Inc.	1,129	2,523	123.5%	1,071	2,486	132.1%	↑ 1.1
Allegheny Technologies Inc.	123	204	65.9%	123	209	69.9%	↑ 1.1
Wal-Mart Stores, Inc.	10,519	13,005	23.6%	10,295	12,844	24.8%	↑ 1.0
Colgate-Palmolive Company	1,504	1,611	7.1%	1,451	1,557	7.3%	↑ 1.0
The Hartford Financial Services Group, Inc.	2,261	2,577	14.0%	2,201	2,517	14.4%	↑ 1.0
The Allstate Corporation	2,285	4,418	93.3%	2,303	4,500	95.4%	↑ 1.0
McDonald's Corporation	2,688	2,890	7.5%	2,706	2,913	7.7%	↑ 1.0
Verizon Communications Inc.	19,526	22,099	13.2%	19,497	22,100	13.4%	↑ 1.0
The Southern Company	2,384	2,853	19.7%	2,349	2,816	19.9%	↑ 1.0
Bank One Corporation	2,342	5,399	130.5%	2,339	5,421	131.7%	↑ 1.0
The Black & Decker Corporation	380	452	18.9%	385	459	19.1%	↑ 1.0
CIGNA Corporation	1,063	1,378	29.6%	1,095	1,418	29.5%	↑ 1.0
Morgan Stanley Dean Witter & Co.	(25,175)	(5,013)	80.1%	(25,635)	(5,239)	79.6%	↑ 1.0
Hewlett-Packard Company	2,573	5,444	111.6%	3,025	6,159	103.6%	↑ 0.9
International Paper Company	1,714	2,094	22.2%	1,983	2,392	20.6%	↑ 0.9
American International Group, Inc.	8,801	19,093	116.9%	9,373	19,198	104.8%	↑ 0.9
Honeywell International Inc.	1,996	2,380	19.2%	2,540	2,960	16.5%	↑ 0.9
MedImmune, Inc.	251	264	5.2%	245	256	4.4%	↑ 0.9
Clear Channel Communications, Inc.	610	1,748	186.6%	672	1,737	158.5%	↑ 0.8
Anheuser-Busch Companies, Inc.	2,361	2,765	17.1%	2,355	2,687	14.1%	↑ 0.8
Halliburton Company	1,029	1,562	51.8%	1,016	1,450	42.7%	↑ 0.8
Amgen Inc.	1,480	2,249	52.0%	1,350	1,910	41.5%	↑ 0.8
Merck & Co., Inc.	8,343	8,711	4.4%	8,330	8,623	3.5%	↑ 0.8
The Coca-Cola Company	4,110	4,742	15.4%	4,296	4,817	12.1%	↑ 0.8

Calculating Sustainable Cash Flow

Company Name	2001 Reported Operating Cash Flow	2002 Reported Operating Cash Flow	Percent Increase (Decrease)	2001 Adjusted Operating Cash Flow	2002 Adjusted Operating Cash Flow	Percent Increase (Decrease)	Change in Adj. CF divided by Change in Rep. CF
H.J. Heinz Company	260	714	174.6%	305	719	135.4%	↑ 0.8
Microsoft Corp.	13,422	14,509	8.1%	12,959	13,746	6.1%	↑ 0.7
U.S. Bancorp	2,182	3,786	73.5%	2,696	4,119	52.8%	↑ 0.7
Rockwell International Corporation	335	476	42.1%	368	476	29.3%	↑ 0.7
Xerox Corporation	1,754	1,980	12.9%	2,215	2,372	7.1%	↑ 0.6
The Boeing Company	3,735	4,236	13.4%	3,897	4,215	8.2%	↑ 0.6
FedEx Corporation	2,044	2,228	9.0%	2,030	2,126	4.7%	↑ 0.5
The Dow Chemical Co.	1,789	2,108	17.8%	1,973	2,139	8.4%	↑ 0.5
American Express Company	4,996	8,500	70.1%	5,077	6,689	31.8%	↑ 0.5
Raytheon Company	155	1,039	570.3%	422	1,461	246.6%	↑ 0.4
HCA Inc.	1,413	2,750	94.6%	2,001	2,686	34.3%	↑ 0.4
Pepsico Inc.	3,820	4,627	21.1%	4,050	4,312	6.5%	↑ 0.3
Unisys Corporation	202	325	60.9%	300	356	18.5%	↑ 0.3
AT&T Corp.	10,005	10,483	4.8%	10,617	10,682	0.6%	↑ 0.1
Home Depot Inc.	5,963	4,802	-19.5%	4,801	4,764	-0.8%	↓ 0.0
American Electric Power	2,818	2,067	-26.7%	2,258	2,179	-3.5%	↓ 0.1
EMC Corporation	1,631	1,446	-11.3%	1,425	1,376	-3.4%	↓ 0.3
Burlington Northern Santa Fe Corporation	2,197	2,106	-4.1%	2,201	2,164	-1.7%	↓ 0.4
Viacom Inc.	3,509	3,124	-11.0%	3,150	2,980	-5.4%	↓ 0.5
Bristol-Myers Squibb Company	5,372	945	-82.4%	5,504	2,955	-46.3%	↓ 0.6
Baker Hughes Incorporated	748	708	-5.3%	650	628	-3.4%	↓ 0.6
Medtronic, Inc.	1,832	1,590	-13.2%	1,998	1,793	-10.2%	↓ 0.8
United Technologies Corporation	2,976	2,853	-4.1%	2,797	2,706	-3.3%	↓ 0.8
Alcoa Inc.	2,411	1,839	-23.7%	2,425	1,967	-18.9%	↓ 0.8
The May Department Stores Company	1,644	1,460	-11.2%	1,631	1,481	-9.2%	↓ 0.8
Avon Products, Inc.	755	565	-25.2%	727	572	-21.4%	↓ 0.8
El Paso Corporation	4,120	436	-89.4%	2,976	910	-69.4%	↓ 0.8
Sears, Roebuck and Co.	2,315	(505)	-121.8%	2,379	(319)	-113.4%	↓ 0.9
The Walt Disney Company	3,048	2,286	-25.0%	3,074	2,358	-23.3%	↓ 0.9
Harrah's Entertainment, Inc.	787	732	-7.0%	750	706	-6.0%	↓ 0.9
Wells Fargo & Company	(10,112)	(15,458)	-52.9%	(10,200)	(15,388)	-50.9%	↓ 1.0
Citigroup Inc.	26,761	26,029	-2.7%	26,486	25,778	-2.7%	↓ 1.0
The Goldman Sachs Group, Inc.	2,865	(10,077)	-451.7%	2,831	(10,077)	-456.0%	↓ 1.0
National Semiconductor Corporation	492	108	-78.0%	506	97	-80.9%	↓ 1.0
Boise Cascade Corp	408	308	-24.5%	430	316	-26.5%	↓ 1.1
Johnson & Johnson	8,864	8,176	-7.8%	8,870	8,113	-8.5%	↓ 1.1
The Limited, Inc.	1,005	795	-20.9%	1,099	795	-27.7%	↓ 1.3
Computer Sciences	1,305	1,148	-12.0%	1,382	1,155	-16.5%	↓ 1.4
Bank of America Corporation	(13,618)	(14,443)	-6.1%	(13,524)	(14,709)	-8.8%	↓ 1.4
The Williams Companies, Inc.	1,829	(515)	-128.2%	1,311	(1,148)	-187.6%	↓ 1.5
RadioShack Corporation	776	522	-32.7%	780	406	-48.0%	↓ 1.5
Exxon Mobil Corporation	22,889	21,268	-7.1%	22,632	20,046	-11.4%	↓ 1.6
Ford Motor Company	21,780	18,513	-15.0%	31,822	18,926	-40.5%	↓ 2.7
J.P. Morgan Chase & Co.	(3,107)	(25,134)	-708.9%	(1,012)	(24,212)	-2293.6%	↓ 3.2
Entergy Corporation	2,216	2,182	-1.5%	2,252	1,875	-16.7%	↓ 10.9
The Gillette Company	2,092	2,077	-0.7%	2,175	1,922	-11.6%	↓ 16.2

Company Name	2001 Reported Operating Cash Flow	2002 Reported Operating Cash Flow	Percent Increase (Decrease)	2001 Adjusted Operating Cash Flow	2002 Adjusted Operating Cash Flow	Percent Increase (Decrease)	Change in Adj. CF divided by Change in Rep. CF
E.I. du Pont De Nemours and Company	2,454	2,439	-0.6%	5,289	2,815	-46.8%	↓ 76.5
Eastman Kodak Company	2,206	2,204	-0.1%	2,207	2,408	9.1%	↑ *
International Business Machines Corp.	13,966	13,788	-1.3%	13,235	14,662	10.8%	↑ *
Campbell Soup Company	1,106	1,017	-8.0%	978	1,029	5.2%	↑ *
The AES Corporation	1,691	1,444	-14.6%	1,537	1,587	3.3%	↑ *
General Electric Company	32,892	30,001	-8.8%	29,862	30,346	1.6%	↑ *
Minnesota Mining and Manufacturing Co.	3,078	2,992	-2.8%	3,174	3,181	0.2%	↑ *
Toys "R" Us, Inc.	504	574	13.9%	575	574	-0.2%	↓ *
Texas Instruments Incorporated	1,819	1,992	9.5%	2,071	2,020	-2.5%	↓ *
Sara Lee Corporation	1,496	1,735	16.0%	1,872	1,767	-5.6%	↓ *
Tyco International Ltd.	6,430	6,876	6.9%	6,415	5,564	-13.3%	↓ *
General Motors Corporation	12,180	15,482	27.1%	23,515	9,830	-58.2%	↓ *
Exelon Corporation	3,615	3,642	0.7%	3,424	3,099	-9.5%	↓ *

Table Legend

- ↑ Increasing year-over-year change in reported and adjusted operating cash flow
- ↓ Decreasing year-over-year change in reported and adjusted operating cash flow
- 1.0 No meaningful difference in year-over-year change for reported and adjusted operating cash flow.
- * Directional difference in year-over-year change in operating cash flow for reported and adjusted operating cash flow. The up or down arrow represents the direction of the change in adjusted operating cash flow relative to reported cash flow.

Many companies saw improvements in the year-over-year change in operating cash flow when adjusted data were employed. For example, eleven companies saw a 50% or greater increase in operating cash flow between 2001 and 2002 using adjusted data versus reported data (i.e., a ratio of $\uparrow 1.5$ or greater). Five companies with declining reported operating cash flow saw a decline in operating cash flow using adjusted data that was 50% or more less than the decline calculated using reported cash flow (i.e., a ratio of $\downarrow .5$ or less).

Other companies saw a worsening in the year-over-year change in operating cash flow when adjusted data were employed. For example, eight companies saw an increase in operating cash flow that was 50% or less than the amount calculated using reported operating cash flow (i.e., a ratio of $\uparrow .5$ or less). Eight companies with declining reported operating cash flow saw a 50% or greater decline in operating cash flow between 2001 and 2002 when adjusted data were employed (i.e., ratio of $\downarrow 1.5$ or greater).

Again, the more interesting findings were with companies marked with an asterisk (*). For example, using reported operating cash flow, General Motors saw reported operating cash flow

Calculating Sustainable Cash Flow

increase by 27.1% between 2001 and 2002 while adjusted operating cash flow declined by 58.2%. Similarly, at Tyco International Ltd., reported operating cash flow increased by 6.9% between 2001 and 2002 while adjusted operating cash flow declined by 13.3%. On the other hand, Campbell Soup Company's results switched in a positive way. Campbell Soup Company saw a decline of 8.0% in reported operating cash flow between 2001 and 2002. However, using adjusted data, Campbell saw operating cash flow increase by 5.2%.

Highlights

2003 Top Movers Largest Percentage Improvements in 2003

#1 64.9% increase

Raytheon Company	2000	2001	2002	2003
Reported operating cash flow	\$ 980	\$ 155	\$ 1,039	\$ 1,569
Adjustments:				
(Cash provided by discontinued operations)	\$ 29	\$ 596	\$ 1,196	\$ 533
(Tax benefits from stock options)	\$ -	\$ -	\$ -	\$ -
Taxes on nonoperating gains / (losses)	\$ 12	\$ 26	\$ 12	\$ 26
A/R securitization (increase) / decrease - CF	\$ -	\$ -	\$ -	\$ -
A/R securitization (increase) / decrease - Note	\$ -	\$ -	\$ -	\$ -
(Increased vendor reliance)	\$ -	\$ -	\$ -	\$ -
After tax nonrecurring operating items (gain) / loss	\$ 150	\$ (206)	\$ (648)	\$ 557
Net increase / (decrease) in trading investments in operating section	\$ -	\$ -	\$ -	\$ -
(Increase) / decrease in overdrafts in operating section	\$ -	\$ -	\$ -	\$ -
(Capitalized operating costs) in investing section	\$ (110)	\$ (149)	\$ (138)	\$ (98)
(Capitalized interest)	\$ (1)	\$ (1)	\$ -	\$ -
Adjusted operating cash flow	<u>\$ 1,060</u>	<u>\$ 422</u>	<u>\$ 1,461</u>	<u>\$ 2,587</u>

Raytheon Company had the largest percentage improvement in cash flow from the adjustments in 2003 with an increase of 64.9% over reported operating cash flow. The large size of the adjustments resulted mainly from adding back cash used by discontinued operations of \$533 million and adding a decrease in customer-related notes receivable.

#2 43.4% increase

Honeywell International Inc.	2000	2001	2002	2003
Reported operating cash flow	\$ 1,989	\$ 1,996	\$ 2,380	\$ 2,199
Adjustments:				
(Cash provided by discontinued operations)	\$ -	\$ -	\$ -	\$ -
(Tax benefits from stock options)	\$ -	\$ (38)	\$ -	\$ -
Taxes on nonoperating gains / (losses)	\$ 97	\$ 42	\$ -	\$ -
A/R securitization (increase) / decrease - CF	\$ -	\$ -	\$ -	\$ -
A/R securitization (increase) / decrease - Note	\$ -	\$ -	\$ -	\$ -
(Increased vendor reliance)	\$ -	\$ -	\$ -	\$ -
After tax nonrecurring operating items (gain) / loss	\$ 248	\$ 550	\$ 593	\$ 969
Net increase / (decrease) in trading investments in operating section	\$ -	\$ -	\$ -	\$ -
(Increase) / decrease in overdrafts in operating section	\$ -	\$ -	\$ -	\$ -
(Capitalized operating costs) in investing section	\$ -	\$ -	\$ -	\$ -
(Capitalized interest)	\$ (10)	\$ (9)	\$ (13)	\$ (15)
Adjusted operating cash flow	<u>\$ 2,324</u>	<u>\$ 2,540</u>	<u>\$ 2,960</u>	<u>\$ 3,153</u>

Honeywell International Inc. had the second largest percentage improvement in cash flow from the adjustments in 2003 with an increase of 43.4% over reported operating cash flow. The large size of the adjustments resulted mainly from adding back cash used to pay restructuring costs and asbestos related liability payments.

Largest Percentage Declines in 2003**#1 –71.7% Decrease**

Delta Air Lines, Inc.	2000	2001	2002	2003
Reported operating cash flow	\$ 2,898	\$ 236	\$ 285	\$ 453
Adjustments:				
(Cash provided by discontinued operations)	\$ -	\$ -	\$ -	\$ -
(Tax benefits from stock options)	\$ -	\$ -	\$ -	\$ -
Taxes on nonoperating gains / (losses)	\$ 116	\$ -	\$ -	\$ -
A/R securitization (increase) / decrease - CF	\$ -	\$ -	\$ -	\$ -
A/R securitization (increase) / decrease - Note	\$ -	\$ -	\$ (38)	\$ 38
(Increased vendor reliance)	\$ -	\$ -	\$ -	\$ -
After tax nonrecurring operating items (gain) / loss	\$ -	\$ (512)	\$ (72)	\$ (351)
Net increase / (decrease) in trading investments in operating section	\$ -	\$ -	\$ -	\$ -
(Increase) / decrease in overdrafts in operating section	\$ -	\$ -	\$ -	\$ -
(Capitalized operating costs) in investing section	\$ -	\$ -	\$ -	\$ -
(Capitalized interest)	\$ (28)	\$ (32)	\$ (15)	\$ (12)
Adjusted operating cash flow	<u>\$ 2,986</u>	<u>\$ (308)</u>	<u>\$ 160</u>	<u>\$ 128</u>

Delta Air Lines, Inc. had the largest percentage decline in cash flow from the adjustments in 2003 with a decrease of 71.7% from reported operating cash flow. The main adjustment of \$351 million was subtracting the nonrecurring \$398 million gain from the Appropriations Act compensation, which was offset slightly by cash restructuring payments.

#2 –48.7% Decrease

General Motors Corporation	2000	2001	2002	2003
Reported operating cash flow	\$ 21,445	\$ 12,180	\$ 15,482	\$ 7,600
Adjustments:				
(Cash provided by discontinued operations)	\$ -	\$ -	\$ -	\$ -
(Tax benefits from stock options)	\$ -	\$ -	\$ -	\$ -
Taxes on nonoperating gains / (losses)	\$ 713	\$ 29	\$ 343	\$ 384
A/R securitization (increase) / decrease - CF	\$ -	\$ -	\$ -	\$ -
A/R securitization (increase) / decrease - Note	\$ -	\$ -	\$ -	\$ -
(Increased vendor reliance)	\$ -	\$ -	\$ -	\$ -
After tax nonrecurring operating items (gain) / loss	\$ (3,006)	\$ 11,413	\$ (5,879)	\$ (4,058)
Net increase / (decrease) in trading investments in operating section	\$ -	\$ -	\$ -	\$ -
(Increase) / decrease in overdrafts in operating section	\$ -	\$ -	\$ -	\$ -
(Capitalized operating costs) in investing section	\$ -	\$ -	\$ -	\$ -
(Capitalized interest)	\$ (89)	\$ (107)	\$ (117)	\$ (27)
Adjusted operating cash flow	<u>\$ 19,063</u>	<u>\$ 23,515</u>	<u>\$ 9,830</u>	<u>\$ 3,899</u>

General Motors Corporation had the second largest percentage decline in cash flow from the adjustments in 2003. The large percentage decline resulted mainly from customer-related notes receivable. An adjustment for taxes on nonoperating gains slightly increased operating cash flow, while the capitalized interest adjustment slightly decreased operating cash flow.

Largest \$ Adjustment Amounts 2003

#1 \$ Adjustment Improvement: \$2,211 million

Pfizer Inc.	2000	2001	2002	2003
Reported operating cash flow	\$ 5,912	\$ 8,861	\$ 9,864	\$ 11,725
Adjustments:				
(Cash provided by discontinued operations)	\$ -	\$ -	\$ -	\$ -
(Tax benefits from stock options)	\$ (148)	\$ (339)	\$ -	\$ -
Taxes on nonoperating gains / (losses)	\$ 93	\$ 6	\$ 53	\$ 1,390
A/R securitization (increase) / decrease - CF	\$ -	\$ -	\$ -	\$ -
A/R securitization (increase) / decrease - Note	\$ -	\$ -	\$ -	\$ -
(Increased vendor reliance)	\$ -	\$ -	\$ -	\$ -
After tax nonrecurring operating items (gain) / loss	\$ 2,013	\$ 480	\$ 424	\$ 833
Net increase / (decrease) in trading investments in operating section	\$ -	\$ -	\$ -	\$ -
(Increase) / decrease in overdrafts in operating section	\$ -	\$ -	\$ -	\$ -
(Capitalized operating costs) in investing section	\$ -	\$ -	\$ -	\$ -
(Capitalized interest)	\$ (30)	\$ (36)	\$ (18)	\$ (13)
Adjusted operating cash flow	\$ 7,841	\$ 8,971	\$ 10,323	\$ 13,936

Pfizer had the largest dollar adjustment improvement in 2003. The main contributor to the increase of \$2,211 million was adding back the taxes on equity security gains of \$1,390 million. The restructuring costs adjustment also increased operating cash flow.

#1 \$ Adjustment Reduction: -\$4,341 million

Ford Motor Company	2000	2001	2002	2003
Reported operating cash flow	\$ 33,367	\$ 21,780	\$ 18,513	\$ 20,195
Adjustments:				
(Cash provided by discontinued operations)	\$ -	\$ -	\$ -	\$ -
(Tax benefits from stock options)	\$ -	\$ -	\$ -	\$ -
Taxes on nonoperating gains / (losses)	\$ -	\$ -	\$ -	\$ -
A/R securitization (increase) / decrease - CF	\$ -	\$ -	\$ -	\$ -
A/R securitization (increase) / decrease - Note	\$ -	\$ -	\$ -	\$ -
(Increased vendor reliance)	\$ -	\$ -	\$ -	\$ -
After tax nonrecurring operating items (gain) / loss	\$ (6,715)	\$ 11,305	\$ (5,816)	\$ (2,534)
Net increase / (decrease) in trading investments in operating section	\$ (6,980)	\$ (1,263)	\$ 6,229	\$ (1,807)
(Increase) / decrease in overdrafts in operating section	\$ -	\$ -	\$ -	\$ -
(Capitalized operating costs) in investing section	\$ -	\$ -	\$ -	\$ -
(Capitalized interest)	\$ -	\$ -	\$ -	\$ -
Adjusted operating cash flow	\$ 19,672	\$ 31,822	\$ 18,926	\$ 15,854

Ford Motor Company had the largest dollar adjustment reduction in 2003. The \$4,341 million reduction resulted mainly from the \$2,534 million customer-related notes receivable adjustment. The decrease in trading investments contributed \$1,807 million to the large downward adjustment.

2002 Top Movers

Largest Percentage Improvements in 2002

#1 212.7% increase

Bristol-Myers Squibb Company	2000	2001	2002	2003
Reported operating cash flow	\$ 4,652	\$ 5,372	\$ 945	\$ 3,512
Adjustments:				
(Cash provided by discontinued operations)	\$ (560)	\$ -	\$ -	\$ -
(Tax benefits from stock options)	\$ -	\$ -	\$ (45)	\$ -
Taxes on nonoperating gains / (losses)	\$ 239	\$ -	\$ 1,955	\$ 1
A/R securitization (increase) / decrease - CF	\$ -	\$ -	\$ -	\$ -
A/R securitization (increase) / decrease - Note	\$ -	\$ -	\$ -	\$ -
(Increased vendor reliance)	\$ -	\$ -	\$ -	\$ -
After tax nonrecurring operating items (gain) / loss	\$ 6	\$ 132	\$ 109	\$ 442
Net increase / (decrease) in trading investments in operating section	\$ -	\$ -	\$ -	\$ -
(Increase) / decrease in overdrafts in operating section	\$ -	\$ -	\$ -	\$ -
(Capitalized operating costs) in investing section	\$ -	\$ -	\$ -	\$ -
(Capitalized interest)	\$ -	\$ -	\$ (10)	\$ (23)
Adjusted operating cash flow	\$ 4,337	\$ 5,504	\$ 2,955	\$ 3,932

Bristol-Myers Squibb Company had the largest percentage improvement in cash flow from the adjustments in 2002 with an increase of 212.7% over reported operating cash flow. The large size of the adjustments resulted mainly from adding back the taxes on nonoperating gains from the sale of Clairol.

#2 204.6% increase *

Lucent Technologies, Inc.	2000	2001	2002	2003
Reported operating cash flow	\$ (703)	\$ (3,421)	\$ (756)	\$ (948)
Adjustments:				
(Cash provided by discontinued operations)	\$ -	\$ -	\$ -	\$ -
(Tax benefits from stock options)	\$ (399)	\$ (18)	\$ -	\$ -
Taxes on nonoperating gains / (losses)	\$ 139	\$ 796	\$ -	\$ -
A/R securitization (increase) / decrease - CF	\$ -	\$ -	\$ -	\$ -
A/R securitization (increase) / decrease - Note	\$ -	\$ (286)	\$ 271	\$ (324)
(Increased vendor reliance)	\$ -	\$ -	\$ -	\$ -
After tax nonrecurring operating items (gain) / loss	\$ 11	\$ 359	\$ 1,280	\$ 619
Net increase / (decrease) in trading investments in operating section	\$ -	\$ -	\$ -	\$ -
(Increase) / decrease in overdrafts in operating section	\$ -	\$ -	\$ -	\$ -
(Capitalized operating costs) in investing section	\$ -	\$ -	\$ -	\$ -
(Capitalized interest)	\$ (13)	\$ (10)	\$ (4)	\$ -
Adjusted operating cash flow	\$ (964)	\$ (2,580)	\$ 791	\$ (653)

Lucent Technologies, Inc. had the second largest percentage improvement in cash flow from the adjustments in 2002 with an increase of 204.6% over reported operating cash flow. The large size of the adjustments resulted mainly from adding back cash used to pay restructuring costs and a decrease in A/R securitization.

* While the change in cash flow from a negative number to a positive number, or the reverse, is technically not defined in percentage terms, we used the percentage in this study to show the magnitude of the impact from the adjustments on a relative basis.

Largest Percentage Declines in 2002

#1 –122.9% Decrease

The Williams Companies, Inc.	2000	2001	2002	2003
Reported operating cash flow	\$ 584	\$ 1,829	\$ (515)	\$ 770
Adjustments:				
(Cash provided by discontinued operations)	\$ (260)	\$ (447)	\$ (549)	\$ (200)
(Tax benefits from stock options)	\$ (37)	\$ (48)	\$ -	\$ -
Taxes on nonoperating gains / (losses)	\$ -	\$ -	\$ -	\$ -
A/R securitization (increase) / decrease - CF	\$ -	\$ -	\$ -	\$ -
A/R securitization (increase) / decrease - Note	\$ -	\$ -	\$ -	\$ -
(Increased vendor reliance)	\$ (1,137)	\$ -	\$ -	\$ -
After tax nonrecurring operating items (gain) / loss	\$ -	\$ -	\$ -	\$ 20
Net increase / (decrease) in trading investments in operating section	\$ -	\$ -	\$ -	\$ -
(Increase) / decrease in overdrafts in operating section	\$ -	\$ -	\$ (57)	\$ 30
(Capitalized operating costs) in investing section	\$ -	\$ -	\$ -	\$ -
(Capitalized interest)	\$ (30)	\$ (23)	\$ (27)	\$ (46)
Adjusted operating cash flow	\$ (880)	\$ 1,311	\$ (1,148)	\$ 574

The Williams Companies, Inc. had the largest percentage decline in cash flow from the adjustments in 2002 with a decrease of 122.9% from reported operating cash flow. The large size of the adjustments resulted mainly from subtracting cash provided by discontinued operations of \$549 million.

#2 –43.9% Decrease

Delta Air Lines, Inc.	2000	2001	2002	2003
Reported operating cash flow	\$ 2,898	\$ 236	\$ 285	\$ 453
Adjustments:				
(Cash provided by discontinued operations)	\$ -	\$ -	\$ -	\$ -
(Tax benefits from stock options)	\$ -	\$ -	\$ -	\$ -
Taxes on nonoperating gains / (losses)	\$ 116	\$ -	\$ -	\$ -
A/R securitization (increase) / decrease - CF	\$ -	\$ -	\$ -	\$ -
A/R securitization (increase) / decrease - Note	\$ -	\$ -	\$ (38)	\$ 38
(Increased vendor reliance)	\$ -	\$ -	\$ -	\$ -
After tax nonrecurring operating items (gain) / loss	\$ -	\$ (512)	\$ (72)	\$ (351)
Net increase / (decrease) in trading investments in operating section	\$ -	\$ -	\$ -	\$ -
(Increase) / decrease in overdrafts in operating section	\$ -	\$ -	\$ -	\$ -
(Capitalized operating costs) in investing section	\$ -	\$ -	\$ -	\$ -
(Capitalized interest)	\$ (28)	\$ (32)	\$ (15)	\$ (12)
Adjusted operating cash flow	\$ 2,986	\$ (308)	\$ 160	\$ 128

Delta Air Lines, Inc. had the largest percentage decline in cash flow from the adjustments in 2002 with a decrease of 43.9% from reported operating cash flow. Downward adjustments for A/R securitization, cash received for the Air Stabilization Act, and capitalized interest were offset slightly by an adjustment for cash restructuring payments.

Largest \$ Adjustment Amounts 2002**#1 \$ Adjustment Improvement: \$2,010 million**

Bristol-Myers Squibb Company	2000	2001	2002	2003
Reported operating cash flow	\$ 4,652	\$ 5,372	\$ 945	\$ 3,512
Adjustments:				
(Cash provided by discontinued operations)	\$ (560)	\$ -	\$ -	\$ -
(Tax benefits from stock options)	\$ -	\$ -	\$ (45)	\$ -
Taxes on nonoperating gains / (losses)	\$ 239	\$ -	\$ 1,955	\$ 1
A/R securitization (increase) / decrease - CF	\$ -	\$ -	\$ -	\$ -
A/R securitization (increase) / decrease - Note	\$ -	\$ -	\$ -	\$ -
(Increased vendor reliance)	\$ -	\$ -	\$ -	\$ -
After tax nonrecurring operating items (gain) / loss	\$ 6	\$ 132	\$ 109	\$ 442
Net increase / (decrease) in trading investments in operating section	\$ -	\$ -	\$ -	\$ -
(Increase) / decrease in overdrafts in operating section	\$ -	\$ -	\$ -	\$ -
(Capitalized operating costs) in investing section	\$ -	\$ -	\$ -	\$ -
(Capitalized interest)	\$ -	\$ -	\$ (10)	\$ (23)
Adjusted operating cash flow	<u>\$ 4,337</u>	<u>\$ 5,504</u>	<u>\$ 2,955</u>	<u>\$ 3,932</u>

Bristol-Myers Squibb Company had the largest dollar adjustment improvement in 2002. The \$2,010 million improvement resulted mainly from the \$1,955 million taxes on nonoperating gains adjustment. In addition, adding back restructuring charges further increased the large improvement.

#1 \$ Adjustment Reduction: -\$5,652 million

General Motors Corporation	2000	2001	2002	2003
Reported operating cash flow	\$ 21,445	\$ 12,180	\$ 15,482	\$ 7,600
Adjustments:				
(Cash provided by discontinued operations)	\$ -	\$ -	\$ -	\$ -
(Tax benefits from stock options)	\$ -	\$ -	\$ -	\$ -
Taxes on nonoperating gains / (losses)	\$ 713	\$ 29	\$ 343	\$ 384
A/R securitization (increase) / decrease - CF	\$ -	\$ -	\$ -	\$ -
A/R securitization (increase) / decrease - Note	\$ -	\$ -	\$ -	\$ -
(Increased vendor reliance)	\$ -	\$ -	\$ -	\$ -
After tax nonrecurring operating items (gain) / loss	\$ (3,006)	\$ 11,413	\$ (5,879)	\$ (4,058)
Net increase / (decrease) in trading investments in operating section	\$ -	\$ -	\$ -	\$ -
(Increase) / decrease in overdrafts in operating section	\$ -	\$ -	\$ -	\$ -
(Capitalized operating costs) in investing section	\$ -	\$ -	\$ -	\$ -
(Capitalized interest)	\$ (89)	\$ (107)	\$ (117)	\$ (27)
Adjusted operating cash flow	<u>\$ 19,063</u>	<u>\$ 23,515</u>	<u>\$ 9,830</u>	<u>\$ 3,899</u>

General Motors Corporation had the largest dollar adjustment reduction in 2002. The main contributor to the \$5,652 million reduction resulted from customer-related notes receivable. An adjustment for taxes on nonoperating gains increased operating cash flow slightly.

2001 Top Movers

Largest Percentage Improvements in 2001

#1 171.9% increase

Raytheon Company	2000	2001	2002	2003
Reported operating cash flow	\$ 980	\$ 155	\$ 1,039	\$ 1,569
Adjustments:				
(Cash provided by discontinued operations)	\$ 29	\$ 596	\$ 1,196	\$ 533
(Tax benefits from stock options)	\$ -	\$ -	\$ -	\$ -
Taxes on nonoperating gains / (losses)	\$ 12	\$ 26	\$ 12	\$ 26
A/R securitization (increase) / decrease - CF	\$ -	\$ -	\$ -	\$ -
A/R securitization (increase) / decrease - Note	\$ -	\$ -	\$ -	\$ -
(Increased vendor reliance)	\$ -	\$ -	\$ -	\$ -
After tax nonrecurring operating items (gain) / loss	\$ 150	\$ (206)	\$ (648)	\$ 557
Net increase / (decrease) in trading investments in operating section	\$ -	\$ -	\$ -	\$ -
(Increase) / decrease in overdrafts in operating section	\$ -	\$ -	\$ -	\$ -
(Capitalized operating costs) in investing section	\$ (110)	\$ (149)	\$ (138)	\$ (98)
(Capitalized interest)	\$ (1)	\$ (1)	\$ -	\$ -
Adjusted operating cash flow	<u>\$ 1,060</u>	<u>\$ 422</u>	<u>\$ 1,461</u>	<u>\$ 2,587</u>

Raytheon Company had the largest percentage improvement in cash from the adjustments in 2001 with an increase of 171.9% over reported operating cash flow. While the improvement percentage is somewhat skewed by the small reported operating cash flow, the adjustments resulted in a boost to operating cash flow of \$267 million. The large size of the adjustments resulted mainly from adding back cash used by discontinued operations of \$596 million.

#2 115.5% increase

E.I. du Pont De Nemours and Company	2000	2001	2002	2003
Reported operating cash flow	\$ 5,070	\$ 2,454	\$ 2,439	\$ 2,589
Adjustments:				
(Cash provided by discontinued operations)	\$ -	\$ -	\$ -	\$ -
(Tax benefits from stock options)	\$ -	\$ -	\$ -	\$ -
Taxes on nonoperating gains / (losses)	\$ -	\$ 2,251	\$ 48	\$ 33
A/R securitization (increase) / decrease - CF	\$ -	\$ -	\$ -	\$ -
A/R securitization (increase) / decrease - Note	\$ (610)	\$ 142	\$ 23	\$ 445
(Increased vendor reliance)	\$ -	\$ -	\$ -	\$ -
After tax nonrecurring operating items (gain) / loss	\$ 59	\$ 413	\$ 326	\$ 144
Net increase / (decrease) in trading investments in operating section	\$ -	\$ -	\$ -	\$ -
(Increase) / decrease in overdrafts in operating section	\$ (56)	\$ 68	\$ 9	\$ (21)
(Capitalized operating costs) in investing section	\$ -	\$ -	\$ -	\$ -
(Capitalized interest)	\$ (45)	\$ (39)	\$ (30)	\$ (17)
Adjusted operating cash flow	<u>\$ 4,418</u>	<u>\$ 5,289</u>	<u>\$ 2,815</u>	<u>\$ 3,173</u>

E.I. du Pont De Nemours and Company had the second largest percentage improvement in cash flow from the adjustments in 2001 with an increase of 115.5% over reported operating cash flow. The main adjustment came from taxes on nonoperating gains, which was the result of a gain on the sale of DuPont Pharmaceuticals. In addition, adjustments that increased operating cash flow included a decrease in A/R securitization and a restructuring charge, while capitalized interest decreased operating cash flow.

Largest Percentage Declines in 2001**#1 –230.5% Decrease ***

Delta Air Lines, Inc.	2000	2001	2002	2003
Reported operating cash flow	\$ 2,898	\$ 236	\$ 285	\$ 453
Adjustments:				
(Cash provided by discontinued operations)	\$ -	\$ -	\$ -	\$ -
(Tax benefits from stock options)	\$ -	\$ -	\$ -	\$ -
Taxes on nonoperating gains / (losses)	\$ 116	\$ -	\$ -	\$ -
A/R securitization (increase) / decrease - CF	\$ -	\$ -	\$ -	\$ -
A/R securitization (increase) / decrease - Note	\$ -	\$ -	\$ (38)	\$ 38
(Increased vendor reliance)	\$ -	\$ -	\$ -	\$ -
After tax nonrecurring operating items (gain) / loss	\$ -	\$ (512)	\$ (72)	\$ (351)
Net increase / (decrease) in trading investments in operating section	\$ -	\$ -	\$ -	\$ -
(Increase) / decrease in overdrafts in operating section	\$ -	\$ -	\$ -	\$ -
(Capitalized operating costs) in investing section	\$ -	\$ -	\$ -	\$ -
(Capitalized interest)	\$ (28)	\$ (32)	\$ (15)	\$ (12)
Adjusted operating cash flow	<u>\$ 2,986</u>	<u>\$ (308)</u>	<u>\$ 160</u>	<u>\$ 128</u>

In 2001, Delta Air Lines, Inc. had the largest percentage decline in cash flow from the adjustments with a decrease of 230.5% from reported operating cash flow. An adjustment for after-tax nonrecurring gains from the Air Stabilization Act of \$512 million was the main contributor to the decline.

#2 –141.5% Decrease *

Lehman Brothers Holdings Inc.	2000	2001	2002	2003
Reported operating cash flow	\$ (13,531)	\$ 301	\$ 6,017	\$ 2,547
Adjustments:				
(Cash provided by discontinued operations)	\$ -	\$ -	\$ -	\$ -
(Tax benefits from stock options)	\$ (373)	\$ (426)	\$ (347)	\$ (214)
Taxes on nonoperating gains / (losses)	\$ -	\$ -	\$ -	\$ -
A/R securitization (increase) / decrease - CF	\$ -	\$ -	\$ -	\$ -
A/R securitization (increase) / decrease - Note	\$ -	\$ -	\$ -	\$ -
(Increased vendor reliance)	\$ -	\$ -	\$ -	\$ -
After tax nonrecurring operating items (gain) / loss	\$ -	\$ -	\$ -	\$ -
Net increase / (decrease) in trading investments in operating section	\$ -	\$ -	\$ -	\$ -
(Increase) / decrease in overdrafts in operating section	\$ -	\$ -	\$ -	\$ -
(Capitalized operating costs) in investing section	\$ -	\$ -	\$ -	\$ -
(Capitalized interest)	\$ -	\$ -	\$ -	\$ -
Adjusted operating cash flow	<u>\$ (13,904)</u>	<u>\$ (125)</u>	<u>\$ 5,670</u>	<u>\$ 2,333</u>

Lehman Brothers Holdings Inc. had the second largest percentage decline in cash flow from the adjustments in 2001 with a decrease of 141.5% from reported operating cash flow. The only adjustment was tax benefits from stock options, which resulted in subtracting \$426 million from operating cash flow.

* While the change in cash flow from a negative number to a positive number, or the reverse, is technically not defined in percentage terms, we used the percentage in this study to show the magnitude of the impact from the adjustments on a relative basis.

Largest \$ Adjustment Amounts 2001

#1 \$ Adjustment Improvement: \$11,335 million

General Motors Corporation	2000	2001	2002	2003
Reported operating cash flow	\$ 21,445	\$ 12,180	\$ 15,482	\$ 7,600
Adjustments:				
(Cash provided by discontinued operations)	\$ -	\$ -	\$ -	\$ -
(Tax benefits from stock options)	\$ -	\$ -	\$ -	\$ -
Taxes on nonoperating gains / (losses)	\$ 713	\$ 29	\$ 343	\$ 384
A/R securitization (increase) / decrease - CF	\$ -	\$ -	\$ -	\$ -
A/R securitization (increase) / decrease - Note	\$ -	\$ -	\$ -	\$ -
(Increased vendor reliance)	\$ -	\$ -	\$ -	\$ -
After tax nonrecurring operating items (gain) / loss	\$ (3,006)	\$ 11,413	\$ (5,879)	\$ (4,058)
Net increase / (decrease) in trading investments in operating section	\$ -	\$ -	\$ -	\$ -
(Increase) / decrease in overdrafts in operating section	\$ -	\$ -	\$ -	\$ -
(Capitalized operating costs) in investing section	\$ -	\$ -	\$ -	\$ -
(Capitalized interest)	\$ (89)	\$ (107)	\$ (117)	\$ (27)
Adjusted operating cash flow	\$ 19,063	\$ 23,515	\$ 9,830	\$ 3,899

General Motors Corporation had the largest dollar adjustment improvement in 2001. The \$11,335 million adjustment resulted almost solely from customer-related notes receivable. An adjustment for taxes on nonoperating gains slightly increased operating cash flow, while the capitalized interest adjustment slightly decreased operating cash flow.

#1 \$ Adjustment Reduction: -\$3,030 million

General Electric Company	2000	2001	2002	2003
Reported operating cash flow	\$ 22,690	\$ 32,892	\$ 30,001	\$ 30,289
Adjustments:				
(Cash provided by discontinued operations)	\$ -	\$ -	\$ -	\$ -
(Tax benefits from stock options)	\$ -	\$ -	\$ -	\$ -
Taxes on nonoperating gains / (losses)	\$ 1,458	\$ 790	\$ 449	\$ 131
A/R securitization (increase) / decrease - CF	\$ -	\$ -	\$ -	\$ -
A/R securitization (increase) / decrease - Note	\$ -	\$ -	\$ -	\$ -
(Increased vendor reliance)	\$ -	\$ (3,756)	\$ -	\$ -
After tax nonrecurring operating items (gain) / loss	\$ -	\$ -	\$ (70)	\$ -
Net increase / (decrease) in trading investments in operating section	\$ -	\$ -	\$ -	\$ -
(Increase) / decrease in overdrafts in operating section	\$ -	\$ -	\$ -	\$ -
(Capitalized operating costs) in investing section	\$ -	\$ -	\$ -	\$ -
(Capitalized interest)	\$ (81)	\$ (64)	\$ (34)	\$ (28)
Adjusted operating cash flow	\$ 24,067	\$ 29,862	\$ 30,346	\$ 30,392

General Electric Company had the largest dollar adjustment reduction in 2001. Increased vendor reliance was the main contributor to the \$3,030 million reduction as accounts payable increased 22% while revenues decreased 3% resulting in an adjustment of \$3,756 million that reduced operating cash flow. An adjustment for taxes on gains on sales of securities increased operating cash flow, while the capitalized interest adjustment slightly decreased operating cash flow.

The Source of the Adjustments

The following tables provide valuable insight into which cash flow adjustments are most prominent and prevalent in the Adjusted Operating Cash Flow and the S&P 100 project

Weighted Average

Table 1

Weighted Average % of Reported OCF	2001 +	2001 -	2002 +	2002 -	2003 +	2003 -
Reported operating cash flow						
Adjustments:						
(Cash provided by discontinued operations)	3.99%	-0.73%	1.87%	-1.66%	0.36%	-0.43%
(Tax benefits from stock options)	0.00%	-3.47%	0.00%	-0.90%	0.00%	-0.81%
Taxes on nonoperating gains / (losses)	2.75%	0.00%	3.02%	0.00%	0.98%	0.00%
A/R securitization (increase) / decrease - CF	0.00%	-0.18%	0.01%	-0.05%	0.02%	0.00%
A/R securitization (increase) / decrease - Note	0.47%	-0.88%	0.98%	-0.37%	0.56%	-0.71%
(Increased vendor reliance)	0.00%	-0.78%	0.00%	-1.45%	0.00%	-0.71%
After tax nonrecurring operating items (gain) / loss	6.13%	-3.56%	5.32%	-1.76%	4.15%	-2.01%
Net increase / (decrease) in trading investments in operating section	0.02%	-0.16%	0.39%	-0.01%	0.05%	-0.09%
(Increase) / decrease in overdrafts in operating section	0.10%	-0.01%	0.01%	-0.15%	0.04%	-0.02%
(Capitalized operating costs) in investing section	0.00%	-1.39%	0.00%	-0.41%	0.00%	-0.26%
(Capitalized interest)	0.00%	-0.80%	0.00%	-0.62%	0.00%	-0.44%
Adjusted operating cash flow	13.46%	-11.97%	11.58%	-7.38%	6.17%	-5.47%
Percentage adjustment	1.49%		4.20%		0.70%	
Weighted Average % of Total Adjustment	2001 +	2001 -	2002 +	2002 -	2003 +	2003 -
Reported operating cash flow						
Adjustments:						
(Cash provided by discontinued operations)	29.61%	-6.13%	16.13%	-22.50%	5.91%	-7.81%
(Tax benefits from stock options)	0.00%	-29.01%	0.00%	-12.26%	0.00%	-14.74%
Taxes on nonoperating gains / (losses)	20.45%	0.00%	26.06%	0.00%	15.95%	0.00%
A/R securitization (increase) / decrease - CF	0.00%	-1.47%	0.07%	-0.65%	0.36%	0.00%
A/R securitization (increase) / decrease - Note	3.50%	-7.38%	8.43%	-4.97%	9.12%	-12.94%
(Increased vendor reliance)	0.00%	-6.49%	0.00%	-19.68%	0.00%	-13.03%
After tax nonrecurring operating items (gain) / loss	45.52%	-29.76%	45.93%	-23.83%	67.19%	-36.77%
Net increase / (decrease) in trading investments in operating section	0.16%	-1.34%	3.33%	-0.09%	0.85%	-1.66%
(Increase) / decrease in overdrafts in operating section	0.75%	-0.08%	0.05%	-2.04%	0.63%	-0.38%
(Capitalized operating costs) in investing section	0.00%	-11.62%	0.00%	-5.58%	0.00%	-4.71%
(Capitalized interest)	0.00%	-6.72%	0.00%	-8.40%	0.00%	-7.97%
Adjusted operating cash flow	100.00%	-100.00%	100.00%	-100.00%	100.00%	-100.00%

Table 1 provides the summary data for the weighted average totals for the cash flow adjustments and the magnitude of the various adjustments on the total adjustment. In Table 1, the various adjustments are divided by Reported Operated Cash Flow for each company and then averaged for the S&P 100 as a whole. The second part of Table 1 divides the contribution of each

adjustment by the total adjustment for each positive and negative adjustment to show their relevant contribution to the total adjustment.

As shown by the table, taxes on nonoperating gains and after tax nonrecurring operating items loss were the two largest positive adjustments over the three year study period. Taxes on nonoperating gains comprised 20.45%, 26.06%, and 15.95% of the total adjustment increase in 2001, 2002, and 2003 respectively. After tax nonrecurring operating items loss contributed 45.52%, 45.93%, and 67.19% of the total adjustment increase respectively. In addition, cash used in discontinued operations accounted for 29.61% of the total increase in 2001 and 16.13% in 2002.

The three largest downward adjustments over the study period were (tax benefits from stock options), after tax nonrecurring operating items (gain), which includes adjustments for customer-related receivables, and increased vendor reliance. (Tax benefits from stock options) lowered cash flow by -29.01%, -12.26%, and -14.74% of the total adjustment decrease in 2001, 2002, and 2003 respectively. After tax nonrecurring operating items (gain) adjustments lowered cash flow by -29.76%, -23.83%, and -36.77% respectively. Increased vendor reliance was the next largest contributor to the downward adjustments consisting of -19.68% in 2002 and -13.03% in 2003 of the total for those years. In addition, cash provided by discontinued operations accounted for 22.50% of the total decrease in 2002.

Calculating Sustainable Cash Flow

Frequency Table 2

Frequency of Adjustments	2001	2002	2003	2001 +	2001 -	2002 +	2002 -	2003 +	2003 -
Reported operating cash flow	100	100	100						
Adjustments:									
(Cash provided by discontinued operations)	13	12	12	5	8	6	6	3	9
(Tax benefits from stock options)	43	38	32	0	43	0	38	0	32
Taxes on nonoperating gains / (losses)	52	43	46	52	0	43	0	46	0
A/R securitization (increase) / decrease - CF	2	2	1	0	2	1	1	1	0
A/R securitization (increase) / decrease - Note	14	16	15	4	10	9	7	7	8
(Increased vendor reliance)	6	10	3	0	6	0	10	0	3
After tax nonrecurring operating items (gain) / loss	76	79	81	69	7	66	13	63	18
Net increase / (decrease) in trading investments in operating section	3	3	4	1	2	2	1	2	2
(Increase) / decrease in overdrafts in operating section	4	4	4	3	1	2	2	1	3
(Capitalized operating costs) in investing section	5	5	5	0	5	0	5	0	5
(Capitalized interest)	58	58	56	0	58	0	58	0	56
Operating cash flow adjustments	276	270	259	134	142	129	141	123	136
Frequency % of total adjustments	2001	2002	2003	2001 +	2001 -	2002 +	2002 -	2003 +	2003 -
Reported operating cash flow	100	100	100						
Adjustments:									
(Cash provided by discontinued operations)	4.71%	4.44%	4.63%	1.81%	2.90%	2.22%	2.22%	1.16%	3.47%
(Tax benefits from stock options)	15.58%	14.07%	12.36%	0.00%	15.58%	0.00%	14.07%	0.00%	12.36%
Taxes on nonoperating gains / (losses)	18.84%	15.93%	17.76%	18.84%	0.00%	15.93%	0.00%	17.76%	0.00%
A/R securitization (increase) / decrease - CF	0.72%	0.74%	0.39%	0.00%	0.72%	0.37%	0.37%	0.39%	0.00%
A/R securitization (increase) / decrease - Note	5.07%	5.93%	5.79%	1.45%	3.62%	3.33%	2.59%	2.70%	3.09%
(Increased vendor reliance)	2.17%	3.70%	1.16%	0.00%	2.17%	0.00%	3.70%	0.00%	1.16%
After tax nonrecurring operating items (gain) / loss	27.54%	29.26%	31.27%	25.00%	2.54%	24.44%	4.81%	24.32%	6.95%
Net increase / (decrease) in trading investments in operating section	1.09%	1.11%	1.54%	0.36%	0.72%	0.74%	0.37%	0.77%	0.77%
(Increase) / decrease in overdrafts in operating section	1.45%	1.48%	1.54%	1.09%	0.36%	0.74%	0.74%	0.39%	1.16%
(Capitalized operating costs) in investing section	1.81%	1.85%	1.93%	0.00%	1.81%	0.00%	1.85%	0.00%	1.93%
(Capitalized interest)	21.01%	21.48%	21.62%	0.00%	21.01%	0.00%	21.48%	0.00%	21.62%
Operating cash flow adjustments	100.00%	100.00%	100.00%	48.55%	51.45%	47.78%	52.22%	47.49%	52.51%

Table 2 provides the frequency data for the cash flow adjustments and the percentage of the total occurrence of the various adjustments. The total number of adjustments remains fairly steady over the three year study period, decreasing slightly from 276 in 2001, to 270 in 2002, to 259 in 2003. In each year, the number of upward adjustments roughly equaled the number of downward adjustments. For all three years, taxes on nonoperating gains and after tax nonrecurring operating items loss were the two most frequent upward adjustments, and also the largest adjustments as shown above in Table 1. Likewise for all three years, (tax benefits from stock options) and (capitalized interest) were the two most frequent downward adjustments. While (tax benefits from stock options) was one of the larger downward revisions, (capitalized interest) did not contribute much to the overall downward adjustments.

Overall Totals

Table 3

Overall Average	2001	2002	2003	2001 +	2001 -	2002 +	2002 -	2003 +	2003 -
Reported operating cash flow	\$ 3,647	\$ 3,911	\$ 5,039						
Adjustments:									
(Cash provided by discontinued operations)	\$ (13)	\$ (22)	\$ (6)	0.00%	-0.35%	0.00%	-0.57%	0.00%	-0.11%
(Tax benefits from stock options)	\$ (104)	\$ (47)	\$ (44)	0.00%	-2.85%	0.00%	-1.20%	0.00%	-0.87%
Taxes on nonoperating gains / (losses)	\$ 88	\$ 65	\$ 68	2.43%	0.00%	1.67%	0.00%	1.35%	0.00%
A/R securitization (increase) / decrease - CF	\$ (6)	\$ (0)	\$ 1	0.00%	-0.17%	0.00%	0.00%	0.02%	0.00%
A/R securitization (increase) / decrease - Note	\$ (25)	\$ 10	\$ (0)	0.00%	-0.67%	0.25%	0.00%	0.00%	-0.01%
(Increased vendor reliance)	\$ (63)	\$ (40)	\$ (11)	0.00%	-1.74%	0.00%	-1.02%	0.00%	-0.21%
After tax nonrecurring operating items (gain) / loss	\$ 334	\$ (25)	\$ (3)	9.16%	0.00%	0.00%	-0.65%	0.00%	-0.05%
Net increase / (decrease) in trading investments in operating section	\$ (21)	\$ 67	\$ (13)	0.00%	-0.59%	1.70%	0.00%	0.00%	-0.25%
(Increase) / decrease in overdrafts in operating section	\$ 2	\$ (1)	\$ (0)	0.05%	0.00%	0.00%	-0.03%	0.00%	0.00%
(Capitalized operating costs) in investing section	\$ (8)	\$ (7)	\$ (4)	0.00%	-0.23%	0.00%	-0.17%	0.00%	-0.09%
(Capitalized interest)	\$ (22)	\$ (18)	\$ (14)	0.00%	-0.59%	0.00%	-0.45%	0.00%	-0.29%
Adjusted operating cash flow	<u>\$ 3,809</u>	<u>\$ 3,892</u>	<u>\$ 5,014</u>	<u>11.64%</u>	<u>-7.18%</u>	<u>3.62%</u>	<u>-4.09%</u>	<u>1.38%</u>	<u>-1.88%</u>
Total Adjustment	\$ 162	\$ (18)	\$ (26)	424	(262)	142	(160)	69	(95)
Percentage adjustment	4.45%	-0.47%	-0.51%						

Table 3 provides the cash flow adjustment sum totals for the S&P 100 as a whole. This table shows the relative size of the adjustments versus the overall reported operating cash flow.

Conclusions

It is difficult to overstate the importance of corporate cash flow, in particular, operating cash flow, to overall corporate financial health and valuation. Operating cash flow is viewed as a more sustainable and discretionary source of cash that can be used for such designated purposes as debt service, reinvestment, stock buybacks, dividends and the like. Indeed, fundamental concepts of finance and valuation are based on projections of cash flow. Typically these projections of cash flow use free cash flow, typically defined as operating cash flow adjusted for capital expenditures and preferred dividends. Thus, our very concept of firm value is linked inextricably to measures of operating cash flow.

With this in mind, the results of the study indicated that the process of adjusting of operating cash flow was a worthwhile exercise. A significant number of companies were affected as the adjustments changed reported operating cash flow results by 5% or greater for 52 companies in 2001, 43 companies in 2002, and 37 companies in 2003. With the adjustments changing cash flow by more than 50% for eight companies in 2001, four companies in 2002, and two companies in 2003, using the reported operating cash flow figure to support an earnings figure or for use in valuation is a risky proposition.

Reconciliations

A complete list of reconciliations, which reconcile operating cash flow to adjusted operating cash flow, for all of the S & P 100 companies can be found at:

http://www.mgt.gatech.edu/fac_research/centers_initiatives/finlab_reports.html

In the file, the reconciliations are presented alphabetically by ticker symbol.

S & P 100 Company List

Company Name	Symbol	Company Name	Symbol
Alcoa Inc.	AA	Intel Corp.	INTC
American Electric Power	AEP	International Paper Company	IP
The AES Corporation	AES	Johnson & Johnson	JNJ
American International Group, Inc.	AIG	J.P. Morgan Chase & Co.	JPM
The Allstate Corporation	ALL	The Coca-Cola Company	KO
Amgen Inc.	AMGN	Lehman Brothers Holdings Inc.	LEH
Allegheny Technologies Inc.	ATI	The Limited, Inc.	LTD
Avon Products, Inc.	AVP	Lucent Technologies, Inc.	LU
American Express Company	AXP	The May Department Stores Company	MAY
The Boeing Company	BA	McDonald's Corporation	MCD
Bank of America Corporation	BAC	MedImmune, Inc.	MEDI
Baxter International Inc.	BAX	Medtronic, Inc.	MDT
Boise Cascade Corp	BCC	Merrill Lynch & Co., Inc.	MER
The Black & Decker Corporation	BDK	Minnesota Mining and Manufacturing Company	MMM
Baker Hughes Incorporated	BHI	Merck & Co., Inc.	MRK
Bristol-Myers Squibb Company	BMJ	Altria Group	MO
Burlington Northern Santa Fe Corporation	BNI	Microsoft Corp.	MSFT
Anheuser-Busch Companies, Inc.	BUD	Morgan Stanley Dean Witter & Co.	MWD
Citigroup Inc.	C	Norfolk Southern Corporation	NSC
Clear Channel Communications, Inc.	CCU	National Semiconductor Corporation	NSM
CIGNA Corporation	CI	Nextel Communications, Inc.	NXTL
Colgate-Palmolive Company	CL	Bank One Corporation	ONE
Campbell Soup Company	CPB	Oracle Corporation	ORCL
Computer Sciences	CSC	Pepsico Inc.	PEP
Cisco Systems, Inc.	CSCO	Pfizer Inc.	PFE
Delta Air Lines, Inc.	DAL	The Procter and Gamble Co.	PG
E.I. du Pont De Nemours and Company	DD	Rockwell International Corporation	ROK
The Walt Disney Company	DIS	RadioShack Corporation	RSH
The Dow Chemical Co.	DOW	Raytheon Company	RTN
Eastman Kodak Company	EK	Sears, Roebuck and Co.	S
EMC Corporation	EMC	SBC Communications Inc.	SBC
El Paso Corporation	EP	Schlumberger N.V.	SLB
Entergy Corporation	ETR	Sara Lee Corporation	SLE
Exelon Corporation	EXC	The Southern Company	SO
Ford Motor Company	F	AT&T Corp.	T
FedEx Corporation	FDX	Toys "R" Us, Inc.	TOY
The Gillette Company	G	Texas Instruments Incorporated	TXN
General Dynamics Corporation	GD	Time Warner Inc.	TWX
General Electric Company	GE	Tyco International Ltd.	TYC
General Motors Corporation	GM	Unisys Corporation	UIS
The Goldman Sachs Group, Inc.	GS	U.S. Bancorp	USB
Halliburton Company	HAL	United Technologies Corporation	UTX
HCA Inc.	HCA	Viacom Inc.	VIA.B
Home Depot Inc.	HD	Verizon Communications Inc.	VZ
Harrah's Entertainment, Inc.	HET	Wells Fargo & Company	WFC
The Hartford Financial Services Group, Inc.	HIG	The Williams Companies, Inc.	WMB
H.J. Heinz Company	HNZ	Wal-Mart Stores, Inc.	WMT
Honeywell International Inc.	HON	Weyerhaeuser Company	WY
Hewlett-Packard Company	HPQ	Exxon Mobil Corporation	XOM
International Business Machines Corporation	IBM	Xerox Corporation	XRX