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Cash-Flow Reporting Practices for Insurance Proceeds Related to PP&E

Executive Summary

According to SFAS No. 95, *Statement of Cash Flows*, insurance settlement proceeds received that are directly related to investing activities such as the destruction of a building or damage sustained by equipment are to be reported as investing cash flow. Proceeds received from insurance settlements related to property, plant, or equipment are analogous to proceeds received from the sale or disposal of property, plant, or equipment, and hence, should be afforded similar treatment, as investing cash flow.

Companies, however, differ in their treatment of such insurance proceeds. Some companies report them as investing cash flow while others report such cash flows as operating cash flow, potentially distorting cross-company comparisons. Overstatements of operating cash flow can arise when PP&E-related insurance proceeds are included. In this study, we highlight the cash flow reporting practices for insurance proceeds related to property, plant, and equipment and detail the inconsistencies noted.

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Georgia Tech Financial Analysis Lab

The Georgia Tech Financial Analysis Lab conducts unbiased stock market research. 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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Introduction

Cash flow provided by operating activities, or simply operating cash flow, is a critical component in determining a company's ability to meet debt obligations and to fund ongoing operations. Unlike cash provided or used by investing or financing activities, operating cash flow is viewed as a more sustainable or recurring source of cash. The ability to generate it is considered to be one measure of a firm's financial well being. Firms reporting positive operating cash flow are considered to have more financial flexibility and discretion in pursuing corporate objectives.

However, the importance of operating cash flow to a firm's financial health notwithstanding, the classification of cash flows into operating, investing and financing activities is not uniform. What one company reports as operating cash flow, another may classify as investing cash flow. Accordingly, analysts can be misled in their assessments of financial performance.

The objective of this report is to examine cash flow reporting practices for insurance reimbursements related to damaged property, plant and equipment items. What we find is that while many companies report such proceeds as investing cash flow, much as they would the cash received from the disposition of such assets, there are examples of firms who report such cash receipts as operating cash flow.

Statement of Financial Accounting Standards No. 95

SFAS No. 95, *Statement of Cash Flows*, provides guidance on classifying cash receipts and payments as operating, investing, or financing activities. While it specifically states the types of transactions that are to be classified as investing or financing, it states that "operating activities include all transactions and other events that are not defined as investing or financing activities" and that "operating activities generally involve producing and delivering goods and providing services" (SFAS No. 95, para. 21).

Furthermore, SFAS No. 95 includes a few examples of what constitutes cash inflows from operating activities among which the following were listed:

> "All other cash receipts that do not stem from transactions defined as investing or financing activities, such as amounts received to settle lawsuits; proceeds of insurance settlements *except for those that are directly related to investing or financing activities, such as from destruction of a building*; and refunds from suppliers." (SFAS No. 95, para. 22c, emphasis added)

This excerpt from SFAS No. 95 indicates that proceeds from insurance settlements should be classified as operating cash flow except for proceeds received that are directly related to investing activities. Moreover, the accounting standard is very clear in its classification as investing cash flow of proceeds of insurance settlements from the "destruction of a building", which is one example of an item of property, plant, and equipment.

Classification of Insurance Proceeds

Operating cash flows are effectively a company's cash basis revenues and expenses that result from its production and delivery of goods or services. Investing cash flows result from activities that contribute to a company's productive capacity, such as the purchase or sale of property, plant, and equipment, or from other investment type activities. According to SFAS No. 95, insurance proceeds received from damage sustained to an item of property, plant and equipment is tantamount to a sale or partial sale – an investing activity.

For example, the initial cash flow to acquire and setup a plant facility would be classified as an investing use of cash. If the plant were to be sold for cash, the proceeds would be classified as an investing source of cash. Therefore, if it were destroyed, any insurance proceeds to replace it should be reflected similarly as an investing source of cash, just as the facility's replacement would be reported as an investing use of cash. An operating cash flow designation would be inappropriate and inconsistent with the classification of the cash paid to replace the facility.

In some instances it is appropriate to classify insurance proceeds as operating cash flow. For example, proceeds from business interruption claims should be considered operating cash flow because the company is effectively being reimbursed for higher operating costs. However, typical proceeds from claims related to property, plant, or equipment are reimbursements for loss of property value or property replacement. Just as the purchase or sale of property, plant, and equipment is an investing activity, insurance proceeds that are meant to reimburse a company for damage to PP&E should also be considered to be an investing activity. Another instance in which classification of insurance proceeds as operating cash flow would be appropriate is when the proceeds are primarily used for ordinary repairs, from minor damage for example. However, in cases where the proceeds are used for major repairs sustained from extraordinary damage or repairs that result in capitalization of an asset or part of an asset an investing cash flow would be more appropriate. Again, just as the purchase of property, plant, and equipment would add to a company's capital asset base, insurance proceeds used to add or replenish a company's capital asset base would warrant an investing cash flow treatment.

Significance to Operating Cash Flow and Free Cash Flow

As mentioned earlier, operating cash flow is a primary component of the financial statements that signifies a company's ability to generate cash from operations. Inconsistencies in the reporting of insurance proceeds from damage sustained to PP&E can lead to problems when comparing results across companies and impair analysis.

Overstatements in operating cash flow can arise when insurance proceeds that relate to the settlement of claims from damage to PP&E are classified as operating cash flow on the statement of cash flows. These insurance proceeds in substance do not represent the cash flow generated by operations; rather, they represent a change in the company's productive capacity, as measured by its investing activities.

Operating cash flow is one of the primary components in determining a company's free cash flow. A common definition of free cash flow is cash provided by operating activities less capital expenditures. Because replacement of damaged PP&E would increase capital expenditures, inclusion in operating cash flow of insurance proceeds from damage sustained would not overstate free cash flow. However, given the prominent display and use of operating cash flow in its own right, there is a very real possibility that analysts and investors may be misled by the inclusion in operating cash flow of investing-related insurance proceeds.

The Study

Our study looked at non-financial firms who reported insurance proceeds stemming from claims related to property, plant, or equipment in their filings with the SEC. We focus on identifying the event, the amount of the insurance proceeds and the classification of those proceeds. An insurance settlement that in effect increases operating cash flow could be the receipt of insurance proceeds or a decrease in an insurance-related receivable. We then examined the event to determine whether, depending on what the insurance reimbursement covered and the extent of damage, the proceeds should be considered to be operating or investing cash flow. An adjusted measure of operating cash flow is then calculated and presented.

Results

Exhibit 1 presents instances where insurance proceeds for destroyed or impaired PP&E were reported as investing cash flow. We maintain that this is the most appropriate treatment and is consistent with the reporting of cash used if the property were purchased or the cash received if the property were sold.

In Exhibit 2, we also present companies who received insurance proceeds related to damage sustained by PP&E. However, in these instances, the claim is primarily related to a reimbursement received for business interruption. Because the claim was related primarily to business interruption, an operating cash flow classification for the insurance proceeds appears to be appropriate as the proceeds, in substance, are a reimbursement for higher operating costs.

Some companies however reported insurance proceeds related to PP&E as operating cash flow. These proceeds did not appear to include reimbursement for business interruption, but for damaged property, plant, or equipment. Exhibit 3 provides a list of these companies. These proceeds are similar to the proceeds that would be received if the company were to sell the property, plant, or equipment, in which case the proceeds would be reported as investing cash flow. In essence, the proceeds represent capital expenditures recovered through insurance. As we present later in this report, when compared with companies who did not report insurance proceeds as operating cash flow, these companies appear to have inflated their operating cash flow.

Exhibit 1: Insurance Proceeds Reported in Investing Activities of the Statement of Cash Flows

Company	Fiscal YE	Insurance Claim	Insurance Proceeds
Actuant Corp	08/31/02	Fire damaged portion of building, inventory and property, plant and equipment	2,858,000
American Media Operations Inc	03/31/03	Headquarters facility closed due to anthrax	3,785,000
Cost-U-Less, Inc	12/26/04	Damage to inventory and equipment from supertyphoon	725,000
DirecTV Group Inc (filed as Hughes Electronics Corporation)	12/31/02	Satellite circuit failures	215,000,000
Dow Jones & Co Inc	12/31/02	Headquarters damaged during World Trade Center attack	16,918,000
Evergreen Holdings Inc	02/29/04	Insurance settlement to repair a damaged aircraft	8,183,000
Galyans Trading Co Inc	01/31/04	Store location destroyed by a tornado	1,225,000
Great Lakes Aviation Ltd	12/31/02	Hangar fire destroyed aircraft and inventory	2,187,808
Instinet Group Inc	12/31/03	Fixed assets lost at World Trade Center	10,481,000
Intermet Corp	12/31/01	Insurance recovery related to replacement of PPE for fire at foundry	3,389,000
Paxson Communications Corp	12/31/02	Property insurance proceeds received for temporary loss of broadcast signal of our New York television station when antenna, transmitter and other broadcast equipment were destroyed at World Trade Center	2,722,000
Superior Energy Services	12/31/03	Vessel lost in tropical storm	8,000,000
US Lec Corp	12/31/03	Damage of telecommunications switch facilities	2,256,000
Westlake Chemical Corp	12/31/03	Fire at ethylene plant	3,350,000

Note: Insurance proceeds are net proceeds reported in the Statement of Cash Flows

Exhibit 2: Insurance Proceeds for Business Interruption Reported in Operating Activities of the Statement of Cash Flows

Company	Fiscal YE	Insurance Claim	Insurance Proceeds
Chevron Phillips Chemical Company LLC	12/31/02	Business interruption insurance claim from fire at plant	169,000,000 [2]
Intermet Corp	12/31/01	Insurance recovery related to business interruption for fire at foundry	13,400,000 [2]
Palmone Inc	05/28/04	Partial insurance settlement of a business interruption claim	12,700,000 [2]
Paxson Communications Corp	12/31/02	Business interruption insurance proceeds received for temporary loss of broadcast signal of our New York television station when antenna, transmitter and other broadcast equipment were destroyed during WTC 9/11	1,617,000 [1]

1 – As reported in the Income Statement

2 – As reported in the Notes to the Financial Statements

Exhibit 3: Insurance Proceeds Reported in Operating Activities of the Statement of Cash Flows

Company	Fiscal YE	Insurance Claim	Insurance Proceeds [3]
Arch Chemicals Inc	12/31/04	Insurance settlement for reimbursement of past and expected future repairs and maintenance expense for storm damage at manufacturing facilities	3,300,000 [2]
Cherokee International Corp	01/02/05	Fire destroyed inventory, property, and equipment	158,000 [2]
Eagle Picher Holdings, Inc	11/30/03	Fire at non-operating facility	7,848,000 [1]
Finish Line Inc	02/28/04 03/01/03	Tornado damage at corporate office and distribution center, including damage to inventory, property, and equipment	1,228,000 [2] 3,000,000 [2]
Gulfport Energy Corp	12/31/03	Storm damage to production facilities	2,510,000 [1]
Home Products International	01/01/05	Fire damaged facility including property and equipment	1,059,000 [2]
Network Equipment Technologies, Inc	03/28/03 03/29/02 03/30/01	Damage to leased facility, insurance proceeds received for construction costs and leasehold improvements associated with new leased facility	3,451,000 [1] 5,293,000 [1] 15,000,000 [1]
Spacehab Inc	06/30/03	Commercial insurance proceeds for “Research Double Module” destroyed in accident	17,667,000 [1]

1 – As reported in the Statement of Cash Flows

2 – As reported in the Notes to the Financial Statements

3 – Only includes amounts for property, plant, and equipment as could be determined from the disclosures provided.

In a few of the examples listed in Exhibit 1, Insurance Proceeds Reported in Investing Activities, and Exhibit 3, Insurance Proceeds Reported in Operating Activities, the insurance claim was for some combination of a fixed asset account and inventory. For example, Actuant Corp received approximately $2.9 million in insurance proceeds related to a fire that damaged a portion of a building along with equipment and inventory contained within the building. As the purchase and sale of inventory is considered to be operating cash flow, any reimbursements received for loss of inventory would warrant an operating cash flow designation. However, as can be seen with Actuant Corp and Great Lakes Aviation in Exhibit 1 and Finish Line and Cherokee International in Exhibit 3, many companies reported combined insurance proceeds as either all operating or all investing cash flow. This treatment can further distort measures such as operating cash flow. In cases such as these, where insurance proceeds are received for some combination of PP&E and inventory, we believe that the most appropriate treatment would be to split the proceeds such that PP&E-related amounts are reported as investing cash flow and inventory-related proceeds are reported as operating cash flow. For example, Cost-U-Less in Exhibit 1 not only reported $725,000 of insurance proceeds as investing cash flow, but also reported a decrease in insurance receivable of $410,000 as an operating activity. Discussions with the company verified that the insurance proceeds reported as investing cash flow related to fixed assets and those reported as operating cash flow related to inventory.

Note that in some cases, such as Paxson Communications Corp and Intermet Corp (Exhibits 1 and 2), insurance proceeds were received for both replacement of property, plant and equipment and for costs related to business interruption. In each of these examples, the source of proceeds was reported as either operating for business interruption or investing for replacement of property, plant, and equipment. Also note that each company in our sample that received insurance proceeds related to the September 11, 2001 terrorist attacks classified their proceeds as investing cash flow. While there is an Emerging Issues Task Force Statement that deals directly with accounting for damage caused by the September 11 bombings, EITF Issue 01-10: *Accounting for the Impact of the Terrorist Attacks of September 11, 2001*, that Statement does not provide guidance on the cash flow treatment of insurance proceeds.

In other cases, where insurance proceeds were received for similar events such as a fire or a tornado that damaged a building, the results were mixed. Galyans Trading Co and Superior Energy Services, both in Exhibit 1, experienced damage from a natural disaster to some combination of property, plant, and equipment and each recorded their insurance proceeds as investing cash flow. Arch Chemicals, Finish Line, and Gulfport Energy Corp, all in Exhibit 3, also experienced damage from natural disasters to some combination of property, plant, and equipment. However, each of these companies recorded their insurance proceeds for similar events and damage as operating cash flow. Galyans Trading Co and Finish Line, both in similar industries, reported their source of cash provided by the insurance proceeds differently.

Each of these inconsistencies in the treatment of insurance proceeds distorts comparisons of operating cash flow measures across companies. These inconsistencies provide evidence that companies such as those presented in this report have potentially misinterpreted the guidance provided in SFAS No. 95 which states that proceeds from insurance settlements related to property, plant, and equipment and other long-lived productive assets should be classified as investing activities.

Contacting the Companies

Representative disclosures that led to the inclusion of the companies listed in Exhibit 3 are included in the Appendix to this report. The reader can use the appendix to form his or her own conclusions about the reporting practices employed.

In an effort to obtain clarification for the decision to report as operating cash flow insurance proceeds received for damage sustained by property, plant and equipment items, we contacted each of the companies listed in Exhibit 3. In those cases where a response to our inquiry was received, it was incorporated into the information contained in the Exhibit.

IGI, Inc.

The response we received from one company, IGI, Inc., a company that was originally listed in Exhibit 3, led us to remove the firm from the Exhibit. In their annual report for the year ended December 31, 2003, the company noted that they realized a, "net gain of $169,000 for an insurance settlement, net of legal costs, for damages incurred by the Company as a result of a heating oil leak." In discussing the facts of the case with the company we learned that the insurance proceeds were received to compensate for the cleanup effort, an operating activity, and not for significant repairs to or replacement of the boiler itself, an investing activity.

Arch Chemicals

In 2003, Arch Chemicals included an insurance receivable in Other Accounts Receivable for expected reimbursements of past and future repairs and maintenance. The insurance receivable was reduced in 2004 to reflect the receipt of insurance proceeds that were hence classified as operating cash flow. The response from the company verified that the proceeds were received for building and equipment damaged and indicated that a portion was also for business interruption. While the proceeds received for business interruption should be classified as operating cash flow, the extent of proceeds received, $3.3 million, and the nature of the disclosures lead us to believe the repairs were more than ordinary in nature which indicates that an investing activity classification may have been more appropriate for the portion of the proceeds received as reimbursement for damaged building and equipment.

Cherokee International Corp.

Cherokee International received approximately $3.4 million in insurance proceeds related to a fire where inventory, property, and equipment were destroyed. In their 10K for the year ending 12/31/04, the company states that the loss related to the destroyed items has been fully offset by the proceeds received. While we were not able to obtain a response from the company, the disclosures indicate that all proceeds were included in operating cash flow. Even though the majority of the proceeds related to inventory, supplies, and other expenses, which are operating activities, a portion was allotted to destroyed warehouse and equipment, more appropriately classified as an investing activity.

Eagle Picher Holdings, Inc

Eagle Picher Holdings declined to discuss the fire at the non-operating facility disclosed in their 2003 10K. Two separate fires were reported in 2003 where inventories were damaged at one facility and we are not able to determine the exact nature of the damage sustained at the non-operating facility. The 2002 10K indicates that the facility was a production plant, therefore, any proceeds received as reimbursement for damage from that fire would more appropriately be classified at investing cash flow.

Finish Line Inc.

In 2003, Finish Line received total insurance proceeds amounting to $17,878,000 from the damaged sustained to the corporate office and distribution center. The $14,878,000 received for the inventory destroyed is appropriately classified as operating cash flow, however, the $3 million received for restoration and cleanup, property, and equipment would be more appropriately classified as investing cash flow based on the disclosures and responses from the company. Extraordinary repairs were required as a result of the damage and the expenditures resulting from the repairs were capitalized. In 2004, Finish Line received additional proceeds as reimbursement for the damaged buildings. These proceeds are reflected in the Statement of Cash Flows as operating cash flow through a decrease in an insurance receivable recorded in 2003. As previously discussed, amounts received as reimbursement for lost property and equipment are proceeds similar to disposal of the property and equipment and therefore would warrant an investing classification.

Gulfport Energy Corp.

In its 12/31/03 10K, Gulfport Energy indicated that it received insurance proceeds for the total cost to restore production to its field from the "significant damage" sustained from a hurricane.

Of the $3.5 million received, $1 million was received in advance payment and $2.5 was recorded as an insurance receivable. When those proceeds were collected, and the insurance receivable was subsequently decreased, operating cash flow was impacted. We were not able to receive further clarification of the damage from the company. However, the extraordinary nature of the damage and the $707,000 in 2003 and $1.1 million in 2002 for the repairs lead us to believe that the proceeds were used for more than ordinary repairs or maintenance. Accordingly, the insurance proceeds should be classified as investing cash flow.

Home Products International

In 2003, Home Products International recorded a $1.058 million insurance receivable related to damage sustained from a fire. In 2004, the 10K clearly states that the insurance proceeds related to costs and losses incurred to rebuild, repair, and replace damaged property and equipment. Furthermore, in 2004, the company eventually received $3.512 million in proceeds related to the settlement of the insurance claim, a portion of which the company states was reinvested in like kind assets. We were not able to confirm any facts with the company, however, the receipt of the proceeds, reimbursement for lost PP&E – an investing activity, was recorded as a decrease in the insurance receivable which boosted operating cash flow.

Network Equipment Technologies

In 2000, Network Equipment Technologies vacated its leased building due to ground water intrusion resulting from construction defects. They received insurance proceeds "as a function of costs incurred for moving and replacement of tenant improvements". They further stated in their 2002 10K that they expect all of the costs associated to new tenant improvements to be covered by the insurance proceeds. Responses from the company indicated that new leasehold improvements were capitalized and are reported as Investing Activities as the purchase of property and equipment. Network Equipment Technologies reported proceeds from insurance settlement related to this event as operating cash flow for 2001, 2002, and 2003, amounting to $15.0 million, $5.3 million, and $3.4 million respectively. Because those proceeds were used at least partly for new leasehold improvements, we maintain that an investing cash flow designation is more appropriate.

Spacehab Inc.

In 2003, Spacehab received a $17.7 million insurance reimbursement for losses suffered in the Space Shuttle Columbia tragedy. The proceeds were classified as operating cash flow. The response we received from the company was that the loss on the asset was treated as an operating expense and that the insurance proceeds were recognized as operating cash flow to offset the loss. Even though the destroyed Research Double Module was not replaced, the insurance proceeds are similar to the proceeds that would be received if the asset were sold - an investing item.

Adjusted Operating Cash Flow

In order to measure the potential significance of an operating cash flow designation for insurance proceeds related to damage sustained by PP&E, we calculated the percentage decrease in operating cash flow when insurance proceeds related to PP&E are excluded. The results are presented in Exhibit 4.

As can be seen in Exhibit 4, the inclusion of insurance proceeds stemming from damage to PP&E can artificially inflate operating cash flow. The operating cash flow of Eagle Picher Holdings, Network Equipment Technologies, and Spacehab would decrease significantly if PP&E-related insurance proceeds were excluded.

Exhibit 4: Adjusted Operating Cash Flow for Transactions identified in Exhibit 3

Company	Fiscal YE	Operating Cash Flow	Insurance Proceeds Related to PP&E [1]	Operating Cash Flow *excluding* Insurance Proceeds Related to PP&E	% Decrease in Operating Cash Flow
Arch Chemicals Inc	12/31/04	88,100,000	3,300,000	84,800,000	4%
Cherokee International Corp	01/02/05	3,979,000	158,000	3,821,000	4%
Eagle Picher Holdings, Inc	11/30/03	(958,000)	7,848,000	(8,806,000)	819%
Finish Line Inc	02/28/04	57,799,000	1,228,000	56,571,000	2%
	03/01/03	31,961,000	3,000,000	28,961,000	9%
Gulfport Energy Corp	12/31/03	9,382,000	2,510,000	6,872,000	27%
Home Products International	01/01/05	(8,030,000)	1,059,000	(9,089,000)	13%
Network Equipment Technologies, Inc	03/28/03	(1,786,000)	3,451,000	(5,237,000)	193%
	03/29/02	(18,835,000)	5,293,000	(24,128,000)	28%
	03/30/01	(9,408,000)	15,000,000	(24,408,000)	159%
Spacehab Inc	06/30/03	19,780,000	17,667,000	2,113,000	89%

Note: Operating Cash Flow is as reported in the Statement of Cash Flows. Insurance proceeds are taken from Exhibit 3.

1 – Only includes amounts for property, plant, and equipment as could be determined from the disclosures provided.

Conclusion

From our study, we can conclude that there is a lack of consistency in the classification of insurance proceeds received from damage sustained to property, plant, and equipment. An investing treatment for these types of proceeds would appear to be more consistent with the substance of the transaction and with the guidance provided in SFAS No. 95. However, in many cases, companies report such proceeds as operating cash flow. When analysis based on operating cash flow is performed, care should be taken to adjust operating cash flow for such non-recurring and non-operating sources of cash. These transactions are more appropriately classified as investing cash flow just as proceeds received from the sale of the item. Finally, accounting standard setters and regulators may wish to take note of the divergence in treatment of the insurance proceeds from claims resulting from damage or destruction of property, plant, and equipment.

Appendix

Selected disclosures for each company listed in Exhibit 3, as having reported insurance proceeds as operating cash flows, are presented below.

Arch Chemicals Inc
Form 10-K for the year ending 12/31/03

From the Notes to the Financial Statements:

2003 also includes income for an insurance settlement of approximately $3 million for reimbursement of past and expected future repairs and maintenance expense for storm damage at one of the Company's manufacturing facilities.

Included in other accounts receivable at December 31, 2003 are an insurance receivable for storm damage of $3.3 million…

December 31,	2003	2002
Accounts receivable, trade.................................	$105.5	$80.0
Accounts receivable, other.................................	23.7	19.9
	129.2	99.9
Less allowance for doubtful accounts................	(4.3)	(4.4)
Accounts receivable, net...................................	$124.9	$95.5

From the Statement of Cash Flows:

Years Ended December 31,	2003	2002	2001
Operating Activities:			
Net Income (Loss)	$ 27.4	$ 3.0	$ (1.3)
Change in Assets and Liabilities, Net of Purchases and Sales of Businesses:			
Receivables	(8.5)	22.5	50.7

Arch Chemicals Inc
Form 10-K for the year ending 12/31/04

From the Notes to the Financial Statements:

Included in other accounts receivable at December 31, 2003 are an insurance receivable for storm damage of $3.3 million, which was received in 2004…..Cost of Goods Sold for 2003 includes an insurance settlement of $3.3 million for the reimbursement of past and future repairs of one of the Company's manufacturing locations.

Cherokee International Corp.
Form 10-K for the year ending 01/02/05

From the Notes to the Financial Statements:

On January 19, 2004, the Company experienced a fire in part of its facility in Belgium, which destroyed certain inventory, property and equipment. The Company was fully insured for the replacement value of the destroyed items, subject to a $5,000 deductible, and the facility returned to full production the next day. As of December 31, 2004, the Company received $3.4 million in insurance proceeds to date. Negotiations regarding the remaining insurance receivable for the destroyed assets are in the final stages. Cherokee has agreed to a final proposal, which is pending approval by the insurance company.

Within operating expenses for the year ended December 31, 2004, the Company recorded a loss related to the destroyed inventory, property and equipment. This loss has been fully offset by proceeds received to date and a portion of expected recoveries from the insurance company, which have been recorded in prepaid expenses and other current assets. The following amounts were recorded in our consolidated financial statements for the year ending December 31, 2004 (in thousands):

Write-off of destroyed assets:	
Inventory	$ 2,437
Warehouse and equipment, net book value	158
Supplies and other expenses	1,203
Total destroyed assets	$ 3,798

Cherokee International Corp (cont'd).
Form 10-K for the year ending 01/02/05

Insurance proceeds and receivable:	
Proceeds to date	$ (3,385)
Insurance receivable	(413)
Total recoveries	$ (3,798)

Eagle Picher Holdings, Inc
Form 10-K for the year ending 11/30/03

From the Notes to the Financial Statements:

Insurance related losses/(gains). During the second quarter of 2002, we recorded a $3.1 million loss for an insurance receivable primarily related to inventories damaged in a fire during the third quarter of 2001 at our Missouri bulk pharmaceutical manufacturing plant. We recorded this charge to fully reserve the receivable because the insurance underwriter was contesting the coverage on these assets. We were disputing the insurance carrier's position and were vigorously pursuing efforts to collect on our claims. In the third quarter of 2003, we recorded a $2.8 million gain related to our final settlement with this insurance carrier. In addition, in the second quarter of 2003, we recorded a $5.5 million gain primarily related to the settlement of a claim with our insurance carrier over the coverage on a fire during 2002 at our Seneca, Missouri non-operating facility.

From the Statement of Cash Flows:

Years Ended November 30, 2001, 2002 and 2003
(In thousands of dollars)

	2001	2002	2003
Cash Flows From Operating Activities:			
Net income (loss)	$ (53,971)	$ (36,832)	$ 2,843
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Insurance related losses (gains)	—	3,100	(8,279)
Changes in assets and liabilities, net of effects of divestitures:			
Proceeds from insurance	—	—	7,848

Finish Line Inc
Form 10-K for the year ending 03/01/03

From the Notes to the Financial Statements:

On September 20, 2002, the Company's corporate office and distribution center located in Indianapolis, Indiana were damaged by a tornado. The distribution center sustained the majority of damage while the corporate offices, which are connected to the facility, suffered only minor damage. The Company has leased temporary storage warehouse space in a nearby location while operating the usable space of the existing distribution center. On September 25, 2002, the Company recommenced receiving merchandise from vendors and began shipping from the existing distribution center to the Company's retail stores.

The Company maintains comprehensive property insurance to cover physical damage to the facility (at replacement value) and its contents, including inventory (at retail value), as well as coverage for loss of business and extra expenses incurred as a result of an insured event.

As a result of damages caused by the tornado, the Company recorded the following as of and for the year ended March 1, 2003 (in thousands):

Insurance proceeds received—inventory	$	(14,878)
Cost of inventory destroyed		7,366
Claim expenses		130
Insurance income recorded—inventory	$	(7,382)

Finish Line Inc (cont'd)
Form 10-K for the year ending 03/01/03

Restoration, clean up and debris removal costs	$	3,909
Write off of property and equipment destroyed		1,960
Assets capitalized		(1,745)
Insurance proceeds received		(3,000)
Insurance receivable recorded	$	1,124

The inventory portion of the claim is complete and no additional funds will be received. The property and equipment destroyed is insured at replacement cost. The Company has recorded a receivable from the insurance company equal to the net book value of the property and equipment damaged, contents destroyed and extra expenses incurred and will record additional proceeds for replacement cost when agreed to or paid by the insurance company. No funds have been received or settlement agreed to with respect to any losses for business interruption.

Finish Line Inc
Form 10-K for the year ending 02/28/04

From the Notes to the Financial Statements:

The Company maintained comprehensive property insurance to cover physical damage to the facility (at replacement value) and its contents, including inventory (at retail value), as well as coverage for loss of business and extra expenses incurred as a result of an insured event. The inventory portion of the claim was completed in 2003 which resulted in recognition of $7,382,000 of income. During 2004 a final settlement on the building portion of the insurance claim was received, which resulted in recognition of $1,228,000 of income.

Gulfport Energy Corp
Form 10-K for the year ending 12/31/03

From the Notes to the Financial Statements:

Hurricane Lili hit the southern gulf coast of Louisiana on October 3, 2002 with estimated sustained winds over 120 miles per hour and a 9- foot tidal surge. The eye of the hurricane came on shore directly East of Gulfport's WCBB field. The storm caused significant damage to the Company's production facilities and the WCBB field. The total cost to restore production to the field was estimated by the Company's personnel and insurance carrier to be $3,510,000. As of December 31, 2002, the Company had received a $1,000,000 advance payment from its insurance carrier in order to commence repairs to the field and facility. The remaining $2,510,000 in insurance settlement proceeds was received during early 2003 and is included in the accompanying balance sheet in the financial statements as "Insurance settlement receivable" at December 31, 2002."

Net cash flow provided by operating activities for the year ended December 31, 2003 was $9,400,000, as compared to net cash flow provided by operating activities of $4,000,000 for the comparable period in 2002. The increase was mainly due to the collection of an insurance settlement related to damage to the WCBB facility caused by Hurricane Lili, an increase in depreciation, depletion and amortization and an increase in production due to factors above and an increase in interest expense as a result of the adoption of SFAS No. 150.

Hurricane Lili hit the southern gulf coast of Louisiana on October 3, 2002 with estimated sustained winds over 120 miles per hour and a 9-1/2 foot tidal surge. The eye of the hurricane came on shore directly East of Gulfport's WCBB field. The storm caused significant damage to the Company's production facilities and the WCBB field. The total cost to restore production to the field was estimated by the Company's personnel and insurance carrier to be $3,510,000. As of December 31, 2003, the Company had received the $3,510,000 in insurance settlement proceeds. Hurricane related repairs for the years ended December 31, 2003 and 2002, were $707,000 and $1,133,000 respectively.

From the Statement of Cash Flows:

	Year Ended December 31, 2003	2002
Cash flows from operating activities:		
Net income	$ 619,000	$ 441,000
Changes in operating assets and liabilities:		
Decrease in insurance settlement receivable	2,510,000	---

Home Products International
Form 10-K for the year ending 12/27/03

On September 23, 2003, the Company's Reynosa, Mexico facility sustained damage due to a fire. At December 27, 2003, prepaid expenses and other current assets include $488 and other non-current assets include $1,058 of receivables related to expected insurance recoveries.

Home Products International
Form 10-K for the year ending 01/01/05

From the Notes to the Financial Statements:

On September 23, 2003, the Company's Reynosa, Mexico facility sustained damage due to a fire. The Company's insurance coverage provided for the reimbursement of certain costs and losses incurred to rebuild, repair and replace the damaged property and equipment. As a result, the Company received $3,512 in proceeds related to the settlement of the insurance claim. The Company reinvested a portion of the proceeds of this settlement in like kind assets (as defined by the Internal Revenue Code). The balance of the proceeds received, $636, has been recorded as a reduction to costs of goods sold in the Company's 2004 consolidated statement of operations.

Other non-current assets consist of the following:

	2004	2003
Deferred financing fees, net of accumulated amortization of $3,376 at January 1, 2005 and $2,800 at December 27, 2003	$ 1,794	$ 2,115
Insurance receivable	—	1,059
Other assets	71	845
	$ 1,865	$ 4,019

Network Equipment Technologies, Inc
Form 10-K for the year ending 03/30/01

From the Notes to the Financial Statements:

In the year ended March 30, 2001, we received $15.0 million from our insurance carrier for the settlement mentioned above. We are entitled to receive up to an additional $8.8 million upon presenting our insurance carrier with invoices in excess of the initial amount of $15 million. To date we have expended $3.8 million that qualifies to be reimbursed by our insurance carrier. This consists of $2.7 million related to moving and reconfiguring our existing buildings and $1.1 million in leasehold improvements for our new site. In addition, we have incurred $393,000 of non-reimbursable expenditures and we have also reserved $12.7 million in leasehold improvements for our current facilities. These amounts will not qualify for reimbursement by our insurance carrier. At March 30, 2001 we have recorded in accrued liabilities unearned insurance settlement proceeds of $1.2 million. When we move to our new facilities we will offset the total insurance proceeds with all expenditures and reserved amounts not relating to new leasehold improvements and recognize any unearned insurance settlement proceeds in current operations. We will then begin amortizing the new site leasehold improvements. We believe all of the costs of tenant improvements and moving will be covered by the insurance proceeds.

Network Equipment Technologies, Inc
Form 10-K for the year ending 03/29/02

From the Notes to the Financial Statements:

In March 2000 net.com reached a settlement with its landlord and insurance carrier that allowed net.com to move out of damaged facilities and into a new build-to-suit facility adjacent to the old facilities. For the year ended March 29, 2002 net.com has recorded a gain of $3.7 million relating to the insurance settlement that was reached. This gain represents the difference between the cash received, moving costs and abandoned leasehold improvements. For the years ended March 29, 2002 and March 30, 2001, net.com received proceeds of $5.3 million and $15.0 million, respectively, from its insurance carrier. net.com is entitled to receive up to an additional $3.4 million upon presenting its insurance carrier with invoices in excess of the $18.3 million received to date. net.com believes all the costs of tenant improvements and moving will be covered by insurance proceeds.

Network Equipment Technologies, Inc
Form 10-K for the year ending 03/28/03

From the Notes to the Financial Statements:

In March 2000, net.com reached a settlement with its landlord and insurance carrier that allowed net.com to move out of damaged facilities and into a new build-to-suit facility adjacent to the old facilities. For the year ended March 28, 2003 and March 29, 2002, net.com recorded gains of $2.4 million and $3.7 million, respectively, related to the insurance settlement that was reached. These gains represent the difference between the cash received, moving costs and abandoned leasehold improvements. For the years ended March 28, 2003, March 29, 2002 and March 30, 2001, net.com received proceeds of $3.5 million, $5.3 million and $15.0 million, respectively, from its insurance carrier.

Other income in fiscal 2003 included a gain of $2.4 million from insurance proceeds received for construction costs associated with our new Fremont campus …. Other income in fiscal 2002 included a gain of $3.7 million from insurance proceeds associated with our new Fremont campus ….

From the Statement of Cash Flows:

	Mar. 28, 2003	Mar. 29, 2002	Mar. 30, 2001
Cash flows from operating activities:			
Net loss	(18,448)	(37,398)	(20,790)
Adjustments required to reconcile net loss to net cash used in operations:			
Proceeds from insurance settlement	3,451	5,293	15,000
Gain on insurance settlement	(2,380)	(3,713)	-

Spacehab Inc
Form 10-K for the year ending 06/30/03

From the Notes to the Financial Statements:

The Company was under contract with NASA to support the STS-107 mission on its Columbia Orbiter. The mission utilized the Company's Research Double Module ("RDM") flight asset. On February 1, 2003, the RDM was lost in the tragic STS-107 accident. The RDM was partially covered by commercial insurance. The commercial insurance on the module was $17.7 million and the net book value of the RDM was $67.9 million. The Company recorded a nonrecurring charge of approximately $50.3 million in the three months ended March 31, 2003 in the SFS segment for the uninsured value.

Cash Flows From Operating Activities…the Company received $17.7 million of commercial insurance proceeds related to the loss of the RDM.

Cash Flows Used in Investing Activities…During the year ended June 30, 2003, the primary change in the cash used in investing activities was due to the increase in the Company's investments of $14.0 million primarily as the result of the commercial insurance received for the loss of the RDM.

From the Statement of Cash Flows:

	June 30, 2003	June 30, 2002	June 30, 2001
Cash flows from operating activities			
Net loss	$ (81,775)	$ (2,367)	$ (12,785)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Nonrecurring charge, loss of Research Double Module	50,268	--	--
Proceeds from insurance	17,667	--	--