Georgia Tech Financial Analysis Lab
800 West Peachtree Street NW
Atlanta, GA 30332-0520
404-894-4395
http://www.mgt.gatech.edu/finlab

Dr. Charles W. Mulford, Director
Invesco Chair and Professor of Accounting
charles.mulford@mgt.gatech.edu

Mario Martins
Graduate Research Assistant
mario.martins@mba.gatech.edu

Non-cash Investing and Financing Activities and Free Cash Flow

Executive Summary

Items of property, plant and equipment are often acquired through non-cash investing and financing activities. In these transactions, equipment-purchase financing is provided at the time of purchase. While such transactions increase a company's productive capacity, they are not reported as capital expenditures in the statement of cash flows. Accordingly, free cash flow calculated based on capital expenditures reported in the statement of cash flows will often be overstated when assets are acquired through such non-cash transactions. In this report we look at a series of non-cash investing and financing transactions and assess their effects on calculated free cash flow.

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Georgia Tech Financial Analysis Lab
College of Management
Georgia Institute of Technology
Atlanta, GA 30332-0520

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.

Contact Information

Charles Mulford. Invesco Chair, Professor of Accounting and the Lab's Director.
Phone: (404) 894-4395
Email: charles.mulford@mgt.gatech.edu

Michael L. Ely. MBA, Financial Analyst.
Phone: (404) 894-9473
Email: michael.ely@mgt.gatech.edu

Amit Patel. Graduate research assistant and MBA student.
Mario Martins. Graduate research assistant and MBA student.

Website: http://www.mgt.gatech.edu/finlab

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Introduction

Free cash flow has garnered much attention of late. In a report published by our lab in June titled, *Free Cash Flow and Compensation: A Fashionable Fad or Something More?*, we noted that while free cash flow was barely even mentioned in the popular financial press as recently as 1998, by 2004 its popularity as a measure of financial performance had grown markedly. We noted too that many compensation agreements were being revised to incorporate measures of free cash flow in incentive compensation.

We welcome the attention that free cash flow presently enjoys. We think that free cash flow, which is discretionary cash that is available for dividends and stock buybacks, among other uses, is an effective determinant of firm value. Yet our experience indicates that there is often a misunderstanding of what constitutes free cash flow, how it is measured, and how some of the vagaries of the statement of cash flows might lead to mistakes in its calculation.

Our objective here is to address and clarify the effects that one particular aspect of the statement of cash flows can have on calculated measures of free cash flow. In particular, we look at what is typically referred to as non-cash investing and financing activities.

Free Cash Flow

Our focus here is on free cash flow to common equity, or more specifically, cash available for common shareholders after operating costs, the superior claims of lenders and preferred shareholders, and growth-related capital expenditure needs have been met. For a firm without preferred shareholders, such free cash flow is often measured conveniently as operating cash flow, which is reported after interest expense, less capital expenditures. The statement of cash flows prominently reports both amounts, operating cash flow and capital expenditures. Accordingly, many analysts and investors will simply subtract reported capital expenditures from operating cash flow to derive free cash flow to common shareholders.

Problems arise, however, in calculations of free cash flow, when property, plant and equipment are purchased for non-cash claims. These non-cash purchases of capital assets, which entail purchase financing, are reported in a related disclosure to the statement of cash flows known as a supplemental schedule of non-cash investing and financing activities.

Consider Safeway, Inc., for example. In an 8-K filing dated February 12, 2004, the company announced that it generated, "free cash flow of $814.6 million during 2003." That calculation was made by subtracting net capital expenditures from operating cash flow as reported on the statement of cash flows. Had the company incorporated in its calculations capital equipment purchased through capital lease transactions, free cash flow would have been reduced to $701.4 million.

Recognizing the distortions created by non-cash investing and financing activities in the reported capital expenditures, the investor relations officer at one publicly traded company with whom we spoke noted, ". . . capex funded by capital leases are reflected at the bottom of the cash flows statement. I believe this is the proper treatment under the rules but I personally believe it is misleading and would be better to include in the statement itself. Quite often, I have to explain the treatment when I talk about capex."

Non-cash Investing and Financing Activities

An important feature of the statement of cash flows is the separate disclosure of all non-cash investing and financing activities. For example, stock issued to make an acquisition would be disclosed in this supplement to the statement of cash flows. Items of property, plant and equipment might also be acquired in transactions in which the seller provides debt financing. These transactions result in a transfer of assets, but no cash is involved. Also, while amounts borrowed to purchase assets would be reportable as a cash transaction on the statement of cash flows, if a lender were to provide funds on behalf of the buyer directly to the seller, it would be a non-cash investing and financing event.

Statement of Financial Accounting Standards No.95

SFAS No. 95, *Statement of Cash Flows*, while recognizing the significant impact of non-cash investing and financing activities on the cash flows of a company, concludes that information about non-cash investing and financing transactions should be reported in related disclosures and not in the body of the statement itself. Quoting from the statement,

> Noncash transactions commonly recognized in financial statements include conversion of debt to equity, acquisition of assets by assuming liabilities including capital lease obligations, . . . Those transactions result in no cash inflows or outflows in the period in which they occur but generally have a significant effect on the prospective cash flows of the company ... (SFAS No. 95, para. 70)

> The board agreed that excluding noncash transactions from the statement of cash flows would better achieve the statement's objective … This statement thus requires that information about noncash investing and financing transactions be reported in related disclosures... (SFAS No. 95, para. 74)

As an example, Exhibit 1 provides the consolidated statement of cash flows for Lowrance Electronics, Inc.

Exhibit 1: **Consolidated Statements of Cash Flows, Lowrance Electronics, Inc.**

LOWRANCE ELECTRONICS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED JULY 31,		
(in thousands)	**2002**	**2003**	**2004**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	2,389	4,645	8,756
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,194	2,319	2,601
Gain on sale of fixed assets	(8)	(21)	(9)
Deferred income taxes	1,164	1,346	561
Stock option plan expense	-	345	55
Change in operating assets and liabilities:			
(Increase)decrease in trade accounts Receivable	(951)	(736)	(1,845)
(Increase)decrease in inventories	6,722	(3,811)	(7,880)
(Increase)decrease in prepaid expenses	(463)	(278)	(751)
(Increase)decrease in other assets	2	(13)	(19)
Increase(decrease) in accounts payable	(1,288)	(1,469)	3,121
Increase(decrease) in accrued liabilities	227	618	2,332
Net cash provided by operating activities	**9,988**	**2,945**	**6,922**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(1,084)	(1,566)	(3,473)
Proceeds from sale of property, plant and equipment	8	21	9
Net cash used in investing activities	**(1,076)**	**(1,545)**	**(3,464)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under line of credit	68,303	83,968	105,366
Repayments of borrowings under line of credit	(75,151)	(83,391)	(104,580)
Treasury stock purchases	(26)	-	-
Dividends paid	-	-	(1,881)
Principal payments on term loan and capital lease obligations	(1,948)	(1,933)	(2,298)
Net cash used in financing activities	**(8,822)**	**(1,356)**	**(3,393)**
Effect of exchange rate changes on cash	119	259	141
Net increase in cash and cash equivalents	209	303	206
CASH AND CASH EQUIVALENTS - beginning of year	694	903	1,206
CASH AND CASH EQUIVALENTS - end of year	**903**	**1206**	**1412**
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	1,424	989	689
Income taxes	8	1,346	1,845
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Capital expenditures funded by capital lease borrowings	481	1,242	1,540

Consider the consolidated statement of cash flows for Lowrance Electronics, Inc. provided above. Note that the company reports the acquisition of property, plant, and equipment in the investing section of statement of cash flows as well as in the supplemental schedule of non-cash investing and financing activities. The capital expenditures reported in the investing section of the statement of cash flows represents the use of cash to acquire property, plant, and equipment. The acquisition of property, plant, and equipment through capital leases reported at $1,540,000, $1,242,000 and $481,000 in 2004, 2003 and 2002, respectively, does not require an immediate payment of cash. Hence it is shown in the supplemental schedule of non-cash investing and financing activities and is excluded from capital expenditures shown in the body of the statement. Using amounts provided in the statement of cash flows, free cash flow for years ended July 31, 2004, 2003, 2002 would be computed as follows:

Year	Reported Operating Cash Flow	-	Reported Net Capital Expenditures [a]		Free Cash Flow
2004	$6,922,000	-	$3,464,000	=	$3,458,000
2003	$2,945,000	-	$1,545,000	=	$1,400,000
2002	$9,988,000	-	$1,076,000	=	$8,912,000

[a] Net of proceeds from sale of property, plant and equipment

Based on the above calculations, Lowrance Electronics, Inc. produced free cash flow of $3,458,000, $1,400,000 and $8,912,000, respectively, for the years ended July 31, 2004, 2003 and 2002. However, these calculations ignore property, plant, and equipment acquired through capital leases, which represent 44%, 80% and 45%, of the reported net capital expenditures reported in the investing section of the statement of cash flows for 2004, 2003 and 2002, respectively.

Now, assume that Lowrance Electronics, Inc. had purchased for cash the same assets it acquired through capital leases. In this case total capital expenditure reported in the investing section would increase to $5,004,000 for 2004, $2,787,000 for 2003 and $1,557,000 for 2002. Calculation of free cash flow would be amended as follows:

Year	Reported Operating Cash Flow	-	Adjusted Net Capital Expenditures [a]		Adjusted Free Cash Flow	% Decrease in Reported FCF
2004	$6,922,000	-	$5,004,000	=	$1,918,000	45%
2003	$2,945,000	-	$2,787,000	=	$158,000	89%
2002	$9,988,000	-	$1,557,000	=	$8,431,000	5%

[a] reported net capital expenditures plus non-cash purchase of property, plant and equipment of $1,540,000, $1,242,000 and $481,000 in 2004, 2003 and 2002 respectively.

In both of the above cases Lowrance Electronics, Inc. uses the same asset base to generate its revenues. However when assets are acquired through capital lease obligations, free cash flow calculated without these non-cash transactions appears to be significantly higher.

Note that when future principal payments are made on the capital leases they will be reported in the financing section of the statement of cash flows. Although the company acquired equipment, it will never report the cash paid for this equipment as an investing use of cash. As a result, if unadjusted for non-cash investing and financing activities, apparent free cash flow will be overstated.

The Study

In this report we study the impact of non-cash investing and financing activities on free cash flow of a sample of companies. We focus only on the non-cash investing activities that are used to acquire property, plant and equipment. The most common non-cash investing and financing transactions for acquiring property, plant and equipment are the use of capital leases, debt obligations and accounts payable.

We started by identifying non-financial companies that reported non-cash investing and financing activities in their Form 10K filings with the SEC. We then examined the statement of cash flows and supplemental schedule for non cash investing and financing activities to determine whether the non cash investing and financing transactions were used to acquire property, plant and equipment.

The Results

The results are presented in a series of exhibits. In Exhibit 2 the focus is on companies that used capital leases to acquire property, plant and equipment. Exhibit 3 presents the results of our survey that focuses on the use of accounts payable for asset purchase. In Exhibit 4 we look at the use of debt obligations.

Acquisition of Capital Assets though Capital Lease Obligations

Exhibit 2 provides a sample of companies that reported the purchase of property, plant and equipment through capital leases. A lease is considered to be a capital lease if it fulfills any one of the following conditions.

1. Legal ownership of the asset transfers to the lessee at the end of the lease,
2. Lease contains a bargain purchase option,
3. Lease term is equal to or greater than 75% of asset's estimated economic life, and
4. Present value of minimum lease payments is equal to or greater than 90% of the asset's fair market value.

Thus, assets acquired through capital leases are substantially similar to assets that have been purchased and financed. When assets are acquired through capital lease transactions, they are reported on the asset side of the balance sheet. The capital lease obligation is shown on the liability side. Depreciation on these assets and interest on the related obligations are represented as expenses. Since cash is not dispensed when the assets are acquired, they are not included with capital expenditures reported in the investing section of the statement of cash flows. Subsequent principal payments made on the capital leases are reported in the financing section of the cash flow statement.

Note that while the company acquires the asset for use, cash flows related to the acquisition of the asset are never shown in the investing section of the cash flow statement. Although this is in keeping with the guidelines provided by SAFS No. 95, it can lead to miscalculated amounts of free cash flow.

Exhibit: 2 Acquisitions of Capital Assets through Capital Leases

Company	Year ended	Operating C/F [a] ($000)	Capital Expenditures [b] ($000)	Unadjusted FCF [c] ($000)	Capital Leases [d] ($000)	Adjusted FCF [e] ($000)	% Reduction in FCF [f]
Albertson's, Inc.	1/29/2004	$1,545,000	($1,022,000)	$523,000	$62,000	$461,000	12%
	1/30/2003	$2,060,000	($1,258,000)	$802,000	$75,000	$727,000	9%
	1/31/2002	$2,009,000	($1,167,000)	$842,000	$79,000	$763,000	9%
American Shared Hospital Services	12/31/2003	$8,140	($731)	$7,409	$5,198	$2,211	70%
	12/31/2002	$5,177	($1,346)	$3,831	$6,010	($2,179)	157%
	12/31/2001	$4,917	($724)	$4,193	$4,847	($654)	116%
Bakers Footwear Group, Inc.	1/3/2004	$8,801	($2,288)	$6,513	$1,022	$5,491	16%
	1/4/2003	($502)	($6,608)	($7,110)	$719	($7,829)	10%
	1/5/2002	$6,445	($3,334)	$3,111	$2,316	$795	74%
CTI Molecular Imaging, Inc.	9/30/2003	$16,505	($36,302)	($19,797)	$676	($20,473)	3%
	9/30/2002	$31,047	($29,433)	$1,614	$8,453	($6,839)	524%
	9/30/2001	($10,884)	($9,697)	($20,581)	$14,523	($35,104)	71%
Flowers Foods, Inc.	1/3/2004	$87,989	($43,618)	$44,371	$54,815	($10,444)	124%
	12/28/2002	$126,526	($48,811)	$77,715	$0	$77,715	0%
	12/29/2001	$70,748	($49,514)	$21,234	$59,665	($38,431)	281%
Marvell Technology Group Ltd.	1/31/2004	$149,813	($95,241)	$54,572	$18,476	$36,096	34%
	1/31/2003	$40,818	($28,780)	$12,038	$10,769	$1,269	89%
	1/31/2002	$50,017	($24,620)	$25,397	$11,360	$14,037	45%
Pathmark Stores, Inc.	1/31/2004	$90,800	($51,500)	$39,300	$10,500	$28,800	27%
	2/1/2003	$92,000	($92,600)	($600)	$15,800	($16,400)	2633%
	2/2/2002	$82,600	($116,500)	($33,900)	$1,4000	($47,900)	41%
Safeway, Inc.*	1/3/2004	$1,609,600	($795,000)	$814,600	$113,200	$701,400	14%
	12/28/2002	$2,034,700	($1,395,700)	$639,000	$174,900	$464,100	27%
	12/29/2001	$2,232,300	($1,719,200)	$513,100	$82,300	$430,800	16%
The Pantry, Inc.	9/25/2003	$68,264	($20,103)	$48,161	$1,900	$46,261	4%
	9/26/2002	$53,984	($21,003)	$32,981	$2,700	$30,281	8%
	9/27/2001	$76,702	($39,821)	$36,881	$3,500	$33,381	9%
Williams-Sonoma, Inc.	2/1/2004	$209,351	($211,979)	($2,628)	$1,275	($3,903)	49%
	2/2/2003	$310,160	($155,450)	$154,710	$986	$153,724	1%
	2/3/2002	$205,006	($155,660)	$49,346	$9,015	$40,331	18%

[a] Cash flow (C/F) provided by operating activities reported on the statement of cash flows.
[b] Capital expenditure reported on the statement of cash flows net of proceeds from disposals.
[c] Free cash flow computed by subtracting net capital expenditures from reported operating cash flow
[d] Capital assets acquired through capital leases.
[e] Free cash flow (FCF) computed by subtracting net capital expenditures and capital assets acquired through capital leases from reported operating cash flow.
[f] Percentage reduction computed by dividing assets purchased through capital leases by unadjusted free cash flow.
*Consistent with the company's calculations, "other" investing activities were included in the calculation of free cash flow.

Consider the case of American Shared Hospital Services. Free cash flow calculated on the basis of the capital expenditures reported in the investing section of the statement of cash flows were $7,409,000 for year ended December 31, 2003, $3,831,000 for 2002 and $4,193,000 for 2001. These calculations do not take into consideration the property, plant and equipment acquired through capital leases which represent 711%, 447%, and 669% of the reported capital expenditures for years ended December 31, 2003, 2002, and 2001 respectively. Had these capital assets been purchased for cash and reported in the investing section of the statement of cash flows, the free cash flow would have been $2,211,000 for 2003, a use of cash of $2,179,000 in 2002 and a use of cash of $654,000 in 2001.

As another example, consider Flowers Foods, Inc. As shown in Exhibit 2, before incorporating the effects of non-cash investing and financing activities, the company reported positive free cash flow of $44,371,000 in 2003, $77,715,000 in 2002, and $21,234,000 in 2001. The company acquired assets through capital lease transactions amounting to $54,815,000 in 2003, representing 126% of capital expenditures reported in the investing section of the statement of cash flows. While in 2002 the company did not acquire any assets for capital leases, in 2001, purchases with capital assets were $59,665,000, representing 121% of capital expenditures reported in the cash flow statement. If free cash flow were adjusted for these non-cash investing and financing activities, it would turn decidedly negative in both 2003 and 2001.

Consider also the example of Marvell Technology Group Ltd. In the year ended January 31, 2004, capital assets acquired through capital leases amounted to $18,476,000 or 19% of capital expenditures reported in the investing section. The amounts were $10,769,000 for 2003 and $11,360,000 for 2002, representing 37% and 46% of capital expenditures, respectively. If free cash flow were adjusted for these non-cash investing and financing transactions, it would be lower than the reported amounts by 34% in 2004, 89% in 2003 and 45% in 2002 respectively.

Acquisition of Capital Assets with Accounts Payable

Capital expenditures made prior to the end of a fiscal year for which payment has not been made is another example of a non-cash investing activity. The amount of the purchase is included in property, plant and equipment and accounts payable on the company's balance sheet. However, because payment was not made for the acquired items, the purchase amount is not reported on the statement of cash flows.

Exhibit 3 provides some examples of companies that reported the acquisition of property, plant and equipment through accounts payable.

Unlike assets purchased through capital lease transactions that never impact free cash flow, the potential for overstatement of free cash flow resulting from capital expenditures through accounts payable is corrected in the following year when these accounts payable are paid. The use of cash for payments of accounts payable is added to capital expenditures in the investing section of the statement of cash flows. Hence unless amounts involved are especially material, we do not advocate adding to capital expenditures purchases of property, plant and equipment made with accounts payable when computing free cash flow. If purchases of property, plant and equipment made with accounts payable were added to capital expenditures there is a real risk that they would be double counted when payments are made in a subsequent period. However, to avoid double counting, if material amounts of property, plant and equipment purchased with accounts payable are added to capital expenditure in computing free cash flow, the same amount should be subtracted from capital expenditure in the following year.

To determine materiality, one should consider

1. Capital expenditures financed through accounts payable as a percentage of capital expenditures reported as a use of cash in the investing section of statement of cash flows,
2. The percentage change in free cash flow when adjusted for capital expenditures financed through accounts payable, and
3. Changes in trends of free cash flow from positive to negative when the effects of non-cash investing and financing activities are considered.

Exhibit 3: Acquisitions of Capital Assets through Accounts Payable

Company	Year ended	Operating Cash Flows ($000)	Capital Expenditures ($000)	Reported Free Cash Flow ($000)	Assets Acquired with A/P ($000)
Clean Harbors, Inc.*	12/31/2003	$38,857	($32,580)	$6,277	$1,943
	12/31/2002	$5,649	($12,058)	($6,409)	$3,366
	12/31/2001	$24,632	($7,153)	$17,479	$203
Education Management Corp.	6/30/2004	$163,296	($80,703)	$82,593	$5,741
	6/30/2003	$79,386	($80,809)	($1,423)	$5,651
	6/30/2002	$100,424	($45,400)	$55,024	$9,477
Infonet Services Corp.	3/31/2004	$37,837	($57,401)	($19,564)	$6,014
	3/31/2003	$94,280	($44,462)	$49,818	$3,697
	3/31/2002	$100,955	($172,179)	($71,224)	$3,188
Siliconix, Inc.	12/31/2003	$94,399	($26,984)	$67,415	$2,000
	12/31/2002	$67,274	($22,379)	$44,895	0
	12/31/2001	$62,347	($29,405)	$32,942	0
Speedway Motorsports, Inc.	12/31/2003	$106,920	($62,412)	$44,508	($3,793)
	12/31/2002	$136,641	($56,113)	$80,528	$8,725
	12/31/2001	$119,044	($55,848)	$63,196	$0
Triton PCS Holdings, Inc. **	12/31/2003	$136,799	($145,136)	($8,337)	($5,375)
	12/31/2002	$54,090	($165,863)	($111,773)	($30,667)
	12/31/2001	($3,514)	($214,512)	($218,026)	$24,519
US Lec Corp.	12/31/2003	$55,333	($35,767)	$19,566	$1,767
	12/31/2002	($5,645)	($32,029)	($37,674)	$5,749
	12/31/2001	($5,971)	($40,425)	($46,396)	$5,452

* Also reports capital lease obligations of $3,785,000 for 2003 and $1,756,000 for 2002

** Also reports capital lease obligations of $1,551,000 for 2003, $291,000 for 2002 and $786,000 for 2001

Generally, in the examples provided in Exhibit 3, purchases of property, plant and equipment with accounts payable are not material when considered as a percentage of capital expenditures.

However, consider Clean Harbors, Inc. In 2002, capital assets acquired with accounts payable amounted to $3,366,000. That year reported capital expenditures were $12,058,000 and free cash flow was a use of cash of $6,409,000. If free cash flow were adjusted for asset purchases made with accounts payable, it would be reduced to a use of cash of $9,775,000.

Acquisitions of Capital Assets through Debt Obligations
Similar to capital lease transactions, acquisitions of property, plant and equipment through debt obligations are shown in the schedule of non-cash investing and financing activities since cash is not involved at the time of purchase. When these obligations are repaid, cash payments are shown in the financing section of the statement of cash flows. Thus, although the company makes a capital expenditure, it will not appear in the investing section of the statement of cash flows.

As an example, consider a hypothetical company with operating cash flow of $2 million. Assume also that the company borrows $3 million from a bank which it later uses to purchase capital assets. The statement of cash flows for the company would appear as follows:

Cash flow from operating activities	$2,000,000
Cash flow from investing activities:	
Capital expenditures	($3,000,000)
Cash flow from financing activities	$3,000,000
Change in cash	$2,000,000

In the above case, the company reports negative free cash flow of $1,000,000. That is, cash flow from operating activities of $2,000,000 less capital expenditures of $3,000,000.

However, if the company were to acquire the same capital asset by entering into a debt obligation with the seller, the statement of cash flows would appear as follows:

Cash flows from operating activities	$2,000,000
Cash flows from investing activities	$0
Cash flows from financing activities	$0
Change in cash	$2,000,000
Supplemental schedule for non-cash investing and financing activities	
Acquisition of plant, property and equipment under long term obligation	$3,000,000

Note that in this case, the reported free cash flow is $2,000,000. Note that in both the cases, the company has incurred capital expenditures of $3,000,000. However, in the second case, the company is able to show higher free cash flow by changing the way it finances its capital expenditures. Some examples of capital assets acquired through debt obligations are provided in Exhibit 4.

Exhibit 4: **Acquisitions of Capital Assets through Long Term Obligations**

Company	Year ended	Operating Cash Flow ($000)	Capital Expenditures ($000)	Unadjusted Free Cash Flow ($000)	Assets Acquired through Debt Obligations ($000)	Adjusted Free Cash Flow ($000)	% Reduction in Unadjusted Free Cash Flow
Bj's Wholesale Club, Inc.	1/31/2004	$199,943	($176,761)	$23,182	$4,025	$19,157	17%
	2/1/2003	$151,343	($134,682)	$16,661	$0	$16,661	0%
	2/2/2002	$194,771	($166,310)	$28,461	$0	$28,461	0%
Dyax Corp.	12/31/2003	($14,920)	($444)	($15,364)	$306	($15,670)	2%
	12/31/2002	($24,338)	($2,889)	($27,227)	$3,581	($30,808)	13%
	12/31/2001	($12,775)	($5,653)	($18,428)	$1,615	($20,043)	9%
Plastipak Holdings, Inc.	11/1/2003	$75,443	($99,488)	($24,045)	$6,532	($30,577)	27%
	11/2/2002	$51,859	($82,148)	($30,289)	$2,413	($32,703)	8%
	11/3/2001	$43,839	($50,469)	($6,630)	$5,491	($12,121)	83%

Consider Plastipak Holdings, Inc., for example. Had free cash flow been adjusted for property, plant and equipment acquired through debt obligations, negative free cash flow would have become even more negative by 27% in 2003, 8% in 2002, and 83% in 2001.

Conclusion

We found numerous examples of companies acquiring property, plant and equipment through non-cash investing and financing transactions. We believe that in order to obtain more a accurate measure of free cash flow, adjustments should be made for capital assets acquired through capital leases and through debt obligations. In the case of purchases of property, plant and equipment with accounts payable, we recommend that adjustments be made only where amounts involved are especially material.