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The Effects on Measures of Profitability and Leverage of Recently Enacted Changes in Accounting for Minority Interests

EXECUTIVE SUMMARY

The recently enacted FASB Statements 160 and 141(R) bring changes to accounting for noncontrolling interests (formerly known as minority interests) for companies with fiscal years beginning after December 15, 2008. In particular, SFAS No. 160 will change the presentation of minority interests on the financial statements. The minority interests in shareholders' equity will be required to be reported as a component of total shareholders' equity. In addition, consolidated net income as presented on the income statement will include minority interests in income. For clarity, companies are instructed in both cases to break out the portions of equity or income attributed to the minority interest, but the "bottom line number" will change with the enactment of these statements.

This report examines the consequences of these changes for companies reporting minority interests. In particular, we find that (1) shareholders' equity will increase by 2%, though 10% of the companies will see increases of over 25%; (2) income from continuing operations will increase by 3%, though 12% of the companies will see increases of over 25%; (3) liabilities to shareholders' equity will decline by 2%, though 10% of the companies will see declines of over 20%; and (4) times interest earned will increase by 1%, though 9% of the companies will see increases of over 10%. Investors, analysts and other users of financial statements will want to be prepared to take these upcoming accounting changes into account. April 2008

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The Georgia Tech Financial Analysis Lab conducts unbiased research on issues of financial reporting and analysis. 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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Companies Named in this Report

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Introduction and Motivation

FASB Statement Nos. 160, "Noncontrolling Interests in Consolidated Financial Statements," and 141(R), "Business Combinations," issued in December 2007, provide more uniform guidelines for accounting for noncontrolling interests. The term "noncontrolling interest," previously called "minority interest," refers to the part of shareholders' equity in a subsidiary that is attributed to third party owners and not to the parent. These statements will be effective for companies with fiscal years starting on or after December 15, 2008.

Some of the accounting changes included in these statements may appear to be cosmetic rather than substantial. For example, noncontrolling interest in equity will now be included as a part of total shareholders' equity instead of appearing in the mezzanine section of the balance sheet. Also, consolidated net income will include the minority interest in income on the face of the income statement instead of showing it as an expense in arriving at net income. However, these changes will require financial statement users to be more aware of the elements that make up total shareholders' equity and bottom line net income. In addition, creditors will want to reexamine some financial ratios that may be a part of debt covenants such as leverage and times interest earned.

This study examines four ways in which SFAS No. 160 will affect financial analysis. The first two calculations give an idea of the size of minority interest on the balance sheet and on the income statement: (1) the change in total shareholders' equity due to the inclusion of minority interest in equity and (2) the size of minority interest in income as a percentage of total income from continuing operations. The last two calculations examine changes to ratios that are likely to appear in debt covenants: (1) the percent change in the leverage ratio of total liabilities to total shareholders' equity and (2) the percent change in debt coverage measured by the times interest earned ratio.

Data Set

The data set for this study is U.S. companies that include an entry for minority interest on the balance sheet in Compustat (North America). Depending on the company, the fiscal year of the data from Compustat is either fiscal 2006 or fiscal 2007 and is stated in the tables. The data set was limited to companies that list on major stock exchanges. The results include 876 companies, with 506 listed on the New York Stock Exchange, 309 listed on NASDAQ-NMS, and 61 listed on the American Stock Exchange.

Since the financial data in the study comes from the period before the enactment of Statement Nos. 160 and 141(R), the term "minority interest" will be used in the descriptions of company data instead of "noncontrolling interest" in order to conform more closely to the financial statement descriptions of line items from this period.

Industry Classifications

To break the data into subsets by industry, the two digit GICS code was used. The result was ten industry classifications with the following number of companies in each group:

Consumer Discretionary	152
Consumer Staples	41
Energy	68
Financials	228
Health Care	72
Industrials	96
Information Technology	97
Materials	72
Telecommunication Services	19
Utilities	31
Total	**876**

Adjustment to Total Shareholders' Equity

Table 1 presents adjusted total shareholders' equity assuming that minority interest in equity is included in the total. The table shows the company name and statistics that represent the median company in the study, and the median company in each industry group. The percent change is calculated to measure the difference in total shareholders' equity before including minority interest to after including minority interest. In this calculation, if the original total shareholders' equity is negative, the percent change is not calculated. In a few cases, the minority interest in equity is negative, which causes total shareholders' equity to decrease, but in the vast majority of cases, total shareholders' equity is increased by including minority interest.

The change in shareholders' equity before and after including minority interest is a relevant statistic to study because SFAS No. 160 will require companies to report the minority interest in equity as a part of the parent's shareholders' equity. Minority interest will no longer be allowed to be stated as a part of liabilities or in the mezzanine section of the balance sheet between liabilities and shareholders' equity. Within the parent's shareholders' equity, the noncontrolling interest will be clearly identified and reported as a separate line item.

Table 1: Change in Total Shareholders' Equity with Inclusion of Minority Interest
dollar amounts in millions

Industry	Median Company Name	Fiscal Year	Total Shareholders Equity	Minority Interest in Equity	Adjusted Shareholders Equity	Median Percent Change in SE	Number of Companies Disclosing MI in Equity	Number of Companies with Percent Change over 25%
Entire Sample	VALMONT INDUSTRIES INC	2006	$401.281	$8.289	$409.570	2.07%	876	86
Consumer Discretionary	GENUINE PARTS CO	2006	2,549.991	60.716	2,610.707	2.38%	152	11
Consumer Staples	PRICESMART INC	2006	234.619	2.672	237.291	1.14%	41	3
Energy	EXXON MOBIL CORP	2006	113,844.000	3,804.000	117,648.000	3.34%	68	18
Financials	NEWTEK BUSINESS SERVICES INC	2006	87.069	4.596	91.665	5.28%	228	35
Health Care	SCHEIN HENRY INC	2006	1,470.963	21.746	1,492.709	1.48%	72	4
Industrials	RAYTHEON CO	2006	11,101.000	165.000	11,266.000	1.49%	96	3
Information Technology	CYMER INC	2006	687.894	6.633	694.527	0.96%	97	5
Materials	UFP TECHNOLOGIES INC	2006	18.625	0.616	19.241	3.31%	72	4
Telecommunication Services	LEAP WIRELESS INTL INC	2006	1,789.001	30.000	1,819.001	1.68%	19	1
Utilities	BLACK HILLS CORP	2006	790.041	5.158	795.199	0.65%	31	2

The median company for the overall sample and for each industry group represents the company with the median percent change in shareholders' equity before and after including minority interest in equity. The supporting data underlying the percent change calculation is provided for the median companies. Rounding may affect the calculations of the percent change in shareholders' equity.

The median percent change in shareholders' equity for companies in this study is 2.07%, showing that for the median company, inclusion of minority interest would show a small increase in total shareholders' equity. Some industry groups would be more affected by the inclusion of minority interest in total shareholders' equity than others. In particular, the Energy and Financial Services companies show a greater effect with the inclusion of minority interest, with the median energy company’s shareholders’ equity increasing 3.34%, and the median financial services company’s shareholders’ equity increasing 5.28%. On the other hand, the median utilities company’s increase in shareholders’ equity is only 0.65%.

Some companies will experience a much greater effect on total shareholders' equity than the median increase of 2.07%. Out of the 876 companies disclosing minority interest on the balance sheet in this study, 86 companies, or almost 10%, would report a percent change in total shareholders' equity of more than 25%. Table 1a shows three representative companies with an impact to shareholders' equity of more than 25%.

Owens-Illinois, Inc. is one example of a company from the Materials industry that would have experienced a large change in total shareholders' equity if minority interest had been included for the fiscal year ended December 31, 2006. The minority interest is given on the balance sheet in the mezzanine as $206.8 million, and total shareholders' equity before inclusion of minority interest is $356.7 million. Including minority interest, the total shareholders' equity would be $563.5 million, a 58% increase. Minority interest for Owens-Illinois appears to include ownership in operations outside of the U.S.

Table 1a: Representative Companies with Change in Total Shareholders' Equity over 25%
dollar amounts in millions

Industry	Company Name	Fiscal Year	Total Shareholders' Equity	Minority Interest in Equity	Adjusted Shareholders' Equity	Percent Change in SE
Materials	OWENS-ILLINOIS INC	2006	$356.700	$206.800	$563.500	57.98%
Consumer Staples	COCA-COLA BTLNG CONS	2006	93.953	46.002	139.955	48.96%
Financials	ACADIA REALTY TRUST	2006	241.119	113.737	354.856	47.17%

Coca-Cola Bottling Co. in the Consumer Staples industry is another example of a company where minority interest in equity is a large percentage of total shareholders' equity. Minority interest is reported in the mezzanine as $46.002 million in the balance sheet for the fiscal year ended December 31, 2006. Total shareholders' equity is reported as $93.953 million. The adjusted total shareholders' equity after the inclusion of minority interest would be $139.955 million, for a percent increase of 49%. Minority interest for Coca-Cola Bottling consists of The Coca-Cola Company's ownership in Piedmont Coca-Cola Bottling Partnership, formed for the distribution of beverages in North and South Carolina.

Acadia Realty Trust is an example of a real estate investment trust (REIT) in the Financials industry group that would experience a large increase in total shareholders' equity if minority interest were included. For the fiscal year ended December 31, 2006, total minority interest on the balance sheet is reported in the mezzanine at $113.737 million, including minority interest in Operating Partnership and in partially-owned affiliates. Total shareholders' equity is $241.119 million. Including minority interest in total shareholders' equity results in an adjusted total of $354.856 million, for a 47% increase. The largest part of the total minority interests for Acadia is the minority interests in partially-owned affiliates. Third parties hold a minority interest in partnerships that are majority-owned by Acadia and that represent real estate portfolio holdings.

Revaluing Minority Interests to Fair Value

An additional change that will be arise with Statement No. 141(R) is that the noncontrolling interest will be measured at fair value on the date of acquisition, instead of being maintained at cost on the books of the acquirer. Therefore, in the future for most acquisitions, the noncontrolling interest in equity will be represented by a larger value, increasing shareholders’ equity further. In this study, we used reported minority interest values and did not have the data necessary to revalue them to fair value.

Significance of Minority Interest in Income

The calculation of minority interest in income (MII) as a percentage of income from continuing operations was performed to determine the median size of MII for the companies in the study. In this calculation, to get a clearer picture of the effects of MII on income, we excluded those companies where minority interest in income was blank, zero, or negative, as reported by Compustat. The total number of companies excluded in this calculation is 297 out of the original 876, including 127 not reporting MII, six reporting zero MII, and 164 reporting negative MII. Income from continuing operations is represented by the sum of income before extraordinary items and MII. Note that income from continuing operations is the same as net income for companies without extraordinary items or discontinued operations. The median results are shown in Table 2.

Table 2: Size of Minority Interest in Income Compared to Total Income
dollar amounts in millions

Industry	Median Company Name	Fiscal Year	Minority Interest in Income (MII)	Income from Continuing Operations (ICO)	Median MII / (ICO + MII)	Number of Companies Disclosing Positive MII	Number of Companies with MII over 25% of Total Income
Entire Sample	ALEXANDRIA R E EQUITIES INC	2006	$2.287	$71.970	3.08%	579	69
Consumer Discretionary	SEARS HOLDINGS CORP	2006	44.000	1,490.000	2.87%	97	8
Consumer Staples	WAL-MART STORES INC	2006	425.000	12,178.000	3.37%	23	2
Energy	GRANT PRIDECO INC	2006	10.361	464.584	2.18%	54	15
Financials	REGENCY CENTERS CORP	2006	10.582	155.145	6.39%	159	22
Health Care	RADIATION THERAPY SVCS INC	2006	0.580	30.323	1.88%	42	6
Industrials	L-3 COMMUNICATIONS HLDGS INC	2006	10.400	526.100	1.94%	61	2
Information Technology	CIBER INC	2006	0.304	24.735	1.21%	59	3
Materials	UFP TECHNOLOGIES INC	2006	0.087	2.515	3.34%	51	7
Telecom. Services	ALLTEL CORP	2006	46.600	823.700	5.35%	13	2
Utilities	AMEN PROPERTIES INC	2006	0.060	2.161	2.70%	20	2

The median company for the overall sample and for each industry group represents the company with the median minority interest in income as a percentage of total income. Total income is defined as income from continuing operations plus minority interest in income. The supporting data underlying the calculation is provided for the median companies. Rounding may affect the calculations of the percent change in income.

This calculation represents the contribution of MII to total income only when that contribution is positive. Our objective was to measure the effects of including minority interest in income on income before extraordinary items for profitable subsidiaries without the dilution effects of loss companies.

The main reason to consider MII as a percentage of total income is that Statement No. 160 will require consolidated net income as reported on the income statement to include both the parent's share and the noncontrolling interest share of net income. The income statement will include additional disclosure of the amount of consolidated net income attributed to the parent and the amount attributed to the noncontrolling interest. However, the way that companies report the "bottom line" number of consolidated net income will be changed by this statement. Minority interest in income will no longer be allowed to be reported as an expense in arriving at consolidated net income.

Table 2 shows that the median minority interest in income as a percentage of total income is 3.08%. Again, this calculation only includes those companies whose minority interest in income is an addition to income from continuing operations. In this calculation, the median company in the industry groups of Financials (6.39%) and Telecommunication Services (5.35%) have a higher percentage of MII in total income than the median company overall. Information Technology shows the lowest percentage of MII in total income (1.21%).

Though the median size of MII compared to total income is 3.08% for the 579 companies in this calculation, the more extreme end of companies with MII includes 69 companies whose MII is over 25% of total income. Three representative companies are shown in Table 2a.

Table 2a: Representative Companies with Minority Interest over 25% of Total Income
dollar amounts in millions

Industry	Median Company Name	Fiscal Year	Minority Interest in Income (MII)	Income from Continuing Operations (ICO)	MII / (ICO + MII)
Materials	GRACE (W R) & CO	2006	$34.400	$18.300	65.28%
Telecom. Services	VERIZON COMMUNICATIONS INC	2006	4,038.000	5,480.000	42.42%
Materials	NEWMONT MINING CORP	2006	363.000	840.000	30.17%

One example is W. R. Grace & Co. from the Materials industry that reports 2006 income of $18.3 million, and minority interest in consolidated entities of $34.4 million. The company reported no extraordinary items in income in 2006. Under the new disclosure required by SFAS No. 160, net income would be reported as the total of $52.7 million, with $34.4 million attributed to the noncontrolling interest (65% of total income) and $18.3 million attributed to the controlling interest (35% of total income). W.R. Grace has experienced large volatility in income before tax and minority interest in the three years ending in 2006, due to asbestos-related litigation and Chapter 11 expenses. In 2004, income before tax and minority interest was a loss of $395.1 million, rebounding to income of $109.7 million in 2005. In 2006, income before tax and minority interest was $60.8 million. One reason for the large contribution of MII to total income in 2006 is that income was lower in 2006. The minority interest is mostly due to a joint venture between W.R. Grace and Chevron Products Company.

Another example of MII as a large percentage of total income is Verizon Communications Inc. from the Telecommunication Services industry. For 2006, income from continuing operations is reported as $5,480 million, and minority interest is reported as $4,038 million. The MII is 42% of total income. In the case of Verizon, the minority interest is attributed to a wireless joint venture with Vodafone (Verizon Wireless) and to other cellular partnerships.

Newmont Mining Corp. is another example in the Materials group where MII would constitute a large percentage of total net income as reported under SFAS No. 160. For 2006, minority interest in income is reported as $363 million, and income from continuing operations is $840 million. MII is 30% of total income.

Effect on Measures of Leverage

Financial ratios focused on measures of leverage would be affected by the inclusion in total shareholders' equity of minority interest in equity. As a result, Statement No. 160 may have implications for creditors in structuring debt covenants once the Standard is in effect. For most companies, measures of leverage would artificially decline. Table 3 compares the ratio of total liabilities to total shareholders' equity before and after the inclusion of minority interest in equity. The percent change calculates the change in this ratio, which for the vast majority of the companies in the study represents a decrease in this measure of leverage. Similar to Table 1, for companies where the initial ratio is negative because of negative total shareholders' equity, the percent change is not calculated.

Table 3: Decrease in Leverage with Inclusion in Total Shareholders' Equity of Minority Interest in Equity

Industry	Median Company Name	Fiscal Year	Total Liabilities / Total Shareholders Equity	Total Liabilities / Adjusted Shareholders Equity	Median Percent Change in Leverage	Number of Companies Disclosing MI in Equity	Number of Companies with Decrease in Leverage More Than 20%
Entire Sample	VALMONT INDUSTRIES INC	2006	1.20	1.18	-2.02%	876	86
Consumer Discretionary	GENUINE PARTS CO	2006	0.74	0.72	-2.33%	152	11
Consumer Staples	PRICESMART INC	2006	0.52	0.51	-1.13%	41	3
Energy	EXXON MOBIL CORP	2006	0.89	0.86	-3.23%	68	18
Financials	NEWTEK BUSINESS SERVICES INC	2006	1.71	1.63	-5.01%	228	35
Health Care	SCHEIN HENRY INC	2006	0.94	0.93	-1.46%	72	4
Industrials	RAYTHEON CO	2006	1.28	1.26	-1.46%	96	3
Information Technology	CYMER INC	2006	0.37	0.37	-0.96%	97	5
Materials	UFP TECHNOLOGIES INC	2006	1.06	1.03	-3.20%	72	4
Telecom. Services	LEAP WIRELESS INTL INC	2006	1.27	1.25	-1.65%	19	1
Utilities	BLACK HILLS CORP	2006	1.83	1.82	-0.65%	31	2

The median company for the overall sample and for each industry group represents the company with the median percent change in leverage before and after including minority interest in total shareholders' equity. The ratios underlying the percent change calculation are provided for the median companies. Rounding may affect the percent change in leverage measures.

The median change in leverage for all companies in the study is a decrease of 2.02%. Some industries would experience a larger median decrease, such as financials, with 5.01%. Other industries would experience only a small percent decrease in leverage, such as utilities, with a median decrease of 0.65%.

However, 86 companies out of 876 (about 10%) would experience a decrease in leverage of more than 20%. Table 3a shows representative companies where the decrease in leverage is greater than 20%.

Table 3a: Representative Companies with Decrease in Leverage Greater than 20%

Industry	Median Company Name	Fiscal Year	Total Liabilities / Total Shareholders' Equity	Total Liabilities / Adjusted Shareholders' Equity	Percent Change in Leverage
Consumer Staples	INTER PARFUMS INC	2006	0.86	0.67	-22.11%
Consumer Discretionary	TRUMP ENTERTAINMENT RESORTS	2006	4.17	3.20	-23.30%
Industrials	PITNEY BOWES INC	2006	10.58	6.83	-35.46%

Inter Parfums, Inc. is an example of a company from the Consumer Staples industry group that would experience a 22% decrease in leverage as measured by total liabilities to total shareholders' equity if minority interest in equity were included in its 2006 financial data. Total liabilities are calculated to be $133.698 million, and total shareholders' equity is reported as $155.272 million. Minority interest is reported in the mezzanine section as $44.075 million. If minority interest is included in total shareholders' equity, leverage would decrease from 0.86 to 0.67, a decrease of 22%. Minority interest for Inter Parfums in 2006 is due to ownership in Nickel S.A., a company that makes men's personal care products. The minority owners of Nickel also had a put option to sell their remaining interest to Inter Parfums by June 2007.

Another example of a company with a large decrease in leverage is Trump Entertainment Resorts, Inc. from the Consumer Discretionary industry. Long-term liabilities for 2006 are calculated to be $1,722.333 million, with total shareholders' equity reported as $412.768 million. Minority interest is reported in the mezzanine section as $125.395 million. The ratio of total liabilities to total shareholders' equity before including minority interest is 4.17, and after including minority interest is 3.20. Thus, this measure of leverage decreased 23% by including minority interest in equity as a part of total shareholders' equity. The minority interest for Trump Entertainment Resorts consists mainly of an ownership in a holding company.

Pitney Bowes Inc. from the Industrials group would experience a 35% decrease in its leverage ratio with the inclusion of minority interest in total shareholders' equity. For 2006, total liabilities are reported as $7,397.066 million and total shareholders' equity is reported as $699.189 million. With the inclusion of minority interest of $384.165, the ratio of total liabilities to total shareholders' equity would change from 10.58 to 6.83. Minority interest for Pitney Bowes includes preferred dividends paid to stockholders of a subsidiary.

Change in Debt Coverage Ratio of Times Interest Earned

Table 4 calculates the median change in debt coverage if minority interest in income is included in EBITDA. EBITDA is calculated for each company starting with income before extraordinary items, and adding back interest expense, tax expense, and depreciation and amortization expense. EBITDA is then divided by interest expense to determine the initial debt coverage ratio of times interest earned. Then, minority interest in income is added to EBITDA to determine the adjusted debt coverage ratio. The percent change in this times interest earned ratio is then calculated. In companies where interest expense is blank or zero, the calculation is not applicable. Companies with an initial ratio that is negative due to negative EBITDA are also excluded from the percent change calculation. This calculation does include companies with negative minority interest in income, allowing the debt coverage ratio to decrease or increase, depending on the contribution from minority interest. The total number of companies for this calculation excludes only the 127 companies in the data set not reporting MII.

Table 4: Change in Times Interest Earned with the Inclusion of Minority Interest in Income

Industry	Median Company Name	Fiscal Year	Times Interest Earned = EBITDA / Interest Expense	Adjusted Times Interest Earned = (EBITDA + MII) / Interest Expense	Median Percent Change in Times Interest Earned	Number of Companies Disclosing MII	Number of Companies with % Change in TIE over 10%
Entire Sample	CB RICHARD ELLIS GROUP INC	2006	13.36	13.49	1.00%	749	67
Consumer Discretionary	SNAP-ON INC	2006	10.60	10.78	1.69%	122	9
Consumer Staples	CORN PRODUCTS INTL INC	2006	7.98	8.07	1.14%	32	2
Energy	KINDER MORGAN ENERGY -LP	2006	4.90	4.94	0.86%	63	14
Financials	HERSHA HOSPITALITY TRUST	2006	1.15	1.17	1.81%	206	23
Health Care	BROOKDALE SENIOR LIVING INC	2006	1.40	1.41	0.46%	62	6
Industrials	KENNAMETAL INC	2007	12.19	12.26	0.62%	79	4
Information Technology	CORNING INC	2006	23.13	23.23	0.42%	87	1
Materials	NALCO HOLDING CO	2006	2.32	2.35	1.25%	58	5
Telecom. Services	CONSOLIDATED COMM HLDGS INC	2006	2.85	2.86	0.58%	17	1
Utilities	AMERIGAS PARTNERS -LP	2006	3.21	3.23	0.65%	23	2

The median company for the overall sample and for each industry group represents the company with the median percent change in times interest earned before and after including minority interest in income as part of EBITDA. The ratios underlying the percent change calculation are provided for the median companies. Rounding may affect the calculations of the percent change in times interest earned.

The median change for all companies is an increase of 1.00% in times interest earned. The industries with a percent change greater than 1.00% include Financials, with a median increase of 1.81%, and Consumer Discretionary with a median increase of 1.69%. Even though the median change appears small, there are 67 companies out of 749 (about 9%) where the percent increase in the times interest earned ratio is over 10%. This change in ratio might trigger certain lenders to reexamine the ratios stated in debt covenants for companies with a large percentage of income from minority interest if minority interest in income is included as part of EBITDA.

Table 4a shows representative companies where the change in times interest earned is over 10%.

Table 4a: Representative Companies with Change in Times Interest Earned over 10%

Industry	Median Company Name	Fiscal Year	Times Interest Earned = EBITDA / Interest Expense	Adjusted Times Interest Earned = (EBITDA + MII) / Interest Expense	Percent Change in Times Interest Earned
Information Technology	LORAL SPACE & COMMUNICATIONS	2006	3.57	4.50	26.29%
Energy	ATLAS AMERICA INC	2006	5.21	5.88	12.85%
Consumer Discretionary	GOODYEAR TIRE & RUBBER CO	2006	1.91	2.13	11.70%

One example of a company that would experience a large change in times interest earned with the inclusion of MII is Loral Space & Communications Inc. from the Information Technology industry. EBITDA for 2006 calculated from Compustat data is $94.309 million with interest expense of $26.449 million for a times interest earned ratio of 3.57. Including the minority interest of $24.794 million in EBITDA would increase times interest earned to 4.50, an increase of 26%. Loral's minority interest is due to preferred stock of Loral Skynet, a subsidiary that provides satellite services.

Another company with a large increase in times interest earned is Atlas America, Inc. in the Energy industry group. EBITDA for 2006 of $142.286 million would increase to $160.569 million with the inclusion of minority interest of $18.283 million. Interest expense for Atlas is $27.313 million. The times interest earned ratio would increase by 13%, from 5.21 to 5.88. Atlas America's minority interests are due to minority ownership in Atlas Pipeline and Atlas Energy subsidiaries.

A third example from the Consumer Discretionary group is Goodyear Tire & Rubber Co., whose times interest earned ratio would increase by 12%, from 1.91 to 2.13. EBITDA for 2006 is $949 million, with minority interest in income of $111 million. Interest expense for Goodyear is reported by Compustat as $498 million. Goodyear's minority interest is due to minority ownership in operations based in various countries.

Conclusions

In the examination of the possible financial statement effects of adopting Statement Nos. 160 and 141(R), this study looked at four metrics that examine the size of the impact on profitability and leverage. We calculated the change in total shareholders' equity due to the inclusion of minority interest in equity, the size of minority interest in income as a percentage of total income before extraordinary items, the percent change in the leverage ratio of total liabilities to total shareholders' equity, and the percent change in debt coverage measured by the times interest earned ratio. The median effect in each of these calculations was small but measurable for the U.S. companies in the study. To summarize the results, the median change in total shareholders' equity was 2.07%, the median size of minority interest in income was 3.08% of total income, the median decrease in leverage was 2.02%, and the median increase in times interest earned was 1.00%.

Certain industry groups showed more sensitivity than others to the accounting changes in SFAS 160 and 141(R). For measures that involve minority interest in equity, the industries with a median value higher than the overall median were Consumer Discretionary, Energy, Financials, and Materials. For measures that involve minority interest in income, the industries with a median value higher than the overall median include Consumer Discretionary, Consumer Staples, Financials, Materials, and Telecommunication Services.

For each calculation, an examination was made of outlier statistics that represent companies that will be greatly affected by the changes. For the percent change in total shareholders' equity caused by including minority interest in equity, 10% of the companies that disclosed minority interest in equity will see an increase of over 25% compared to the median increase of 2%. For companies that disclose minority interest in income, the median company shows MII as 3% of total income, but 12% of these companies have MII that is greater than 25% of total income. Though the median company saw only a 2% decrease in leverage as measured by total liabilities to total shareholders' equity, 10% of the companies in the study will see a decrease in leverage of more than 20%. Finally, 9% of companies disclosing minority interest in income will see an increase of more than 10% in times interest earned, compared to the 1% median increase.

Investors, analysts and creditors will want to be on guard for these upcoming changes in financial reporting, scheduled to take effect in 2009. In particular, apparent profitability and financial leverage will be altered.