



### **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](mailto:charles.mulford@mgt.gatech.edu)

**Mario Martins**

Graduate Research Assistant

[mario.martins@mba.gatech.edu](mailto:mario.martins@mba.gatech.edu)

## **Cash-Flow Reporting Practices for Customer-Related Notes Receivable**

### **Executive Summary**

A sale made on open account boosts net income but does not provide operating cash flow until the related amount due from the customer has been collected. Accordingly, in computing operating cash flow, subtractions must be made from net income for increases in accounts receivable.

While there is general agreement on the reporting treatment for changes in accounts receivable in the computation of operating cash flow, reporting practices differ when customers are offered more formal repayment arrangements, for example, in the form of notes receivable. Some companies include such customer-related receivables in the computation of operating cash flow, while others report them in the investing section. Reporting such receivables as investing cash flow results in higher operating cash flow when the balance of such receivables is rising. As a result, the potential exists for a misimpression of a company's operating performance. In this study we highlight cash-flow reporting practices for such customer-related receivables. April 2004

**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](mailto:charles.mulford@mgt.gatech.edu)

Michael L. Ely. MBA, Financial Analyst.

Phone: (404) 894-9473

Email: [michael.ely@mgt.gatech.edu](mailto:michael.ely@mgt.gatech.edu)

Kerianne Maloney. Graduate research assistant and MBA student.

Raul Quiroz. Graduate research assistant and MBA student.

Mario Martins. Graduate research assistant and MBA student.

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

©2004 by the College of Management, Georgia Institute of Technology, Atlanta, GA 30332-0520. **ALL RIGHTS RESERVED.** The information contained in this research report is solely the opinion of the authors and is based on sources believed to be reliable and accurate, consisting principally of required filings submitted by the companies represented to the Securities and Exchange Commission. **HOWEVER, ALL CONTENT HEREIN IS PRESENTED "AS IS," WITHOUT WARRANTIES OF ANY KIND, EXPRESS OR IMPLIED.** No data or statement is or should be construed to be a recommendation for the purchase, retention, sale or short-sale of the securities of the companies mentioned.

**Companies Named In This Report**

7-ELEVEN, Inc.	12
Applebees International	12
Asbury Automotive Group	8
Aspect Medical Systems, Inc.	12
Beckman Coulter, Inc.	12
Boyd Bros Transportation	11
Cardinal Health, Inc.	12
Caterpillar, Inc.	9
Cisco Systems, Inc.	11
Computer Programs And Systems, Inc.	12
Daktronics, Inc.	12
Deere & Company	10
Dollar Thrifty Automotive Group, Inc	12
Elmers Restaurants	13
Emerging Vision, Inc.	13
Federal Signal Corp.	9
Ford Motor Co.	8, 9
Gehl Company	10
General Motors Corp.	9
Haemonetics Corp.	11
Harley-Davidson, Inc.	7,8,9,10
Harley Davidson Financial Services, Inc.	7
IHop Corp.	13
Integrated Surgical Systems, Inc.	11
Lifeline Systems, Inc.	13
Navistar International Corp.	10
Nortel Networks Corp.	9, 10
Outback Steakhouse, Inc.	13
Paccar, Inc.	9
Panamsat Corp.	12
Roma Corp.	13
Textron. Inc.	9

**Introduction**

Sales made on open account increase net income but provide no operating cash flow. As a result, when using an indirect-method approach in calculating operating cash flow, net income must be adjusted for any period-to-period change in accounts receivable. An increase in accounts receivable is subtracted from net income when computing operating cash flow, while a decrease is added. When calculating operating cash flow in this manner, cash collected from customers will be properly included in operating cash flow.

While there is general agreement on the cash-flow reporting treatment for accounts receivable, reporting practices differ when customers are offered more formal repayment arrangements, for example, in the form of notes receivable. Some firms include such notes in the calculation of operating cash flow while others report them as components of investing cash flow.

As an example, consider a hypothetical manufacturer who offers its dealers financing in the form of floor-plan notes receivable. The notes reflect amounts due from the manufacturer's customers. The inclusion of changes in these notes in the computation of operating cash flow would remove the cash effects of amounts that were not collected.

Assume that on \$10 million in sales, \$6 million were collected. The \$4 million difference was reflected as an increase in floor-plan notes receivable. The company's operating expenses were \$7 million and were paid in cash. No other transactions took place during the reporting period in question. For brevity, taxes are ignored.

The company's income statement would appear as follows:

Sales	\$10,000,000
Operating expenses	<u>7,000,000</u>
Net income	\$ <u>3,000,000</u>

Clearly the company consumed \$1 million in cash flow from operations, that is, \$6 million in collections from customers less \$7 million in cash expenses.

If the change in floor-plan notes receivable were included in the calculation of operating cash flow, the company's cash flow statement prepared in the indirect method format would appear as follows:

Cash (used) by operating activities:	
Net income	\$ 3,000,000
Adjustments for changes in working capital:	
(Increase) in floor-plan notes receivable	<u>(4,000,000)</u>
Cash (used) by operating activities	\$ (1,000,000)
 Cash provided (used) by investing activities	 <u>0</u>
Net (decrease) in cash	\$ <u>(1,000,000)</u>

In this example, the company's cash flow statement reports that it consumed \$1,000,000 in operating cash flow, which equals the net decrease in cash.

However, if the company were to include the increase in floor-plan notes receivable in the investing section of the cash flow statement, the statement would appear as follows:

Cash provided by operating activities:	
Net income	\$ 3,000,000
Adjustments for changes in working capital:	<u>0</u>
Cash provided by operating activities	3,000,000
Cash (used) by investing activities:	
(Increase) in floor-plan notes receivable	<u>(4,000,000)</u>
Net (decrease) in cash	<u>\$ (1,000,000)</u>

In this second example, it appears that the company generated \$3,000,000 of operating cash flow and then invested that cash in notes receivable. It provides an entirely different perspective on the company's operations, making it appear that it is generating \$4,000,000 more cash flow from operations than if the notes were reported as an operating item.

We think that the former presentation, which includes the change in the floor-plan notes receivable as an operating item, better captures the economic substance of the transaction. Operating treatment for the notes better presents the company's ability to generate sustainable cash flow from operating activities.

In addition, if free cash flow were calculated as operating cash flow less capital expenditures, the inclusion of floor-plan notes receivable in the calculation of operating cash flow would result in a lower amount of free cash flow.

It is important to note that we are referring to the cash-flow presentation of customer-related notes receivable. These receivables exclude actual investments of company cash in receivables that are unrelated to customer sales.

For example, if our hypothetical manufacturer also purchased from its dealers the installment notes of its dealers' customers, such transactions would be investments and not part of operations.

### **SFAS No. 95**

SFAS No. 95, *Statement of Cash Flows*, while recognizing the problematic classification of longer-term, customer-related receivables, concludes that such receivables are components of operating cash flow. Quoting from the Statement,

A somewhat difficult classification issues arises for installment sales ... for which cash inflows...may occur several years after the date of

transaction...The board agreed that all cash collected from customers . . . should be classified as operating cash flow. (SFAS No. 95, para. 95).

While the Statement refers to installment receivables and not notes receivable with a single repayment date, the Statement does make the point that customer-related collections should be classified as operating cash flow.

The inclusion in investing cash flow of an increase in notes receivable resulting from an uncollected sale gives the impression that the sale was collected as part of operating cash flow in the period the sale was made, which is in advance of an actual collection from the customer. That increase in operating cash flow is offset by a use of cash in the investing section representing the increase in the customer-related note receivable. Combined, the two items result in no net change in cash. Later, the actual customer collection is reported as an investing source of cash as the balance in the related note receivable declines.

### **Customer-Related Notes Receivable**

Customer-related notes receivable include all receivables for sales made and services provided to customers, excluding amounts due on open account. Included are notes receivable, including floor-plan notes, franchise receivables, financing receivables for customer-related sales and lease receivables arising from sales-type lease transactions. The focus here is on the cash-flow reporting practices for such receivables employed by firms who, on a consolidated basis, would be considered to be non-financial in nature. Importantly, our focus includes companies with fully-consolidated finance subsidiaries who provide customer-related financing for sales made and services provided.

A customer-related note receivable represents a promissory note in which the customer agrees to pay a certain sum of money over time or at a specified point in time. For the purpose of this study, only notes resulting from credit sales of goods or services are considered. Other names used for such notes include finance or financing receivables, long-term receivables and wholesale receivables. When they are not sales related, loans and other forms of financial assistance given to customers in the form of notes receivable are excluded from the scope of this study.

Lease receivables of interest result from sales-type leases. A sale-type lease is a lease made by a manufacturer or dealer that is accounted for as a sale. Such a lease must fulfill any one of the following four criteria:

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.

A sales-type lease must also fulfill criteria five and six:

5. Lessor can predict whether or not minimum lease payments will be collected and
6. Additional costs to the lessor can be reasonably predicted.

Classification as a sales-type lease also requires the presence of a manufacturer or dealer profit as evidenced by a significant difference between the lessor's cost and the fair value of the leased asset.

Direct-financing leases, which are in substance loans and not sales-related receivables, are excluded here.

Franchise receivables refer to amounts due from franchisees for initial franchise fees and franchise royalties.

### **The Study**

We began our study by using the Compact Disclosure Database and EdgarPro to identify non-financial firms on a consolidated basis who disclosed the existence of either long-term receivables, notes receivable, floor-plan notes, leases receivable or franchise receivables in their Form 10-K filings with the SEC. We then examined the consolidated statement of cash flows and the notes to financial statements to determine a) whether the receivables were customer-related and the result of sales or services and b) whether identified customer-related receivables were classified in the operating or investing sections of the statement of cash flows.

### **Results**

The results are presented in a series of exhibits. We begin with Exhibits 1 and 2, where we focus on the results for companies selling durable equipment items. In most instances, companies in this group offer their customers financing through wholly-owned and fully-consolidated finance subsidiaries. The use of finance subsidiaries to finance customer receivables raises special issues that we wanted to address first. Exhibits 3 and 4 relay the results of our survey of reporting practices for sales-type leases. In exhibit 5 we look at franchise receivables.

### ***Notes Receivable Arising from Sales of Durable Equipment***

Most companies in the industries represented here offer sales-related financing to their customers, who are often dealers. Such financing is typically referred to as wholesale financing and should not be confused with retail financing, that is, financing provided to the customers of the dealers. In most cases, both wholesale and retail financing are offered through wholly-owned and fully-consolidated finance subsidiaries.

Consider Harley-Davidson, Inc. Through its finance subsidiary, Harley Davidson Financial Services, Inc. (HDFS), the company offers wholesale financing to the dealers of its motorcycles. For the most part, this financing is provided to facilitate their purchase of inventory from Harley. The financing is secured by the inventory sold to the dealers. Through HDFS, Harley also offers retail financing to the consumers who purchase the company's motorcycles from its dealers.

Like many other companies in the industries represented here, Harley includes changes in both types of receivables, wholesale and retail, in the investing section of its cash flow

statement. While retail notes do appear to fulfill an investing classification, wholesale notes that are due from customers for purchases of company inventory to us would appear to be better classified as a component of operating cash flow.

It might be argued that the use of a finance subsidiary to finance a sale changes the nature of the related cash flow. After all, the finance subsidiary is investing in the receivables of the manufacturer's customers. However, since the financial results of a wholly-owned finance subsidiary are consolidated with the manufacturer, we believe that the sale of inventory and the financing of that sale through a wholly-owned subsidiary have the same economic substance as credit being extended directly by the manufacturer.

As another example, consider Ford Motor Co. Through its finance subsidiary, Ford also offers its dealers wholesale financing, which the company refers to as floor-plan financing. In a floor-plan arrangement, loan balances are carefully linked to underlying inventory levels. When a unit is sold from inventory, the floor-plan agreement typically requires that an amount, the release price, attributable to the unit sold, must be paid to the lender. Like Harley, Ford reports its wholesale finance receivables in the investing section of its cash flow statement.

It is instructive to examine the accounting practices for an auto dealer that uses floor-plan notes to finance inventory purchases. Asbury Automotive Group, Inc. is a large auto dealer that sells many brands of cars, including Fords. Asbury employs floor-plan financing arrangements offered by manufacturers, like Ford, to finance its purchases. The company reports floor-plan financing in the operating section of its cash flow statement. An increase in floor-plan financing is a source of operating cash flow and offsets the related use of cash for an increase in inventory. The treatment is consistent with the operating cash classification afforded accounts payable used to purchase inventory.

Note the mismatch. While Ford reports floor-plan financing as an investing use of cash, Asbury reports the cash received as an operating source of cash. An operating designation would appear to us to be a more proper classification for both sides of the transaction. Such treatment would be similar to the operating classification afforded accounts receivable by a seller and accounts payable by a buyer. Other companies in durable equipment-related industries who report wholesale-type notes receivable or other consumer related-notes receivable in the investing section of the cash flow statement are listed in Exhibit 1.

Several of the companies who classified changes in customer-related notes receivable as investing cash flow also securitized or sold portions of those receivables. When they did, the proceeds of the securitization transactions were also included in investing cash flow. In Exhibit 1, the column reporting cash provided or (used) by notes receivable reported as investing cash flow reflects changes in wholesale notes receivable net of the effects of securitizations. Thus, for companies securitizing notes receivable, the column reports changes in retained interests in securitized notes receivable.

**Exhibit 1** Customer-Related Notes Receivable Reported as Investing Cash Flow

<b>Company</b>	<b>Year Ended</b>	<b>Cash Provided (Used) By Notes Receivable Reported as Investing<sup>a</sup></b>	<b>Reported Cash Provided (Used) by Operating Activities</b>
Caterpillar, Inc.*	12/31/2003	*	\$2,066,000
	12/31/2002	*	\$2,366,000
	12/31/2001	*	\$1,987,000
Deere & Company**	10/31/2003	\$122,000	\$1,535,700
	10/31/2002	(\$23,000)	\$1,878,300
	10/31/2001	\$141,000	\$1,113,400
Ford Motor	12/31/2003	(\$2,878,000)	\$20,195,000
	12/31/2002	(\$5,910,000)	\$18,513,000
	12/31/2001	\$10,932,000	\$21,780,000
General Motors Corporation	12/31/2003	(\$4,058,000)	\$7,600,000
	12/31/2002	(\$5,879,000)	\$15,482,000
	12/31/2001	\$11,413,000	\$12,180,000
Harley-Davidson, Inc	12/31/2003	(\$133,958)	\$935,553
	12/31/2002	(\$139,556)	\$775,639
	12/31/2001	(\$111,380)	\$750,204
Nortel Networks Corp.	12/31/2002	\$31,000	(\$761,000)
	12/31/2001	(\$261,000)	\$425,000
	12/31/2000	(\$480,000)	\$946,000
Paccar Inc	12/31/2003	(\$27,800)	\$818,700
	12/31/2002	(\$205,100)	\$795,400
	12/31/2001	\$45,500	\$625,700
Textron, Inc.	1/3/2004	\$14,000	\$848,000
	1/3/2003	(\$318,000)	\$640,000
	1/3/2002	\$420,000	\$989,000

Source: company filings with the SEC.

<sup>a</sup>Calculated increase in customer-related or wholesale notes receivable reported as investing cash flow, net of amounts sold or securitized.

\* Caterpillar, Inc. combined wholesale and retail notes receivable and did not provide separate detail of each. Accordingly, we could not determine the portion of the net change in these notes receivable that was for amounts due from the company's dealers.

\*\* Amounts for Deere & Co. represent changes in wholesale notes receivable that are reported in investing cash flow as part of financing receivables. The company also reports other trade accounts and notes receivable in operating cash flow.

Exhibit 1 reports the amount of cash that was provided or (used) by changes in notes receivable classified as investing cash flow. If these notes receivable were classified as operating items, reported operating cash flow would be increased or (reduced) accordingly.

For example, in 2003, Harley-Davidson reported \$935,553,000 in operating cash flow. However, during the year, wholesale receivables, which we interpret to represent customer-related notes receivable, increased \$133,958,000. Because the notes were reported as investing cash flow, it appears that the company generated that much more operating cash flow.

Consider also the example of Nortel Networks Corp. In 2000 and 2001, increases in long-term receivables reported as investing cash flow resulted in the company reporting \$480 million higher operating cash flow in 2000 and \$261 million higher operating cash flow in 2001. A small decline in notes receivable in 2002 actually lowered operating cash flow that year. At the time of this writing, the company had delayed the filing of its financial statements for 2003.

We found two companies in the durable equipment-related industries who reported wholesale-type notes receivable as operating cash flow, Gehl Company and Navistar International Corp.

**Exhibit 2** Customer-Related Notes Receivable Reported as Operating Cash Flow

<b>Company</b>	<b>Year Ended</b>	<b>Cash Provided (Used) By Notes Receivable Reported as Operating<sup>a</sup></b>	<b>Reported Cash Provided (Used) by Operating Activities</b>
Gehl Co.*	12/31/2003	*	\$31,129
	12/31/2002	*	\$16,768
	12/31/2001	*	(\$106)
Navistar International Corp.**	10/31/2003	\$0	(\$50,000)
	10/31/2002	(\$12,000)	(\$99,000)
	10/31/2001	\$30,000	\$189,000

Source: Company filings with the SEC

<sup>a</sup>Calculated increase in customer-related or wholesale notes receivable reported as operating cash flow.

\*Gehl Co. reported changes in finance contracts receivable, which are receivables for financing provided to retail customers and to the company's dealers, in operating cash flow. We were not able to separate the cash flow associated with changes in the two different kinds of receivables.

\*\*Navistar International reported changes in wholesale notes receivable in operating cash flow. Retail notes and lease receivables were reported in investing cash flow.

***Sales-Type Lease Receivables***

Sales-type leases arise when manufacturers or dealers structure sales with lease financing. The initial impact on earnings is the same as recording the transaction as a sale. Revenue is recognized for the present value of the lease, cost of goods sold is recorded for the product's cost, and gross profit is reported for the difference. The manufacturer or dealer also records interest income over the lease term.

Because a lease receivable arising from a sales-type lease is, in substance, the same as a receivable arising from a product's sale, operating treatment for the related receivable would appear to be appropriate. However, we did note several companies who included sales-type lease receivables in the computation of investing cash flow. Those companies are highlighted in Exhibit 3.

**Exhibit 3** Sales-Type Lease Receivables Reported as Investing Cash Flow

<b>Company</b>	<b>Year Ended</b>	<b>Cash Provided (Used) by Lease Receivables Reported as Investing<sup>a</sup></b>	<b>Reported Cash Provided (Used) by Operating Activities</b>
Boyd Bros Transportation	12/31/2003	\$3,740	\$10,366
	12/31/2002	\$3,622	\$12,265
	12/31/2001	\$2,289	\$13,419
Cisco Systems, Inc.*	7/26/2003	*	\$5,240,000
	7/27/2002	*	\$6,587,000
	7/28/2001	*	\$6,392,000
Federal Signal Corp	12/31/2003	(\$5,118)	\$75,377
	12/31/2002	\$13,732	\$88,350
	12/31/2001	(\$26,082)	\$95,113
Haemonetics Corp.	3/29/2003	\$384	\$43,667
	3/31/2002	\$2,153	\$33,311
	3/31/2001	\$4,597	\$56,816
Integrated Surgical Systems, Inc.	12/31/2002	\$46	(\$972)
	12/31/2001	\$59	(\$237)

Source: Company filings with the SEC.

<sup>a</sup>Calculated increase in sales-type lease receivables reported as investing cash flow.

\*Cisco Systems, Inc. combined sales-type and direct-financing leases and reported the change in their total as investing cash flow.

As noted in Exhibit 3, during most periods under review, the companies who reported sales-type lease receivables as investing cash flow saw their receivables decline. Because the cash provided by declines in these receivables was classified as investing cash flow, reported operating cash flow was reduced accordingly. However, any future increases in sales-type lease receivables that are reported as investing cash flow would result in the companies reporting higher operating cash flow.

Among the companies included in Exhibit 3, Haemonetics Corp. classified its sales-type lease receivables as current and noncurrent. The company reported current lease receivables in the operating section of the statement of cash flows while the noncurrent receivables were reported in the investing section.

Companies who reported changes in sales-type lease receivables in the operating section of the cash flow statement are presented in Exhibit 4.

**Exhibit 4 Sales-Type Lease Receivables Reported as Operating Cash Flow**

<b>Company</b>	<b>Year Ended</b>	<b>Cash Provided (Used) By Lease Receivable Reported as Operating<sup>a</sup></b>	<b>Reported Cash Provided (Used) by Operating Activities</b>
Aspect Medical Systems, Inc.	12/31/2003	(\$268)	(\$5,182)
	12/31/2002	(\$734)	(\$4,715)
	12/31/2001	\$734	(\$15,623)
Beckman Coulter, Inc.	12/31/2003	(\$11,500)	\$225,400
	12/31/2002	\$8,700	\$316,600
	12/31/2001	(\$10,800)	\$276,600
Cardinal Health, Inc.	6/30/2003	\$107,800	\$1,398,000
	6/30/2002	\$71,200	\$983,900
	6/30/2001	(\$141,800)	\$871,700
Computer Programs And Systems, Inc.	12/31/2003	\$275	\$7,997
	12/31/2002	(\$413)	\$6,991
	12/31/2001	(\$1,129)	\$8,987
Daktronics, Inc.*	5/3/2003	*	15,912
	4/27/2002	*	\$17,232
	4/28/2001	*	\$7,366
Dollar Thrifty Automotive Group, Inc.**	12/31/2003	**	\$654,102
	12/31/2002	**	\$623,425
	12/31/2001	**	\$358,781
Lifeline Systems, Inc.	12/31/2003	(\$68)	\$18,461
	12/31/2002	\$557	\$21,524
	12/31/2001	\$771	\$11,494
Panamsat Corporation	12/31/2003	\$22,858	\$473,381
	12/31/2002	\$22,523	\$519,247
	12/31/2001	\$21,891	\$507,904

Source: Company filings with the SEC.

<sup>a</sup>Calculated increase in sales-type lease receivables reported as operating cash flow.

\* Daktronics, Inc. combined lease receivable and long term contract receivable and did not provide separate detail of each. Accordingly, we could not determine the portion of the net change in these receivable that were for sale type-lease receivables.

\*\* Dollar Thrifty Automotive Group, Inc. combined financing receivables arising from direct financing and sales-type leases of vehicles and did not provide separate detail of each. Accordingly, we could not determine the portion of the net change in these receivable that was for amounts were for sale type-lease receivables.

### ***Franchise Receivables***

We examined the reporting practices of franchisors for receivables arising from initial franchise fees and franchise royalties. All of the reporting companies we studied included changes in franchise receivables in the operating section of the cash flow statement. The results are provided in Exhibit 5.

**Exhibit 5** Customer-Related Franchise Receivables Reported as Operating Cash Flow

<b>Company</b>	<b>Year Ended</b>	<b>Cash Provided (Used) By Franchise Receivables Reported as Operating<sup>a</sup></b>	<b>Reported Cash Provided (Used) by Operating Activities</b>
7-Eleven, Inc.	12/31/2003	(\$2,411)	\$534,511
	12/31/2002	\$5,593	\$496,747
	12/31/2001	(\$39,607)	\$278,235
Applebees International	12/28/2003	(\$1,484)	\$175,889
	12/29/2002	(\$2,418)	\$132,633
	12/30/2001	(\$4,145)	\$104,063
Elmers Restaurants*	3/31/2003	*	\$1,756
	4/1/2002	*	\$1,692
	4/2/2001	*	\$1,720
Emerging Vision, Inc.	12/31/2002	\$704	(\$1,817)
	12/31/2001	(\$344)	(\$5,703)
	12/31/2000	\$1,150	(\$1,915)
Ihop Corp.	12/31/2003	(\$3,773)	\$71,310
	12/31/2002	(\$5,413)	\$78,112
	12/31/2001	(\$4,928)	\$55,703
Outback Steakhouse, Inc.	12/31/2003	\$287	\$269,082
	12/31/2002	\$640	\$294,000
	12/31/2001	\$1,540	\$192,980
Roma Corp.	3/30/2003	(\$396)	\$1,226
	3/30/2002	(\$100)	\$2,162
	3/30/2001	(\$19)	\$3,576

Source: Company filings with the SEC.

<sup>a</sup>Calculated increase in franchise receivables reported as operating cash flow.

\* Elmers Restaurants combined accounts and franchise fees receivable and did not provide separate detail of each. Accordingly, we could not determine the portion of the net change in these receivable that were as a result of franchise receivables.

**Conclusion**

We found numerous examples of companies who reported changes in customer-related receivables in the investing section of the cash flow statement, excluding their effects from operating cash flow. We think that a clearer picture of sustainable operating cash flow would include these changes. Analysts will want to consider whether adjustments to operating cash flow are needed before using that measure in analysis, for example, in computing free cash flow.

The Financial Accounting Standards Board may also want to take note of the perceived flexibility in GAAP for cash flow reporting. Customer-related notes receivable are reported in both the operating and investing sections of the cash flow statement, hurting the comparability of operating cash flow across companies.