

With this case, we review the cash flow of several specialty retail stores. The companies reviewed and the year-end dates are as follows:

1. **Abercrombie & Fitch Co.**

(52-week fiscal year ended January 29, 2011; 52-week fiscal year ended January 30, 2010; 52-week fiscal year ended January 31, 2009)

"Abercrombie & Fitch Co ... is a specialty retailer that operates stores and direct-to-consumer operations." 10-K

Source: Abercrombie & Fitch 2010 10-K

2. **Limited Brands, Inc.**

(52-week fiscal year ended January 29, 2011; 52-week fiscal year ended January 30, 2010; 52-week fiscal year ended January 31, 2009)

"We operate in the highly competitive specialty retail business." 10-K

Source: Limited Brands 2010 10-K

3. **Gap, Inc.**

(52-week fiscal year ended January 29, 2011; 52-week fiscal year ended January 30, 2010; 52-week fiscal year ended January 31, 2009)

"We are a global specialty retailer offering apparel, accessories, and personal care products." 10-K

Source: Gap Inc 2010 10-K

Data reviewed	Abercrombie & Fitch		Limited Brands		GAP	
	2010	2009	2010	2009	2010	2009
Net cash provided by operating activities	\$391,789,000	\$395,487,000	\$1,284,000,000	\$1,174,000,000	\$1,744,000,000	\$1,928,000,000
Net income	\$150,283,000	\$254,000	\$805,000,000	\$448,000,000	\$1,204,000,000	\$1,102,000,000
Operating cash flow/current maturities of long-term debt and current notes payable	*	*	*	*	*	*
Operating cash flow/total debt	37.06%	39.79%	25.81%	23.53%	58.43%	62.31%
Operating cash flow per share	\$4.36	\$4.46	\$3.86	\$3.59	\$2.72	\$2.76
Operating cash flow/cash dividends	6.35 times	6.43 times	.86 times	6.08 times	6.92 times	8.24 times

*No current maturities of long-term debt and current notes payable.

Required

- Comment on the difference between net cash provided by operating activities and net income. Speculate on which number is likely to be the better indicator of long-term profitability.
- Comment on the data reviewed for each item
- Do any of these firms appear to have a cash flow problem? Comment.

CASE 10-10 EAT AT MY RESTAURANT – CASH FLOW

With this case, we review the cash flow of several restaurant companies. The restaurant companies reviewed and the year-end dates are as follows:

1. **Yum Brands, Inc.**

December 25, 2010; December 26, 2009 (52 weeks each year)

"YUM consists of six operating segments: KFC – U.S., Pizza Hut – U.S., Taco Bell – U.S., Long John Silver's ("LJS") – U.S., and A&W All American Food Restaurants ("A&W") – U.S., YUM Restaurants International ("YRI" or "International Division") and YUM Restaurants China ("China Division")." 10-K

Source: Yum! Brands, Inc. and Subsidiaries 2010 10-K

2. **Panera Bread**

December 28, 2010; December 29, 2009 (52 weeks each year)

"Panera Bread Company and its subsidiaries, referred to as "Panera Bread," "Panera," the "Company," "we," "us," and "our," is a national bakery-café concept with 1,453

(continued)

(CASE 10-10 CONTINUED)

company-owned and franchise-operated bakery-café locations in 40 states, the District of Columbia, and Ontario, Canada.” 10-K

Source: Panera Bread 2010 10-K

3. Starbucks

October 3, 2010; September 27, 2009 (Fiscal year 2010 included 53 weeks, while fiscal year ended 2009 included 52 weeks)

“Starbucks is the premier roaster and retailer of specialty coffee in the world, operating in more than 50 countries.” 10-K

Source: Starbucks Corporation 2010 10-K

Note: All three of these companies had net income – including noncontrolling interest. The net income – noncontrolling interest was considered to be immaterial.

Data reviewed	Yum Brands, Inc.		Panera Bread		Starbucks	
	2010	2009	2010	2009	2010	2009
Net cash provided by operating activities	\$1,968,000,000	\$1,404,000,000	\$237,634,000	\$214,904,000	\$1,704,900,000	\$1,389,000,000
Net income – including noncontrolling interest	\$1,178,000,000	\$1,083,000,000	\$111,599,000	\$86,851,000	\$948,300,000	\$391,500,000
Operating cash flow/current maturities of long-term debt and current notes payable	2.92	23.80	No current long-term debt and current notes payable		No current long-term debt and current notes payable	
Operating cash flow/total debt	30.57%	23.27%	72.23%	89.50%	63.06%	55.12%
Operating cash flow per share	\$4.05	\$2.91	\$7.68	\$6.94	\$2.23	\$1.86
Operating cash flow/cash dividends	4.78	3.88	No dividends		9.97	No dividends

Required

- Comment on the difference between net cash provided by operating activities and net income including noncontrolling interest. Speculate on which number is likely to be the better indicator of long-term profitability.
- Comment on the data reviewed for each firm.
- Do any of these firms appear to have a cash flow problem? Comment.

WEB CASE THOMSON ONE Business School Edition

Please complete the Web case that covers material discussed in this chapter at www.cengagebrain.com. You'll be using Thomson ONE Business School Edition, a powerful tool that combines a full range of fundamental financial information, earnings estimates, market data, and source documents for 500 publicly traded companies.

**TO THE NET CASE**

- Go to the SEC site (www.sec.gov). Under “Filings & Forms,” click on “Search for Company Filings.” Click on “Company or fund, etc.” Under Company Name, enter “Northrop Grumman Corp” (or under Ticker Symbol, enter “NOC”). Select the 10-K filed February 9, 2011.
 - Copy the first sentence in the “Item 1. Business” section (History).
 - Review the consolidated statements of cash flows. Under what method are the operating activities presented? What advantage does this presentation have over the alternative presentation?
 - Why are the noncash investing and financing activities presented at the bottom of the statement? Why would liabilities assumed by the company be presented under noncash investing and financing activities?
- Go to the SEC site (www.sec.gov). Under “Filings & Forms,” click on “Search for Company Filings.” Click on “Company or fund, etc.” Under Company Name, enter “Intel Corporation” (or under Ticker Symbol, enter “INTC”). Select the 10-K filed February 18, 2011.
 - Describe this type of form for cash flows.
 - Determine the following for 2010:

1. Net income
 2. Depreciation
 3. Share-based compensation
 4. Net cash provided by operating activities
 5. Comment on why the depreciation and share-based compensation are added to net income
- c. Describe this type of form for cash flows.
- d. Determine the following for 2009:
1. Net income
 2. Depreciation
 3. Share-based compensation
 4. Net cash provided by operating activities
 5. Comment on why the depreciation, share-based compensation are added to net income
3. Go to the SEC site (www.sec.gov). Under "Filings & Forms," click on "Search for Company Filings." Click on "Company or fund, etc." Under Company Name, enter "Molson Coors Brewing Company" (or under Ticker Symbol, enter "TAP"). Select the 10-K filed February 22, 2011.
- a. "Item 1. Business" – copy the "history"
 - b. Prepare the following ratios for the years ended December 25, 2010 and December 26, 2009:
 1. Operating cash flow/current maturities of long-term debt and current notes payable
 2. Operating cash flow/total debt
 3. Operating cash flow per share
 4. Operating cash flow/cash dividend
 - c. Comment on the results in (b)
4. Go to the SEC site (www.sec.gov). Under "Filings & Forms," click on "Search for Company Filings." Click on "Company or fund, etc." Under Company Name, enter "Ann Taylor Stores Corp" (or under Ticker Symbol, enter "ANN"). Select the 10-K filed March 11, 2011.
- a. Copy the first sentence in the "General" subsection from the "Item 1 Business."
 - b. Determine the numbers for the following:

	Fiscal Year Ended		
	January 29, 2011	January 30, 2010	January 31, 2009

Net sales
 Gross Margin
 Operating Income (less)
 Net cash provided by operating activities

- c. Comment on the trends in (b)
- d. Review the consolidated statements of cash flows
 1. Why is the depreciation and amortization added back into net income?
 2. Why is the change in inventories added to net income (loss) for the year ended January 30, 2010?
 3. Why is the change in inventories subtracted from net income for the year ended January 29, 2011?

Endnotes

1. The effect of exchange rate changes on cash is presented separately at the bottom of the statement.
2. *Exposure Draft*, "Statement of Cash Flows" (Stamford, CT: Financial Accounting Standards Board, 1986), p. 21.