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THE IMPACT OF SECURITIZATIONS OF CUSTOMER-RELATED RECEIVABLES ON CASH FLOW AND LEVERAGE: IMPLICATIONS FOR FINANCIAL ANALYSIS

EXECUTIVE SUMMARY

Understanding the extent to which transactions create recurring cash flow is vital to investment and credit analysis. Two measures of recurring cash– operating cash flow and its closely-related metric, free cash-flow– are of paramount importance to a firm's financial performance. In addition to cash flow, the extent to which a firm uses borrowed funds or financial leverage to finance its operations impacts its overall financial health.

In this research report we look at the financial statement effects of customer receivable securitization transactions and their effects on analysis from two points of view – their impact on cash flow and financial leverage. The report includes a discussion of why companies choose to use the securitization tool, how they use it, and what goals they achieve.

Our findings indicate that securitizations can have significant effects on a firm's apparent ability to generate sustainable cash flow and on its use of debt financing.

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Georgia Tech Financial Analysis Lab

The Georgia Tech Financial Analysis Lab conducts unbiased stock market research. Unbiased information is vital to effective investment decision-making. Accordingly, we think that independent research organizations, such as our own, have an important role to play in providing information to market participants.

Because our Lab is housed within a university, all of our research reports have an educational quality, as they are designed to impart knowledge and understanding to those who read them. Our focus is on issues that we believe will be of interest to a large segment of stock market participants. Depending on the issue, we may focus our attention on individual companies, groups of companies, or on large segments of the market at large.

A recurring theme in our work is the identification of reporting practices that give investors a misleading signal, whether positive or negative, of corporate earning power. We define earning power as the ability to generate a sustainable stream of earnings that is backed by cash flow. Accordingly, our research may look into reporting practices that affect either earnings or cash flow, or both. At times our research may look at stock prices generally, though from a fundamental and not technical point of view.

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Introduction

Understanding the extent to which transactions create recurring cash flow is vital to investment and credit analysis. Two measures of recurring cash - operating cash flow and its closely-related metric, free cash-flow, are of paramount importance to a firm's financial performance. Such cash flow amounts serve as drivers behind value creation. However, company-reported measures of operating and free cash flow are often not accurate reflections of a firm's ability to generate sustainable cash flow. Adjustments may be needed.

In cases where companies are involved in complicated financing transactions, such as securitizations of receivables, flexibility in accounting practices may yield differences in reported cash flow amounts that are often difficult to interpret. In two previous reports we touched upon some of the peculiar aspects of securitization transactions and their impact on cash flow and, consequently, on financial analysis.[1]

In addition to cash flow, the extent to which a firm uses borrowed funds or financial leverage to finance its operations impacts its overall financial health. When borrowing arrangements are effected through securitizations, a firm's apparent use of debt financing may be clouded.

In this research report we look at the financial statement effects of customer receivable securitization transactions and their effects on analysis from two points of view – their impact on cash flow and financial leverage. The report includes a discussion of why companies choose to use the securitization tool, how they use it, and what goals they achieve.

In terms of cash flow, the study focuses on classification shortcomings created by securitization transactions and on their implications for financial analysis based on models involving operating cash flow and free cash flow. For a sample of firms, reported cash flow amounts are recalculated to exclude incremental cash generated through securitizations.

In terms of financial leverage, the study focuses on the impact that securitization has on a firm's apparent use of borrowed funds. Since, as argued in our study, securitization is, in essence, a type of debt financing, securitized amounts should be factored back into the calculation of leverage. In our analysis, we treat receivables sold under securitization transactions as debt and note increases in our sample companies' debt–to-equity ratios. Such increases in leverage have implications for maximum debt capacity and firm risk.

[1] The Classification Of Cash Flows From Collections Of Retained Interests Related To Securitization Of Customer-Related Receivables, November 2005. Off Balance Sheet Entities: A Post-Implementation Look at the Effects of Interpretation 46, April 2005

Securitization: Objectives and Mechanics

The securitization of receivables is meant to serve two key objectives. First, it is designed to boost a firm's liquidity and shorten its cash cycle by liquidating receivables earlier than would be possible otherwise. Second, it lowers a company's cost of capital by providing a lower-risk financing alternative to lenders and investors. Consider this statement from a company's financial report that articulates well the firm's securitization objectives:

> The [securitization] programs result in the sale of receivables on a non-recourse basis to unrelated third parties on a one-year renewable basis, thereby reducing accounts receivable and debt on the Company's Consolidated Balance Sheets. The Company enters into these arrangements because they provide an additional source of liquidity. Proceeds from the programs were used to reduce outstanding borrowings.[2]

The securitization of receivables has developed in recent years as an economical way to raise funds and enhance a firm's liquidity. Technological and financial innovation make it feasible for companies to dissect, isolate, and market specifically engineered combinations of rights to various streams of cash flows.

In a securitization transaction, ownership of high-quality receivables is transferred to a bankruptcy-remote, special purpose entity. Undivided interests in the pool of receivables, often in the form of commercial paper, are then sold to investors. In order to better secure the interests sold against the pool of receivables, the sponsoring company may retain a subordinated interest in them (i.e. a retained interest) as a way of offering additional collateral. By retaining an interest in the pool of receivables in this manner, investors are offered what is often referred to as an "over-collaterization."

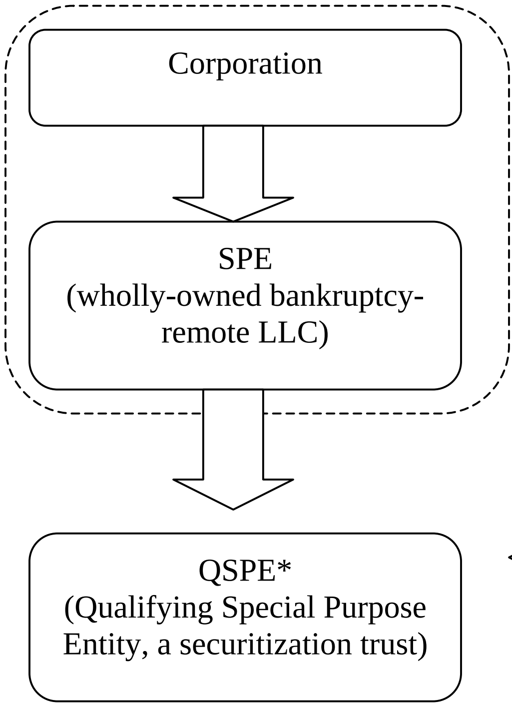
By securitizing its receivables, the corporation "… transfers financial assets to a special purpose trust in exchange for cash. The trust raises that cash by issuing to investors beneficial interests that pass through all cash received from the financial assets, and the transferor has no further involvement with the trust or the transferred assets."[3]

A graphic representation of the key stages of a securitization transaction and the goals accomplished at each stage is presented below.

[2] CBS Corp., SEC Form 10K, December 31, 2005, page II-24.

[3] SFAS # 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, (Norwalk, CT: FASB, September 2000), para. 80.

Objectives and Mechanics of Securitization (constructed based on item 83 of SFAS #140)



Reason for Transfer #1

Asset isolation – assets are placed beyond reach of the transferor and its creditors.

Consolidation is needed. On a consolidated basis, liquidation of the company's receivables is not achieved.

Reason for Transfer #2

Enhanced liquidity of the Company on a consolidated basis is achieved because no consolidation of the QSPE is needed. The trust is structured as a QSPE - it is demonstrably distinct from transferor (cannot be unilaterally dissolved by transferor, etc). The SPE LLC does receive subordinated certificated beneficial interests in the QSPE.

*Note: A Qualified SPE (QSPE) is defined as a trust or legal entity that meets the criteria of: 1) Legal Isolation (a QSPE must have a distinct standing from the originator and cannot be dissolved, wound up or terminated by the originator; 2) Eligible Assets (a QSPE may hold assets that satisfy certain criteria); 3) Control over the Assets (the entity may be required to sell the transferred assets to parties other than the originator only after the occurrence of certain events).

The transaction must be structured in 2 steps. Otherwise, the company cannot achieve both goals, i.e. 1) to render the receivables safe from possible creditors and 2) to provide credit enhancement for the investors of the QSPE securitization trust.

A Thin Line Between Debt and Securitization

It is interesting to see how changes in the mechanics of securitizations can impact financial statements. The following statement by Arvinmeritor Co. shows what a thin line exists between the debt and non-debt treatment of securitized receivables.

> In September 2005, our U.S. accounts receivable securitization facility expired and we entered into a new securitization arrangement. Amounts outstanding under this new program are reported in short-term debt and amounted to $112 million at September 30, 2005. Under the previous program, amounts outstanding were reported as a reduction in accounts receivable because they were accounted for as a sale of receivables.[4]

The company actually had two streams of cash generated from its securitizations. In the new program, initiated in September 2005, the company consolidates its securitization SPE, reporting the entity's debt on its consolidated balance sheet. As a result, cash proceeds received from the securitization transaction are reported as financing cash flow. Under the previous program, the SPE was not consolidated and all cash proceeds from securitizations were funneled through the operating section of cash flow statement.

As follows from the language of the report, those two securitizations are different. Under the new arrangement, the company sells its trade receivables to ARC (Arvinmeritor Receivables Corp., its consolidated SPE-subsidiary). ARC funds these purchases with *borrowings under a loan agreement with a bank*. Amounts outstanding under this agreement are collateralized by eligible receivables purchased by ARC and are reported as short-term debt on the company's consolidated balance sheet.

What we do not see here is the second layer of the scheme, i.e. ARC does not sell its receivables in turn to a QSPE securitization trust that would issue commercial paper. Instead, ARC sells its receivables directly to a bank. Thus, while the first step may constitute a true sale at law, the transaction is reported as a loan taken out through a subsidiary. Thus, we can see how a securitization transaction can be structured to meet a firm's financial reporting objectives. In this case the securitization transaction is structured as debt.

In examining Arvinmeritor's 2004 financial statements we can see that the company formerly employed the second stage of a securitization transaction. That is, the company sold its receivables to ARC and ARC in turn sold an undivided interest in the receivables to certain bank conduits that funded their purchases through the issuance of commercial paper. In this case the securitization transactions were structured as sales and not as borrowings. The company did not elaborate on why it changed its reporting for securitization transactions.

[4] Arvinmeritor Co., SEC Form 10K, Sept. 30, 2005, page 32.

The Relevance of Securitizations to Cash Flow Analysis

Securitizations can provide a firm with additional sources of cash. When treated as a true sale of receivables, the cash received is accounted for as a liquidation of trade receivables. Therefore, any proceeds received are reported as operating cash flow.

A securitization effectively accelerates the collection of receivables. Because the amount of receivables securitized can be increased or reduced, a securitization can be used to increase or decrease operating cash flow in any reporting period. Thus, a securitization can obscure financial analysis based on sustainable cash flows from operations.

For purposes of financial analysis, it is important to adjust operating cash flow to remove securitization proceeds and repayments. As such, distortions of operating cash flow that are unrepresentative of a company's cash generating ability, both as to amount and volatility, are eliminated.

Some companies choose to provide their investors with supplemental information about the effects of securitizations on operating cash flow. Consider this statement by Arvinmeritor Co.:

> In addition to the results reported in accordance with accounting principles generally accepted in the United States (GAAP), we have provided information regarding "cash flow from operations before accounts receivable securitization and factoring programs", a non-GAAP financial measure. This non-GAAP measure is defined as net cash provided by operating activities before the net change in accounts receivable securitized and factored.[5]

The Relevance of Securitizations to Financial Leverage

In addition to providing the means for shifting operating cash flows between reporting periods, the securitization of receivables also provides an opportunity for removing debt from the balance sheet. Whether securitizations are truly used as an off-balance-sheet financing vehicle is somewhat controversial. However, the SEC has noted that the use of SPEs to arrange for off-balance-sheet financing is beyond the FASB's original scope. Consider, "Some of this structuring has been undertaken … in situations that appear to the Staff to be beyond those originally contemplated by the FASB."[6]

[5] Arvinmeritor Co., SEC Form 10K, Sept. 30, 2005, page 24.

[6] Securities and Exchange Commission, *Report and Recommendations Pursuant to Section 401 (c) of the Sarbanes-Oxley Act of 2002 on Arrangements with Off-Balance Sheet Implications, Special Purpose Entities, and Transparency of Filings by Issuers*, June 15, 2005.

Securitizations as Debt

Firms routinely use the securitization of receivables as a substitute for debt financing. For example, consider this statement by Arvinmeritor Co.:

> "The company believes it is appropriate to exclude the net change in securitized and factored accounts receivable since the sale of receivables may be viewed as a *substitute for borrowing activity."*[7]

The important question for financial analysis is whether the securitization of receivables should be treated as a form of debt. Although the SPE borrows funds by issuing commercial paper or beneficial interests, as we have seen earlier, the mechanics of securitization separates an SPE's borrowings from the corporate originator of the receivables. Accordingly, from a rule-based point of view, a securitization transaction is not a form of debt financing for the company. However, as noted by Fitch Ratings, "accounting for securitization, at least under U.S. GAAP, remains an area that generally relies on legal form rather than economic substance."[8] Thus, despite the fact that, in essence, a securitization has characteristics of a debt financing, formally it frequently is not treated as such due to the accounting rules that are in place.

Credit analysts like Fitch Ratings recognize that rules for achieving off-balance sheet treatment for securitizations often conflict with the underlying economic substance of the transaction. For this reason they "add back the securitized assets to the balance sheet and make appropriate adjustments to leverage and recurrent cash flow… simultaneously giving credit [to securitization] as a robust, alternative funding source."[9]

The Tricky Issue of Recourse

Companies typically note that securitizations of receivables are conducted on a non-recourse basis. With non-recourse, a condition necessary for sale treatment, the connection between the firm and the SPE that borrows funds to purchase the receivables is severed. In effect, the receivables are sold and the selling firm washes its hands of responsibility. Consider the following statement:

> Under the terms of the securitization agreements, the Company sells substantially all of its eligible third party pharmaceutical receivables to a bankruptcy remote Special Purpose Entity (SPE) and retains servicing responsibility. *The assets of the SPE are not available to satisfy the creditors of any other person, including any of the Company's affiliates.*[10]

[7] Arvinmeritor Co., SEC Form 10K, Sept. 30, 2005, page 24.

[8] Special Report by Fitch. January 24, 2006, Accounting and Financial Reporting Risk: 2006 Global Outlook – Serenity Now? page 13.

[9] Same as above

[10] Rite Aid, SEC Form 10K, March 4, 2006, page 62.

However, non-recourse does not mean complete absolution of responsibility, as noted below,

> …Sponsor organizations routinely provide support in the form of recourse for underperforming assets, which is allowable in certain circumstances under the return of accounts provision in SFAS 140.[11]

In fact, evidence of potential residual recourse "in certain circumstances" can be found in corporate financial disclosures. As noted by Cabelas Co.:

> Neither the investors nor the trust have recourse against us beyond the assets of the trust, *other than for breaches of certain customary representations*, warranties and covenants and minimum account balance levels which must be maintained to support our retained interests. These representations, warranties, covenants, and the related indemnities, do not protect the trust or the outside investors against credit-related losses on the loans.[12]

Such recourse provisions, even though limited, suggest that in entering into a securitization transaction, the selling firm has certain ongoing responsibilities, an obligation of sorts, which could be viewed as a liability.

A Securitization Requires A Repayment

Even if a securitization were viewed as a true non-recourse sale of receivables without recourse, at some future date the firm still needs to effect a repayment of the amounts sold. The securitization of receivables results in an accelerated collection of future cash receipts. A future period's collections are moved to the current period and funded with commercial paper borrowings. In a future period, when the securitization program is reduced or unwound, those commercial paper borrowings are reduced or repaid from the firm's future cash collections. In effect, a current benefit is repaid with a future sacrifice, much like the repayment of borrowed funds.

Revisiting Leverage

While a firm that securitizes receivables in effect increases its debt financing, the financial statements do not reflect the increased use of financial leverage. If amounts sold under securitization programs were instead treated as debt, companies' debt–to-equity ratios would be higher. As a result, the leverage effect of securitizations has implications for the maximum debt capacity of the firm. Consider the following observation:

[11] Special Report by Fitch. January 24, 2006, Accounting and Financial Reporting Risk: 2006 Global Outlook – Serenity Now? page 13.

[12] Cabelas Co., SEC Form 10K, December 31, 2005, page 50.

> For the first calendar quarter of 2005, our maximum debt capacity (including amounts drawn under our accounts receivable securitization program) is computed by multiplying our leverage ratio covenant of 5.25 by our bank agreement defined EBITDA, or approximately $217 million. Thus, our total debt capacity at January 2, 2005 is approximately $1,140 million. Our actual debt plus the accounts receivable securitization at January 2, 2005 approximated $931 million, or approximately $209 million less than our total capacity.[13]

While in this example the company's covenant takes into account its securitization program, some covenants may not. As a result, securitizations may allow companies to manage their financial leverage and increase debt capacity. Thus, for a clearer picture of a firm's actual debt capacity, it is important to revise leverage measures to include amounts outstanding under securitization programs.

The Study: Scope and Focus

The scope of our study included securitizations of customer-related receivables, such as trade receivables, franchise receivables, financing receivables for customer-related sales, and floor-plan receivables. We identified non-financial firms that disclosed securitized customer-related receivables in their Form 10-K filings with the SEC.

We examined the statement of cash flows and the notes to financial statements to determine the following:

a) whether the securitizations of receivables were customer-related;

b) the impact of securitizations on operating cash flows; and

c) the impact of securitizations on financial leverage.

Results

Our results are presented in two exhibits accompanied by two graphs. We begin with Exhibit 1, where we focus on the effects of securitizations on operating cash flow. In the Exhibit we adjust reported operating cash flow to remove proceeds received and repayment amounts paid under securitization programs. The last column of the Exhibit shows the percentage change in reported operating cash flow that results from our adjustments.

Exhibit 2 shows the impact of securitizations on each sample firm's financial leverage. In the Exhibit we adjust leverage to include borrowings taken on by each SPE through the issuance of commercial paper.

[13] Metaldyne Co., SEC Form 10K, Jan. 1, 2006, page 45. Note that Metaldyne is not a public company but files with the SEC because of it has publicly-traded debt outstanding.

Exhibit 1. Impact of Securitizations on Operating Cash Flow
(dollars in thousands)

Company	Symbol	Fiscal Year Ended	Reported Operating Cash Flow	Adjustment for Proceeds, Net of (Repayment)*	Adjusted Operating Cash Flow**	% Change in Oper.CF***
Aramark Corp.	**RMK**	30-Sep-05	611,780	32,800	579,980	-5.4%
		1-Oct-04	517,566	-	517,566	0.0%
		3-Oct-03	606,261	-	606,261	0.0%
Arvinmeritor Inc.	**ARM**	30-Sep-05	(32)	(19)	(13)	59.4%
		30-Sep-04	219	(187)	406	85.4%
		30-Sep-03	274	90	184	-32.8%
Avondale Inc.	**ANDL**	26-Aug-05	10,031	(25,164)	35,195	250.9%
		27-Aug-04	(1,994)	(10,971)	8,977	550.2%
		29-Aug-03	35,278	(21,313)	56,591	60.4%
Commercial Metals Co.	**CMC**	31-Aug-05	200,586	-	200,586	0.0%
		31-Aug-04	49,694	77,925	(28,231)	-156.8%
		31-Aug-03	14,306	18,662	(4,356)	-130.4%
Convergys Corp	**CVG**	31-Dec-05	232,700	(100,000)	332,700	43.0%
		31-Dec-04	195,400	(75,000)	270,400	38.4%
		31-Dec-03	373,500	25,000	348,500	-6.7%
Halliburton Co.	**HAL**	31-Dec-05	701,000	(519,000)	1,220,000	74.0%
		31-Dec-04	928,000	519,000	409,000	-55.9%
		31-Dec-03	(775,000)	(180,000)	(595,000)	23.2%
Metaldyne Corp.[(1)]	**-**	1-Jan-06	101,424	20,116	81,308	-19.8%
		2-Jan-05	79,139	63,260	15,879	-79.9%
		28-Dec-03	99,243	-	99,243	0.0%

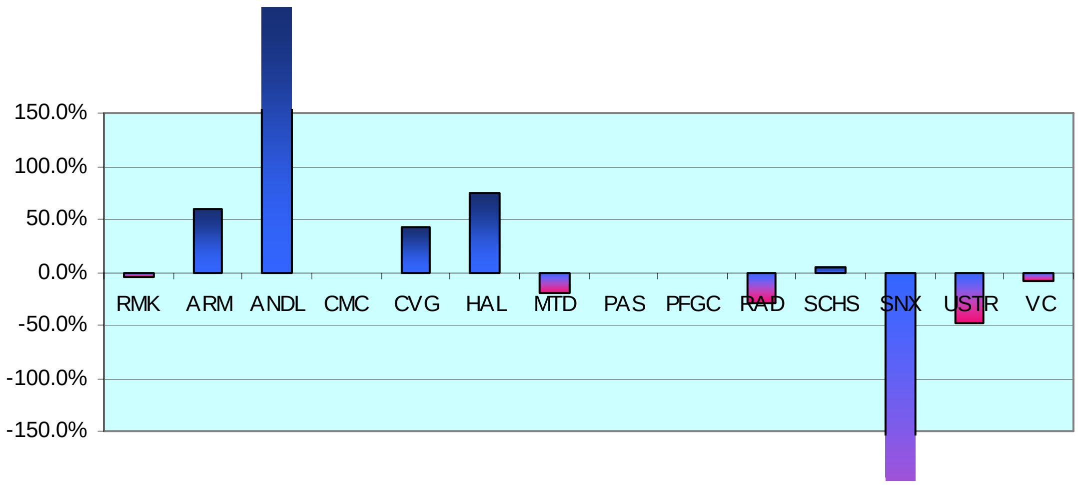
Continued overleaf

Exhibit 1. Impact of Securitizations on Operating Cash Flow (continued)

Pepsiamericas, Inc.	**PAS**	31-Dec-05	431,800	-	431,800	0.0%
		1-Jan-05	464,100	100,000	364,100	-21.5%
		1-Jan-04	297,500	(92,300)	389,800	31.0%
Performance Food Group Co.	**PFGC**	31-Dec-05	76,170	-	76,170	0.0%
		1-Jan-05	47,610	20,000	27,610	-42.0%
		3-Jan-04	61,127	32,000	29,127	-52.4%
Rite Aid Corp.	**RAD**	4-Mar-06	417,165	180,000	237,165	-43.1%
		26-Feb-05	518,446	150,000	368,446	-28.9%
		28-Feb-04	227,515	-	227,515	0.0%
School Specialty Inc.	**SCHS**	30-Apr-05	52,031	(2,800)	54,831	5.4%
		24-Apr-04	68,956	4,000	64,956	-5.8%
		26-Apr-03	62,966	(4,000)	66,966	6.4%
Synnex Corp.	**SNX**	30-Nov-05	7,274	78,500[2]	(71,226)	-1079.2 %
		30-Nov-04	174	(13,700)	13,874	7873.6%
		30-Nov-03	(12,748)	52,000	(64,748)	-407.9%
United Stationers	**USTR**	31-Dec-05	218,373	106,500	111,873	-48.8%
		31-Dec-04	47,042	(31,500)	78,542	67.0%
		31-Dec-03	167,667	45,000	122,667	-26.8%
Visteon Corp.	**VC**	31-Dec-05	417,000	43,000	374,000	-10.3%
		31-Dec-04	418,000	66,000	352,000	-15.8%
		31-Dec-03	363,000	5,000	358,000	-1.4%

*Proceeds are increases in cumulative proceeds from securitization transactions. (Repayments) are decreases in cumulative proceeds. When available, actual amounts reported on the statement of cash flows were used.
**Reported operating cash flow reduced for securitization proceeds and increased for securitization repayments.
***Adjustment to operating cash flow as a percentage of reported operating cash flow.
[1]Metaldyne is not a public company but has publicly-traded debt.
[2]Reflects net change in cumulative receivables sold under U.S. and Canada securitization program.

Percent Adjustment to Reported Operating Cash Flow for Impact of Securitizations: 2005



Note: MTD is not the stock-trading symbol for Metaldyne Corp., but is used as an abbreviation for the non-public company.

Securitizations and Operating Cash Flow

As seen in Exhibit 1, in 2006 securitizations added significantly to Rite Aid Corp's. operating cash flow. During the year, the company increased the amount of securitized receivables by $180 million. Once adjusted, reported operating cash flow is reduced by approximately 43.1%.

Similar adjustments to the operating cash flow of Synnex Corp. and Metaldyne Corp. also resulted in significant reductions of 1,079.2% and 19.8%, respectively. Once adjusted, Synnex's operating cash flow actually became negative.

In contrast, Halliburton terminated its securitization program in 2005, resulting in a very significant reduction in operating cash flow. Had the company not reduced its securitization program during the year, operating cash flow would have been $519 million or 74% higher than the reported amount.

Exhibit 2. Impact of Securitizations on Financial Leverage
(dollars in millions)

Company	Symbol	Year	Reported Debt*	Paper sold	Adjusted Debt	SH Equity	Reported Leverage	Adjusted Leverage **	Increase in Leverage***
Aramark Corp.	**RMK**	**2005**	1,840.89	189.80	2,030.69	1,325.46	139%	153%	14%
		2004	1,868.72	157.30	2,026.02	1,149.66	163%	176%	14%
		2003	1,729.88	160.70	1,890.58	1,038.97	166%	182%	16%
Arvinmeritor Inc.	**ARM**	**2005**	1,582.00	-	1,582.00	875.00	181%	181%	0%
		2004	1,490.00	19.00(1)	1,509.00	988.00	151%	153%	2%
		2003	1,559.00	206.00(1)	1,765.00	925.00	169%	191%	22%
Avondale Inc.	**ANDL**	**2005**	140.86	17.00	157.86	104.76	134%	151%	17%
		2004	145.36	42.16	187.53	107.33	135%	175%	40%
		2003	167.84	53.14	220.97	115.95	145%	191%	46%
Commercial Metals Co.	**CMC**	**2005**	395.63	0.00(2)	395.63	899.56	44%	44%	0%
		2004	429.14	40.00	469.14	660.63	65%	71%	6%
		2003	278.66	20.78	299.44	506.93	55%	59%	4%
Convergys Corp	**CVG**	**2005**	432.20	-	432.20	1,355.10	32%	32%	0%
		2004	351.70	100.00	451.70	1,285.30	27%	35%	8%
		2003	134.80	175.00	309.80	1,151.70	12%	27%	15%
Halliburton Co.	**HAL**	**2005**	3,196.00	-	3,196.00	6,372.00	50%	50%	0%
		2004	3,955.00	519.00	4,474.00	3,932.00	100%	114%	14%
		2003	3,437.00	-	3,437.00	2,547.00	135%	135%	0%
Metaldyne Corp.	**MTD**	**2005**	1,029.31	83.40	1,112.71	219.32	469%	507%	38%
		2004	1,009.09	63.30	1,072.39	541.96	186%	198%	12%
		2003	851.79	-	851.79	545.91	156%	156%	0%
Pepsiamericas Inc.	**PAS**	**2005**	1,576.30	150.00	1,726.30	1,569.30	100 %	110 %	10%
		2004	1,148.60	150.00	1,298.60	1,623.20	71%	80%	9%
		2003	1,278.30	50.00	1,328.30	1,565.10	82%	85%	3%

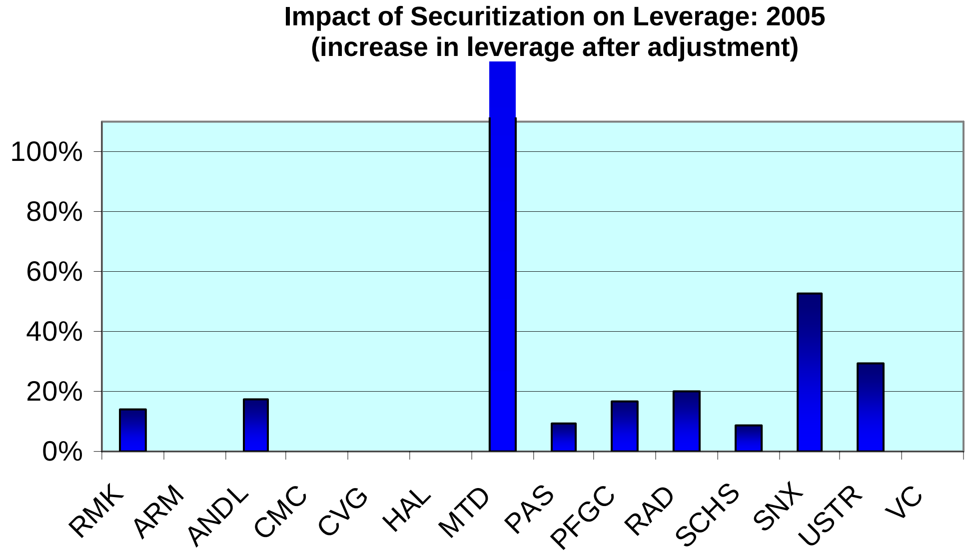
Continued overleaf

(1)Outstanding amounts for continuing operations calculated using repayments reported on the statement of cash flows.
(2)Company disclosed retaining 100% of securitized receivables

Exhibit 2. Impact of Securitizations on Financial Leverage (continued)

Performance Food Group Co.	**PFGC**	**2005**	3.82	130.00	133.82	776.52	0%	17%	17%
		2004	264.52	130.00	394.52	874.31	30%	45%	15%
		2003	355.28	110.00	465.28	803.82	44%	58%	14%
Rite Aid Corp.	**RAD**	**2006**	3,051.45	330.00	3,381.45	1,606.92	190%	210%	20%
		2005	3,311.34	150.00	3,461.34	322.93	1025%	1072%	47%
		2004	3,891.67	-	3,891.67	(8.28)	NM	NM	0%
School Specialty Inc.	**SCHS**	**2005**	195.67	47.20	242.87	544.55	36%	45%	9%
		2004	314.63	50.00	364.63	378.98	83%	96%	13%
		2003	293.36	46.00	339.36	321.45	91%	106%	15%
Synnex Corp.	**SNX**	**2005**	29.70	274.75	304.45	437.23	7%	70%	63%
		2004	88.07	196.30	284.37	369.66	24%	77%	53%
		2003	77.60	210.00	287.60	252.81	31%	114%	83%
United Stationers	**USTR**	**2005**	21.00	225.00	246.00	768.51	3%	32%	29%
		2004	18.00	118.50	136.50	737.07	2%	19%	17%
		2003	17.30	150.00	167.30	672.98	3%	25%	22%
Visteon Corp.	**VC**	**2005**	1,994.00	124.00(1)	2,118.00	(48.00)	NM	NM	NM
		2004	2,021.00	81.00(1)	2,102.00	320.00	632%	660%	29%
		2003	1,818.00	15.00(1)	1,833.00	1,862.00	98%	98%	0%

NM Not meaningful.
*Reported debt is calculated as short- and long-term financing debt (excluding operating liabilities). Adjusted debt is reported debt adjusted for commercial paper sold in securitization transactions.
**Reported leverage is calculated as the ratio of reported debt to shareholders' equity. Convertible notes and redeemable preferred stock are included in debt and excluded from shareholders' equity. Adjusted leverage uses adjusted debt in the calculation of leverage.
***Adjusted leverage less reported leverage, or the increase in financial leverage as a percentage of shareholders' equity.
(1)U.S. Program was terminated in 2005. Balance reflects amounts sold in Europe and Asia. In 2004, balance consists of U.S. amount of $55 and Europe amount of $26. In 2003, balance consists of amounts sold in Europe only.



Note: MTD is not the stock-trading symbol for Metaldyne, but is used as an abbreviation for the non-public company.

Securitizations and Financial Leverage

As seen in Exhibit 2, Pepsiamercas' adjusted leverage exceeds its reported leverage by over 9% both in 2004 and in 2005. The cumulative amount of receivables securitized in 2005 totaled $150 million (the same as in 2004). By adding $150 million to the company's reported debt of $1,576.3 million, its revised debt increases to $1,726.3 million, or 110% of shareholders' equity, up from 100.5%.

Similarly, for Synnex Corp. an adjustment to reported debt for receivable securitizations increased financial leverage to 70% of shareholders' equity from 7%. Interestingly, the company has financed more of its capital needs through securitizations than through conventional borrowing mechanisms.

Pioneers of Full Disclosure

In the study we noted three companies that highlighted adjustments to operating cash flow and/or financial leverage for the effects of securitizations. While not compulsory, these companies nonetheless decided that investors may be misled if such disclosures were not made.

Disclosures Affecting Operating Cash Flow

<u>Metaldyne Co., Form 10-K 2005</u>

> Adjusting 2004 results by the $63 million increased use of the accounts receivable securitization facility, the 2004 operating cash flow would have approximated a $16.1 million inflow, or an approximate $83.1 million decrease versus a $17 million inflow from 2003 excluding refundable income taxes.

Disclosures Affecting Financial Leverage

United Stationers Co., Form 10-K 2005

> The most directly comparable financial measure to adjusted debt that is calculated and presented in accordance with GAAP is total debt (as provided in the above table as "Debt under GAAP"). Under GAAP, accounts receivable sold under the Company's Receivables Securitiz*ation Program are required to be reflected as a reduction in accounts receivable and not reported as debt.*
>
> *Internally, the Company considers accounts receivable sold to be a financing mechanism. The Company, therefo*re, believes it is helpful to provide readers of its financial statements with a measure that adds accounts receivable sold to debt.
>
> As of December 31, 2005, the Company's adjusted debt-to-total capitalization ratio (adjusted from the debt under GAAP amount to add the receivables then sold under the Company's Receivables Securitization Program as debt) was 24.2%, compared to 15.6% as of December 31, 2004 [emphasis added].

Metaldyne Co., Form 10-K 2005

> At January 1, 2006, our maximum debt capacity (including amounts drawn under our accounts receivable securitization program) is computed by multiplying our leverage ratio covenant of 4.75 by our bank agreement defined EBITDA, or approximately $215.4 million. Thus, our total debt capacity at January 1, 2006 is approximately $1,023.1 million.
>
> Our actual debt plus the accounts receivable securitization at January 1, 2005 approximated $952.7 million, or approximately $70.4 million less than our total capacity. Thus, as discussed above, as of January 1, 2006, *we had access to only $70.4 million* of the total $115 million in undrawn commitments discussed above that we could have drawn from our revolving credit and accounts receivable securitization facilities. [emphasis added]

Convergys Co., Form 10-K 2005

> At December 31, 2004, total capitalization was $1,637.0, consisting of $351.7 of short-term and long-term debt and $1,285.3 of equity. This results in a debt-to-capital ratio of 24.2%, which compares to 21.5% at December 31, 2004. *If amounts sold under the securitization were to be treated as debt financing, our debt–to-capital ratio would have been 24.2% and 26.0% at December 31, 2005 and 2004, respectively.* [emphasis added]

Summary and Conclusion

In this study we examined the effects of the securitization of customer-related receivables on operating cash flow and financial leverage. Our findings include the following:

- Securitization activities are highly dynamic. Companies actively move in and out of their securitization programs. For instance, in 2004 Halliburton increased the amount of receivables securitized by $519 million. Then in 2005 the company reduced their securitizations by the same amount.
- The impact of trade receivables securitization on operating cash flow can be significant. For this reason, we propose adjustments to reported operating cash flow to remove their effects.
- In 2005, for our sample of companies, adjustments to operating cash flow ranged from a downward amount of 452% to an upward adjustment of 251%.
- Securitization can help companies manage the volatility of their operating cash flow. For some companies it increases volatility, while for others it makes operating cash flow appear to be more stable.
- The importance of financing through receivables securitization is very high. Some companies, such as United Stationers and Synnex actually borrow more through securitization programs than through regular loans.
- We recommend adjustments to measures of financial leverage to incorporate the effects of securitizations.
- In our sample, the median increase in financial leverage due to securitization transactions in 2005 was approximately 12%.