



DuPree Financial Analysis Lab

800 West Peachtree Street NW 404-894-4395
Atlanta, GA 30332-0520
<http://www.dupree.gatech.edu/finlab>

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

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

Katie Hudson
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The Inclusion of Short-term Investments in Operating Cash Flow

Executive Summary

Companies use short-term investments as a vehicle to park surplus cash. When such investments are classified as trading securities, cash used in their purchase and proceeds provided from their sale are included in operating cash flow. Classifying cash flow from trading securities as operating by non-financial companies can mislead users of financial statements regarding a company's ability to generate cash flow from sustainable sources. In this report we survey the practices of non-financial companies regarding their inclusion of cash provided (used) by trading securities in operating cash flow.

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

Financial Reporting and Analysis Lab

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

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

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

Contact Information

Charles Mulford. Invesco Chair, Professor of Accounting and the Lab's Director.

Phone: (404) 894-4395

Email: charles.mulford@mgt.gatech.edu

Michael L. Ely. MBA, Financial Analyst.

Phone: (404) 894-9473

Email: michael.ely@mgt.gatech.edu

Kerianne Maloney. Graduate research assistant and MBA student.

Raul Quiroz. Graduate research assistant and MBA student.

Mario Do Livramento Martins. Graduate research assistant and MBA student.

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

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Companies Named In This Report

ACACIA Research Corp.	5, 9
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Advanced Biotherapy, Inc.	5, 9
American International Industries, Inc.	5, 8, 9
American Software, Inc.	5, 9
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Cendant Corp	5, 9
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Chiron Corp.	5, 9
Comcast Holdings Corp.	5, 9
Curtiss Wright Corp.	5, 8, 9
Edison Controls Corporation	6, 9
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Sitestar Corp.	6, 10
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Startek, Inc.	7, 10
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The Ohio Art Company	7, 10
Tootsie Roll Industries, Inc.	7, 10
Valhi, Inc.	7, 10
Zonagen, Inc.	7, 8, 10

Introduction

Investors and creditors look at a company's ability to generate operating cash flow as an important performance indicator. Such financial statement users tend to believe that operating cash flow is subject to less manipulation than reported earnings. Unfortunately operating cash flow is not immune to creative accounting practices. The flexibility management has in classifying certain cash flow as operating can mislead investors and creditors in their assessment of a company's earning power.

Companies take positions in investments classified as trading securities for the purpose of profiting from short-term swings in price. For example, debt securities might be purchased in the morning with the expectation of selling them in the afternoon because of an expected positive impact on price caused by an anticipated decline in interest rates during the day. Trading activities are especially important at financial institutions where short-term trading positions are regularly taken in both debt and equity securities. An operating designation for the cash flow related to such investments is appropriate because trading activities comprise an important line of business for these firms.

An operating designation for the cash flow associated with short-term investments is not appropriate, however, when purchases and sales of short-term investments are not part of an active trading business. While certain short-term investments might meet the nominal definition of trading securities, that is, investments made with the objective of generating profits on short-term swings in prices, such investments are often not fundamentally trading positions. This is especially true for many non-financial companies where marketable securities are often used to carry excess cash balances. Classifying such investments as trading positions results in reporting as operating, cash flow that is clearly investment-related. While not in violation of generally accepted accounting principles, the inclusion in operating cash flow of what are inherently investing activities clouds operating cash flow with items that are inherently nonrecurring.

This report investigates the practice of non-financial companies to include cash provided (used) by trading securities in reported cash flow from operating activities. We include statistics on the extent to which this practice is used by the surveyed companies.

Frequency of Trading Securities Included in Operating Cash Flow - Annual Filings

We began our study by gathering evidence on the frequency with which companies reported cash flow related to trading securities as operating. We sampled 1,200 10K annual report filings from March 20th 2003 to August 25th 2003. We excluded financial companies such as banks and investment firms from our study as trading activities constitute a fundamental part of the business model for these firms making an operating designation for the related cash flow more appropriate.

We looked at the consolidated statements of cash flow for evidence of the inclusion in operations of cash provided from the sale of short-term investments classified as trading securities or cash used in the purchase of similarly classified investments. In the sample,

38 companies or 3.2% of the companies sampled reported materially significant cash flow related to trading securities in their operating cash flow. Exhibit 1 provides a list of companies that included cash flow from trading activities in operations.

**Exhibit 1: Short-Term Investments Classified as Trading Securities
Included in Operating Cash Flow – Annual Results**

Company	Year Ended	Cash Provided (Used) By Trading Securities¹	Reported Cash Provided (Used) by Operating Activities²	Adjusted Cash Provided (Used) by Operating Activities³
ACACIA Research Corp.	Dec. 31, 2002	\$4,124,000	(\$20,566,000)	(\$24,690,000)
	Dec. 31, 2001	(\$4,135,000)	(\$12,561,000)	(\$8,426,000)
Adaptec, Inc. ⁴	March 31, 2003	\$6,940,000	\$67,244,000	\$60,304,000
Advanced Biotherapy, Inc.	Dec. 31, 2002	(\$3,000,000)	(\$4,072,760)	(\$1,072,760)
American International Industries, Inc.	Dec. 31, 2002	(\$6,000,000)	(\$510,249)	\$5,489,751
American Software, Inc.	April 30, 2003	(\$1,419,000)	\$9,000,000	\$10,419,000
	April 30, 2002	(\$4,782,000)	\$6,282,000	\$11,064,000
	April,30, 2001	\$4,393,000	(\$167,000)	(\$4,560,000)
Andersen Group, Inc.	Feb. 28, 2003:	(\$819,000)	(\$796,000)	\$23,000
	Feb. 28, 2002	(\$259,000)	\$7,107,000	\$7,366,000
	Feb. 28, 2001	\$1,002,000	\$1,763,000	\$761,000
Apton Corp.	Dec. 31, 2002	\$245,764	(\$35,440,876)	(\$35,686,640)
	Dec. 31, 2001	(\$156,467)	(\$25,018,435)	(\$24,861,968)
	Jan. 31, 2001	(\$259,957)	(\$15,160,016)	(\$14,900,059)
Arctic Cat, Inc.	March 31, 2003	(\$1,031,000)	\$37,627,000	\$38,658,000
	March 31, 2002	(\$2,845,000)	\$39,920,000	\$42,765,000
	March 31, 2001	(\$8,855,000)	\$24,854,000	\$33,709,000
Avalon Holdings Corp.	Dec. 31, 2001	\$734,000	\$3,191,000	\$2,457,000
	Dec. 31, 2000	(\$723,000)	(\$95,000)	\$628,000
Building Materials Manufacturing Corp.	Dec. 31, 2000	\$1,192,000	(\$17,142,000)	(\$18,334,000)
Cendant Corp.	Dec. 31, 2001	\$110,000,000	\$1,398,000,000	\$1,288,000,000
China Resources Development, Inc.	Dec. 31, 2002	\$551,000	(\$522,000)	(\$1,073,000)
Chiron Corp.	Dec. 31, 2000	\$2,108,000	\$373,447,000	\$371,339,000
Comcast Holdings Corp.	Dec. 31, 2001	\$367,000,000	\$1,577,000,000	\$1,210,000,000
Curtiss Wright Corp.	Dec. 31, 2002	\$41,450,000	\$88,962,000	\$47,512,000
	Dec. 31, 2001	\$21,150,000	\$61,260,000	\$40,110,000
	Dec. 31, 2000	(\$37,000,000)	\$24,129,000	\$61,129,000

Company	Year Ended	Cash Provided (Used) By Trading Securities¹	Reported Cash Provided (Used) by Operating Activities²	Adjusted Cash Provided (Used) by Operating Activities³
Edison Controls Corporation	Jan. 31, 2003	(\$1,779)	\$2,150,162	\$2,151,941
	Jan. 31, 2002	\$236,526	\$4,630,953	\$4,394,427
	Jan. 31, 2001	\$603,953	\$3,240,183	\$2,636,230
Florida East Coast Industries	Dec. 31, 2000	\$34,100,000	\$134,508,000	\$100,408,000
Ford Motor, Co. ⁵	Dec. 31, 2002	(\$6,206,000,000)	\$3,281,000,000	\$9,487,000,000
	Dec. 31, 2001	\$1,143,000,000	\$8,599,000,000	\$7,456,000,000
	Dec. 31, 2000	\$6,858,000,000	\$18,867,000,000	\$12,009,000,000
Gilman & Ciocia, Inc.	June, 30, 2002	(\$1,486,439)	(\$4,606,301)	(\$3,119,862)
	June, 30, 2001	\$17,111	\$1,333,498	\$1,316,387
	June, 30, 2000	(\$970,464)	(\$1,393,683)	(\$423,219)
Global Casinos, Inc.	June, 30, 2002	\$357,000	\$271,000	(\$86,000)
	June, 30, 2001	\$611,000	\$1,057,000	\$446,000
Gp Strategies Corp.	Dec. 31, 2001	\$9,141,000	\$11,187,000	\$2,046,000
	Dec. 31, 2000	\$2,031,000	\$2,646,000	\$615,000
Hybridon, Inc.	Dec. 31, 2001	\$15,619,475	\$28,735,891	\$13,116,416
Infonet Services Corporation	March 31, 2003	\$5,053,000	\$93,966,000	\$88,913,000
	March 31, 2002	\$8,869,000	\$100,836,000	\$91,967,000
	March 31, 2001	(\$2,667,000)	\$71,633,000	\$74,300,000
International Specialty Holdings, Inc.	Dec. 31, 2002	(\$255,607,000)	(\$45,297,000)	\$210,310,000
	Dec. 31, 2001	\$172,591,000	\$264,358,000	\$91,767,000
	Dec. 31, 2000	(\$150,556,000)	\$46,082,000	\$196,638,000
Lynch Interactive Corp.	Dec. 31, 2001	\$2,066,000	\$24,348,000	\$22,282,000
Nstor Technologies, Inc.	Dec. 31, 2002	\$3,132,000	(\$451,000)	(\$3,583,000)
	Dec. 31, 2001	\$1,047,000	(\$10,333,000)	(\$11,380,000)
Peregrine Pharmaceuticals, Inc.	April, 30, 2003	(\$242,000)	(\$10,305,000)	(\$10,063,000)
Prime Medical Services, Inc.	Dec. 31, 2002	\$612,000	\$48,131,000	\$47,519,000
	Dec. 31, 2001	\$809,000	\$47,532,000	\$46,723,000
	Dec. 31, 2000	\$2,901,000	\$45,180,000	\$42,279,000
Quepasa, Inc.	Dec. 31, 2001	\$2,379,760	(\$665,085)	(\$3,044,845)
	Dec. 31, 2000	\$19,706,385	(\$10,117,525)	(\$29,823,910)
Rare Hospitality International, Inc.	Dec. 29, 2002	(\$17,735,000)	\$53,111,000	\$70,846,000
Sitestar Corp.	Dec. 31, 2001	\$614,999	\$628,623	\$13,624

Company	Year Ended	Cash Provided (Used) By Trading Securities ¹	Reported Cash Provided (Used) by Operating Activities ²	Adjusted Cash Provided (Used) by Operating Activities ³
St Joe Co.	Dec. 31, 2000	\$25,040,000	\$2,596,000	(\$22,444,000)
Startek, Inc.	Dec. 31, 2002	\$1,085,000	\$21,141,000	\$20,056,000
	Dec. 31, 2001	\$6,334,000	\$25,868,000	\$19,534,000
	Dec. 31, 2000	(\$13,668,000)	\$11,052,000	\$24,720,000
Technology Solutions Company	Dec. 31, 2002	\$1,543,000	\$1,198,000	(\$345,000)
	Dec. 31, 2001	\$2,469,000	\$7,874,000	\$5,405,000
	Dec. 31, 2000	(\$425,000)	(\$18,133,000)	(\$17,708,000)
The Ohio Art Company	Jan. 31, 2003	(\$1,505,850)	\$2,577,296	\$4,083,146
Tootsie Roll Industries, Inc.	Dec. 31, 2002	(\$2,481,000)	\$71,203,000	\$73,684,000
	Dec. 31, 2001	(\$2,921,000)	\$78,584,000	\$81,505,000
	Dec. 31, 2000	(\$2,290,000)	\$82,591,000	\$84,881,000
Valhi, Inc.	Dec. 31, 2002	\$18,136,000	\$106,829,000	\$88,693,000
Zonagen, Inc.	Dec. 31, 2002	\$12,080,000	\$8,445,000	(\$3,635,000)

Source: Company filings with SEC

Notes:

- Cash Provided (Used) By Trading Securities:** refers to the net amount of cash provided (used) by sale (purchase) of investments included in operating cash flow.
- Reported Cash Provided (Used) by Operating Activities:** refers to the amount of cash provided (used) by operating activities as reported.
- Adjusted Cash Provided (Used) by Operating Activities:** refers to the amount of cash provided (used) by operating activities if the sale (purchase) of investments were not included in operating cash flow. (Adjusted Cash Provided (Used) by Operating Activities = Reported Cash Provided (Used) by Operating Activities - Cash Provided (Used) by Trading Securities)
- Adaptec, Inc.:** Purchase of restricted marketable securities in 2002 was recorded by Adaptec, Inc. as Cash Flow from Investing Activities. These securities were held as security for interest payments on a loan. However in 2003 a sale of restricted marketable securities was classified as Cash Flow from Operating Activities.
- Ford Motor Company:** The Cash provided (used) by trading securities and the reported cash provided (used) by operating activities relates only to the automotive business. Ford Motor Company also shows operating cash flows before the impact of trading securities as a line item in its cash flow statement.

In reviewing Exhibit 1, consider the results for St Joe Co. for the year ended December 31, 2000. That year the company's reported cash flow from operations was \$2.6 million. However the company obtained \$25.0 million in operating cash flow from the sale of trading securities. Had the company not included the net proceeds from trading securities

in operating cash flow then it would have reported cash consumed from operations of (\$22,444,000) instead of cash provided of \$2,596,000. The company reported no other purchases or sale of investments in operating cash flow in 2001 or 2002. This example clearly indicates the extent to which proceeds from trading securities has the potential to significantly alter one's impression about a company's ability to generate sustainable cash flow.

Similarly for year ended December 31, 2002, Technology Solutions Company and Zonagen, Inc. reported positive cash provided by operating activities. However both companies included proceeds from the sale of trading securities in excess of reported operating cash flow. Actual cash flow provided by operating activities exclusive of the proceeds from the sale of trading securities would have been negative for both firms.

Exhibit 1 also contains examples of companies like International Specialty Holdings and American International Industries, Inc. who reported negative cash flow from operations. These companies would have reported positive cash flow from operating activities had they not included in operations cash used to purchase investments.

It is not difficult to see the potential for managing reported operating cash flow through the carefully timed purchase and sale of trading securities. A company may purchase trading securities in good years when it has generated exceptionally good positive operating cash flow and sell those securities in future years when operating cash flow is below some desired level.

Importantly, we do not argue that the surveyed firms purposefully classified investment-related cash flow to mislead investors. However, the flexibility offered by GAAP in the classification of cash flow make the manipulation of operating cash flow a possibility.

Consider the example of Curtiss Wright Corp. The company purchased trading securities for \$37 million in the year ended December 31, 2000, reducing operating cash flows for 2000 from \$61.1 million to \$24.1 million. Then in the years ended December 31, 2001 and 2002, the company reported positive cash flow from trading securities of \$21.1 million and \$41.5 million, respectively. These investment sales increased operating cash flow for 2001 from \$40.1 million to \$61.3 million and for 2002 from \$47.5 million to \$89.0 million. As a result, the company reported an increasing trend in operating cash flow from 2000 to 2002.

Frequency of Trading Securities Included in Operating Cash Flow – Interim Filings

We updated the results reported in Exhibit 1 with information available for each firm in their most recently-available 10Q filings. The results are reported in Exhibit 2.

**Exhibit 2: Short-Term Investments Classified as Trading Securities
Included in Operating Cash Flow – Interim Data**

Company	(months) Ended	Cash Provided (Used) By Trading Securities	Reported Cash Provided (Used) by Operating Activities	Adjusted Cash Provided (Used) by Operating Activities
ACACIA Research Corp.	(6) June 30, 2003 (6) June 30, 2002	\$0 \$3,133,000	(\$4,016,000) (\$13,625,000)	(\$4,016,000) (\$16,758,000)
Adaptec, Inc.	(3) June 30, 2003 (3) June 30, 2002	\$0 \$0	\$38,167,000 \$17,688,000	\$38,167,000 \$17,688,000
Advanced Biotherapy, Inc.	(6) June 30, 2003 (6) June 30, 2002	\$750,000 (\$2,000,000)	\$266,874 (\$2,433,955)	(\$483,126) (\$433,955)
American International Industries, Inc.	(6) June 30, 2003 (6) June 30, 2002	\$0 (\$6,060,000)	(\$246,357) (\$655,893)	(\$246,357) \$5,404,107
American Software, Inc.	(3) July, 31,2003 (3) July, 31,2002	\$1,315,000 \$1,070,000	\$3,652,000 \$3,179,000	\$2,337,000 \$2,109,000
Andersen Group, Inc.	(3) May, 31, 2003 (3) May, 31, 2002	\$0 (\$200,000)	(\$935,000) \$1,277,000	(\$935,000) \$1,477,000
Aphton Corp.	(6) June 30, 2003 (6) June 30, 2002	(\$131,421) (\$1,892)	(\$18,759,784) (\$21,176,416)	(\$18,628,363) (\$21,174,524)
Arctic Cat, Inc.	(3) June 30, 2003 (3) June 30, 2002	\$39,594,000 \$34,766,000	(\$20,485,000) (\$19,847,000)	(\$60,079,000) (\$54,613,000)
Avalon Holdings Corp.	(6) June 30, 2003 (6) June 30, 2002	\$0 \$0	\$896,000 (\$1,697,000)	\$896,000 (\$1,697,000)
Building Materials Manufacturing Corp.	(6) June 29, 2003 (6) June 30, 2002	\$0 \$0	(\$76,807,000) (\$9,591,000)	(\$76,807,000) (\$9,591,000)
Cendant Corp	(6) June 30, 2003 (6) June 30, 2002	\$0 \$0	\$2,364,000,000 (\$684,000,000)	\$2,364,000,000 (\$684,000,000)
China Resources Development, Inc.	(6) June 30, 2003	ND ¹	\$135,000	ND ¹
Chiron Corp.	(6) June 30, 2003 (6) June 30, 2002	ND ¹ ND ¹	\$113,177,000 \$82,566,000	ND ¹ ND ¹
Comcast Holdings Corp.	(6) June 30, 2003 (6) June 30, 2002	\$85,000,000 \$0	\$1,506,000,000 \$1,050,000,000	\$1,421,000,000 \$1,050,000,000
Curtiss Wright Corp.	(6) June 30, 2003 (6) June 30, 2002	\$0 \$41,450,000	\$29,112,000 \$41,831,000	\$29,112,000 \$381,000
Edison Controls Corporation	(3) April 30, 2003 (3) April 30, 2002	\$0 \$0	\$22,856 \$36,050	\$22,856 \$36,050
Florida East Coast Industries	(6) June 30, 2003 (6) June 30, 2002	\$0 \$0	\$107,742,000 \$27,580,000	\$107,742,000 \$27,580,000
Ford Motor Co.	(6) June 30, 2003 (6) June 30, 2002	\$10,000,000 (\$3,766,000,000)	\$5,758,000,000 \$4,330,000,000	\$5,748,000,000 \$8,096,000,000
Gilman & Ciocia, Inc.	(9) March 31, 2003 (9) March 31, 2002	\$330,022 \$30,246	(\$306,677) (\$4,313,745)	(\$636,699) (\$4,343,991)

Company	(months) Ended	Cash Provided (Used) By Trading Securities	Reported Cash Provided (Used) by Operating Activities	Adjusted Cash Provided (Used) by Operating Activities
Global Casinos, Inc.	(9) March 31, 2003	ND ¹	\$398,538	ND ¹
	(9) March 31, 2002	ND ¹	\$50,963	ND ¹
Gp Strategies Corp.	(6) June 30, 2003	\$0	\$616,000	\$616,000
	(6) June 30, 2002	\$0	(\$474,000)	(\$474,000)
Hybridon, Inc.	(6) June 30, 2003	\$0	(\$7,349,173)	(\$7,349,173)
	(6) June 30, 2002	\$0	(\$5,184,171)	(\$5,184,171)
Infonet Services Corporation	(3) June 30, 2003	(\$835,000)	\$4,829,000	\$5,664,000
	(3) June 30, 2002	(\$485,000)	\$16,676,000	\$17,161,000
International Specialty Holdings, Inc.	(6) June 29, 2003	\$159,611,000	\$166,926,000	\$7,315,000
	(6) June 30, 2002	(\$48,951,000)	\$19,661,000	\$68,612,000
Lynch Interactive Corp.	(6) June 30, 2003	\$0	\$12,074,000	\$12,074,000
	(6) June 30, 2002	\$0	\$11,275,000	\$11,275,000
Nstor Technologies, Inc.	(6) June 30, 2003	\$0	(\$2,966,000)	(\$2,966,000)
	(6) June 30, 2002	\$3,132,000	\$642,000	(\$2,490,000)
Peregrine Pharmaceuticals, Inc.	(3) July 31, 2003	\$242,000	(\$2,193,000)	(\$2,435,000)
	(3) July 31, 2002	\$0	(\$3,543,000)	(\$3,543,000)
Prime Medical Services, Inc.	(6) June 30, 2003	\$0	\$13,429,000	\$13,429,000
	(6) June 30, 2002	\$612,000	\$21,230,000	\$20,618,000
Quepasa, Inc.	(6) March 31, 2003	\$0	(\$640,526)	(\$640,526)
	(6) March 31, 2002	\$0	(\$1,703,890)	(\$1,703,890)
Rare Hospitality International, Inc.	(6) June 29, 2003	\$0	\$34,083,000	\$34,083,000
	(6) June 29, 2002	\$0	\$26,461,000	\$26,461,000
Sitestar Corp.	(6) June 30, 2003	\$0	\$293,396	\$293,396
	(6) June 30, 2002	\$0	\$243,055	\$243,055
St Joe Co.	(6) June 30, 2003	\$0	(\$28,443,000)	(\$28,443,000)
	(6) June 30, 2002	\$0	\$4,054,000	\$4,054,000
Startek, Inc.	(6) June 30, 2003	\$98,000	\$17,191,000	\$17,093,000
	(6) June 30, 2002	\$568,000	\$10,586,000	\$10,018,000
Technology Solutions Company	(6) June 30, 2003	(\$506,000)	(\$3,009,000)	(\$2,503,000)
	(6) June 30, 2002	\$577,000	\$6,856,000	\$6,279,000
The Ohio Art Company	(3) April 30, 2003	ND ¹	\$82,000	ND ¹
	(3) April 30, 2002	ND ¹	(\$340,000)	ND ¹
Tootsie Roll Industries, Inc.	(26wk) June 29, 2003	(\$2,126,000)	\$10,241,000	\$12,367,000
	(26wk) June 29, 2002	(\$1,759,000)	(\$1,784,000)	(\$25,000)
Valhi, Inc.	(6) June 30, 2003	\$50,000	\$19,263,000	\$19,213,000
	(6) June 30, 2002	\$8,659,000	\$43,726,000	\$35,067,000
Zonagen, Inc.	(6) June 30, 2003	(\$4,241,000)	(\$6,118,000)	(\$1,877,000)
	(6) June 30, 2002	\$2,896,000	\$1,239,000	(\$1,657,000)

Source: Company filings with SEC

Notes:

ND: Represents companies for which insufficient data were provided for us to determine whether cash provided (used) by trading securities was included in reported cash provided (used) from operating activities.

Exhibit 2 shows that 36.9% or 14 of the 38 companies listed in Exhibit 1 reported cash flows related to trading securities in their interim operating cash flow. It should be noted, however, that in many cases insufficient data were provided to determine whether trading securities were included in interim operating cash flow.

The inherent nonsustainability of cash flow derived from purchases and sales of investments classified as trading securities is apparent in the interim results for International Specialty Holdings, Inc. During the six months ended June 30, 2002 the company used \$48.9 million of operating cash flow in the purchase of investments. During that interim period the company reported cash provided by operating activities of \$19.7 million. Then during the six months ended June 29, 2003, the company sold investments classified as trading securities, boosting operating cash flow by \$159.6 million. During that interim period the company reported cash provided by operating activities of \$166.9 million. A more meaningful measure of operating cash flow for each interim period would exclude cash provided or used from trading securities.

Arctic Cat, Inc. appears to use purchases and sales of investments classified as trading securities as a means to counter normal seasonal fluctuations in interim measures of operating cash flow. As a result, reported operating cash flow does not give a fair reading of the actual ups and downs of the business. In Exhibit 2 note that for three months ended June 2002 and June 2003 the company would have reported considerably higher cash consumed from operations if it were not for the proceeds generated by the sale of short-term investments.

Conclusion

Cash flow related to trading securities and classified as operating can mislead the users of cash flow statements about a company's ability to generate sustainable results. The problem is more pronounced when there is a big difference between the amount spent to purchase trading securities and their proceeds from sale. The purchase of trading securities in one year and their sale in another can distort reported operating cash flow. Care should be taken to adjust operating cash flow for trading securities before using that measure in analysis.