## Consolidated Statements of Cash Flows
Three years ended December 25, 1999
(in millions - except per share amounts)

<table>
<thead>
<tr>
<th>Year</th>
<th>1999</th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td>$2,038</td>
<td>$4,102</td>
<td>$4,165</td>
</tr>
<tr>
<td>Cash flows provided by (used for) operations:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>7,314</td>
<td>6,068</td>
<td>6,945</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by (used for) operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>3,186</td>
<td>2,807</td>
<td>2,192</td>
</tr>
<tr>
<td>Amortization of goodwill and other acquisition-related intangibles</td>
<td>411</td>
<td>56</td>
<td>---</td>
</tr>
<tr>
<td>Purchased in-process research and development</td>
<td>392</td>
<td>165</td>
<td>---</td>
</tr>
<tr>
<td>Gains on sales of marketable strategic equity securities</td>
<td>(883)</td>
<td>(185)</td>
<td>(106)</td>
</tr>
<tr>
<td>Net loss on retirements of property, plant, and equipment</td>
<td>193</td>
<td>282</td>
<td>130</td>
</tr>
<tr>
<td>Deferred taxes</td>
<td>(219)</td>
<td>77</td>
<td>6</td>
</tr>
<tr>
<td>Change in assets and liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>153</td>
<td>(38)</td>
<td>285</td>
</tr>
<tr>
<td>Inventories</td>
<td>169</td>
<td>167</td>
<td>(404)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>79</td>
<td>(180)</td>
<td>438</td>
</tr>
<tr>
<td>Accrued compensation and benefits</td>
<td>127</td>
<td>17</td>
<td>140</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>726</td>
<td>(211)</td>
<td>179</td>
</tr>
<tr>
<td>Tax benefit from employee stock options</td>
<td>506</td>
<td>415</td>
<td>224</td>
</tr>
<tr>
<td>Other assets and liabilities</td>
<td>(819)</td>
<td>(378)</td>
<td>(127)</td>
</tr>
<tr>
<td>Total adjustments</td>
<td>4,021</td>
<td>2,994</td>
<td>2,957</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>11,335</td>
<td>9,062</td>
<td>9,902</td>
</tr>
<tr>
<td>Cash flows provided by (used for) investing activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions to property, plant, and equipment</td>
<td>(3,403)</td>
<td>(3,557)</td>
<td>(4,501)</td>
</tr>
<tr>
<td>Acquisitions, net of cash received</td>
<td>(2,979)</td>
<td>(906)</td>
<td>---</td>
</tr>
<tr>
<td>Purchases of available-for-sale investments</td>
<td>(7,055)</td>
<td>(10,925)</td>
<td>(9,224)</td>
</tr>
<tr>
<td>Sales of available for sale investments</td>
<td>831</td>
<td>201</td>
<td>153</td>
</tr>
<tr>
<td>Maturities and other changes in available-for-sale investments</td>
<td>7,156</td>
<td>8,681</td>
<td>6,713</td>
</tr>
<tr>
<td>Net cash (used for) investing activities</td>
<td>(5,450)</td>
<td>(6,506)</td>
<td>(6,859)</td>
</tr>
</tbody>
</table>

### Contents

- Questions Pertaining to Income Statements ......................... 2
- What Does It Mean to Perform? ........................................ 3
- What User Decisions are Affected? ................................... 12
- What Determines Usefulness? ........................................ 13
- Summary ............................................................................ 14
Questions Pertaining to Income Statements

Introduction to Financial Statements

Income Statements

- What does it mean for a company to perform for its owners?
- How is this performance measured on income statements?
- Which user decisions might be affected by income statement information?
- What determines the usefulness of this information for users' decisions?
What Does It Mean to Perform?

Introduction to Financial Statements

Income Statements

What does it mean for a company to perform for its owners?

Management's Goal Each Reporting Period

Maximize the owners' return on their investment over the period.
What Does It Mean to Perform?

Introduction to Financial Statements
Income Statements

What does it mean for a company to perform for its owners?

Management's Goal Each Reporting Period

Maximize the owners' return
on their investment over the period.

\[
\begin{align*}
A &= L + OE \\
$0 &= $0 + $0 \\
$110 &= $0 + $110
\end{align*}
\]
What Does It Mean to Perform?

Introduction to Financial Statements

Income Statements

What does it mean for a company to perform for its owners?

Management's Goal Each Reporting Period

Maximize the owners' return on their investment over the period.

\[ A = L + OE \]
\[ \Delta A = \Delta L + \Delta OE \]

\[ A = L + OE \]
\[ $0 = $0 + $0 \]
\[ $110 = $0 + $110 \]

\[ \Delta A \text{ Change in Assets} = \Delta L \text{ Change in Liabilities} \]
\[ \Delta OE \text{ Change in Owners' Equity} \]

\[ \Delta A \text{ Change in Assets} = \Delta L \text{ Change in Liabilities} \]
\[ $110 = $0 \]
\[ $110 \]

\[ \Delta OE \text{ Change in Owners' Equity} \]
\[ $110 \]

\[ \Delta OE \text{ Change in Owners' Equity} \]

© 1991–2014 NavAcc LLC, G. Peter & Carolyn R. Wilson
What Does It Mean to Perform?

Introduction to Financial Statements

Income Statements

What does it mean for a company to perform for its owners?

Management’s Goal Each Reporting Period

Maximize the owners’ return on their investment over the period.

\[ A = L + OE \]

\[ \Delta A = \Delta L - \Delta OE \]

\[ \begin{align*}
A &= L + OE \\
\$0 &= \$0 + \$0 \\
A &= L + OE \\
\$110 &= \$0 + \$110
\end{align*} \]

\[ \begin{align*}
\Delta A &= \Delta L - \Delta OE \\
\$110 &= \$0 - \$110
\end{align*} \]
What Does It Mean to Perform?

Introduction to Financial Statements

Income Statements

What does it mean for a company to perform for its owners?

Management's Goal Each Reporting Period

Maximize the owners' return on their investment over the period.

\[
A = L + OE
\]

\[
\begin{align*}
\Delta A &= \Delta L + \Delta OE \\
$110 &= $0 + $110
\end{align*}
\]

\[
\begin{align*}
\Delta A &= \Delta L + \Delta OE \\
\text{Change in Assets} &= \text{Change in Liabilities} + \text{Change in Owners' Equity} \\
$110 &= $0 + $110
\end{align*}
\]

Manage these transactions with owners

Credibly communicate performance to outsiders

\[
\begin{align*}
\text{Return on owners' investment} &= \frac{\text{Transactions with owners} + \text{Return on owners' investment}}{	ext{Maximize this}} \\
$100 &= $10
\end{align*}
\]
How Is Performance Measured on Income Statements?

Introduction to Financial Statements

Income Statements

How is performance for owners measured on income statements?

FINANCIAL STATEMENTS

- BSE excludes some assets and liabilities
- Measured at “book value”

\[ A = L + OE \]
\[ 0 = 0 + 0 \]
\[ 109 = 0 + 109 \]

\[ \Delta A - \Delta L = \Delta OE \]
\[ 109 - 0 = 109 \]

Transactions with owners + Comprehensive income
\[ 100 + 9 \]
How Is Performance Measured on Income Statements?

Introduction to Financial Statements

Income Statements

How is performance for owners measured on income statements?

\[
\begin{align*}
\Delta A &= \Delta L + \Delta OE \\
$109 &= $0 + $109
\end{align*}
\]

Transactions with owners + Comprehensive income

$100 + $9

<table>
<thead>
<tr>
<th>Income Statement</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
</tr>
<tr>
<td>Gains &amp; Losses</td>
<td></td>
</tr>
<tr>
<td>Net Income</td>
<td></td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
</tr>
<tr>
<td>Comprehensive Income</td>
<td>$9</td>
</tr>
</tbody>
</table>
How Is Performance Measured on Income Statements?

**Introduction to Financial Statements**

**Income Statements**

How is performance for owners measured on income statements?

\[ \Delta A = \Delta L + \Delta OE \]

\[ \begin{align*}
\Delta A & \quad \text{Change in Assets} \\
\Delta L & \quad \text{Change in Liabilities} \\
\Delta OE & \quad \text{Change in Owners' Equity}
\end{align*} \]

\[ \begin{align*}
\$109 & = \$0 + \$109 \\
\$0 & = \$0 + \$0
\end{align*} \]

**Income Statement**

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
</tr>
<tr>
<td>Gains &amp; Losses</td>
<td></td>
</tr>
<tr>
<td>Net Income</td>
<td>$9</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>$0</td>
</tr>
<tr>
<td>Comprehensive Income</td>
<td>$9</td>
</tr>
</tbody>
</table>
How Is Performance Measured on Income Statements?

Introduction to Financial Statements

Income Statements

How is performance for owners measured on income statements?

\[ A = L + OE \]
\[ \Delta A = \frac{\Delta L}{\Delta Assets} - \frac{\Delta OE}{\Delta Liabilities} = \frac{\Delta OE}{\Delta Owners' Equity} \]

Income Statement

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$105</td>
</tr>
<tr>
<td>Expenses</td>
<td>($97)</td>
</tr>
<tr>
<td>Gains &amp; Losses</td>
<td>1</td>
</tr>
<tr>
<td>Net Income</td>
<td>0</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>0</td>
</tr>
<tr>
<td>Comprehensive Income</td>
<td>$9</td>
</tr>
</tbody>
</table>

Transactions with owners: $100

Comprehensive Income: $9

Net Income: $9

Revenue: $105

Expenses: $97

Gains: $1

Losses: $0
What User Decisions are Affected?

Introduction to Financial Statements

Income Statements

Which user decisions might be affected by income statement information?

- Assess past performance
- Predict future performance

<table>
<thead>
<tr>
<th>Income Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
</tr>
<tr>
<td>Expenses</td>
</tr>
<tr>
<td>Gains &amp; Losses</td>
</tr>
<tr>
<td>Net Income</td>
</tr>
<tr>
<td>Other comprehensive income</td>
</tr>
<tr>
<td>Comprehensive income</td>
</tr>
</tbody>
</table>
What Determines Usefulness?

Introduction to Financial Statements

Income Statements

What determines the usefulness of income statement information for users’ decisions?

- The extent to which measures help predict future performance.
- The extent to which assets and liabilities faithfully reflect the underlying economic activities.
Summary

Introduction to Financial Statements

Income Statements

- What does it mean for a company to perform for its owners?
- How is this performance measured on income statements?
- Which user decisions might be affected by income statement information?
- What determines the usefulness of this information for users’ decisions?