New Constructs®

RED FLAG

2/15/2011

Hidden One-Time Items Distort Earnings

Raising Red Flags on Hidden Charges/Income

Trust

We deliver the whole truth by incorporating critical data from the Financial Footnotes and MD&A that other firms miss.

Performance

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- **Hidden one-time charges/income can mislead investors by artificially decreasing/increasing GAAP earnings.**
- **Accounting rules allow companies to include one-time charges/income as part of their normal operating earnings.**
- **We found 13,000+ one-time items buried in normal line items like "Cost of Sales" by studying the Footnotes of 10-K filings.**
- **Companies concealed over $41 billion in one-time items as per 10-Ks filed through 2/15/2011.**
- **162 S&P 500 companies report earnings that are distorted by hidden one-time items in their most recent fiscal year.**
- **Buy our premium report for list of the 50 top offenders.**

------Secrets to Finding Hidden One-Time Items------

- **Hidden one-time items are hard to find and require expertise in navigating the Management Discussion & Analysis and the Financial Footnotes to identify.**
- **Case studies in this report on Ford and International Paper show how we find hidden items to derive true earnings.**
- **We reverse all accounting distortions, including over 13,000 hidden one-time items, to reveal the true economic profitability of over 3,000 companies**

Figure 1: 4 Biggest Hidden Items in the S&P 500 ($mm) in last fiscal year

Ticker	Company Name	Hidden One-Time Charge/(Income)	Hidden One-Time Charge/(Income) as % of Revenue
PHM	PulteGroup Inc.	$864	21%
STI	SunTrust Banks, Inc.	$798	10%
APC	Anadarko Petroleum Corp	$780	10%
IP	International Paper Company	$(2,013)	-9%

Source: New Constructs, LLC. and company filings. All data as of 2/15/2011.

Secrets to Finding Hidden One-Time Items

We reverse ALL accounting distortion to reveal *accurate* and comparable economic earnings for 3,000+ companies.

See our chapter in the Valuation Handbook (Wiley Finance, 2009) for more information.

Companies hide one-time, unusual income and charges on their income statements inside of normal operating line items such as "Cost of Sales" and "Selling expenses" to:
1) Conceal losses on poor investments
2) Artificially inflate operating earnings and
3) Create complexity and obfuscate the true earnings of the business.

Hidden one-time charges artificially decrease GAAP earnings. Hidden one-time income artificially increases GAAP earnings. Artificially inflated earnings can cause investors to mistake one-time income as a permanent increase in earnings and vice versa for hidden one-time charges.

To calculate the true economic earnings of a company, investors should focus on the core, recurring operations of its business. Companies unnecessarily complicate this process when they combine operating and one-time, unusual items into a single income statement line item. Cost of sales (i.e. "COGS") and selling expenses (i.e. "SGA") are the most common income statement line items that combine operating and one-time components.

One-time items are hard to find. Companies often only report one-time items in the Management Discussion & Analysis (MD&A) and the Financial Footnotes. By scouring the MD&A and Financial Footnotes of over 50,000 filings, we have discovered that companies hide a multitude of one-time items within operating line items. Below is a list of common names for one-time items concealed within operating line items:

- **Long-lived asset impairments**
- **Non-recurring write-down of inventory**
- **Buy the premium report for the remaining list of hidden items**

As an example of an accounting rule that opens the door for companies to obfuscate their true operating earnings, we highlight SFAS 144. It states that companies that impair long-lived assets that are still used in the business must include the impairment charge above both the "income from continuing operations" line and the "income from operations" line on the income statement. This broad rule enables companies to hide long-lived asset impairments in operating earnings.

S&P 500: Hidden One-Time Items

In the following we provide unrivaled insight into hidden one-time items in S&P 500 companies, which have hidden over $26 billion of one-time and other non-operating charges and over $3 billion of one-time and other non-operating income on their income statements in the last fiscal year. Note data in this report is updated through February 15, 2011.Investors who are not accounting for these hidden one-time items are making investment decisions on distorted and misleading earnings.

S&P 500: Hidden One-Time Charges

Figure 2 lists the 10 S&P 500 companies that hide the most one-time expenses on their income statements. Investors who are not accounting for these hidden one-time items in their profitability calculations are making investment decisions on earnings that are understated by over $6 billion. This can cause investors to undervalue attractive investment opportunities and underweight their holdings because of the misleading nature of hidden one-time charges.

Buy our premium report for the remaining list of companies.

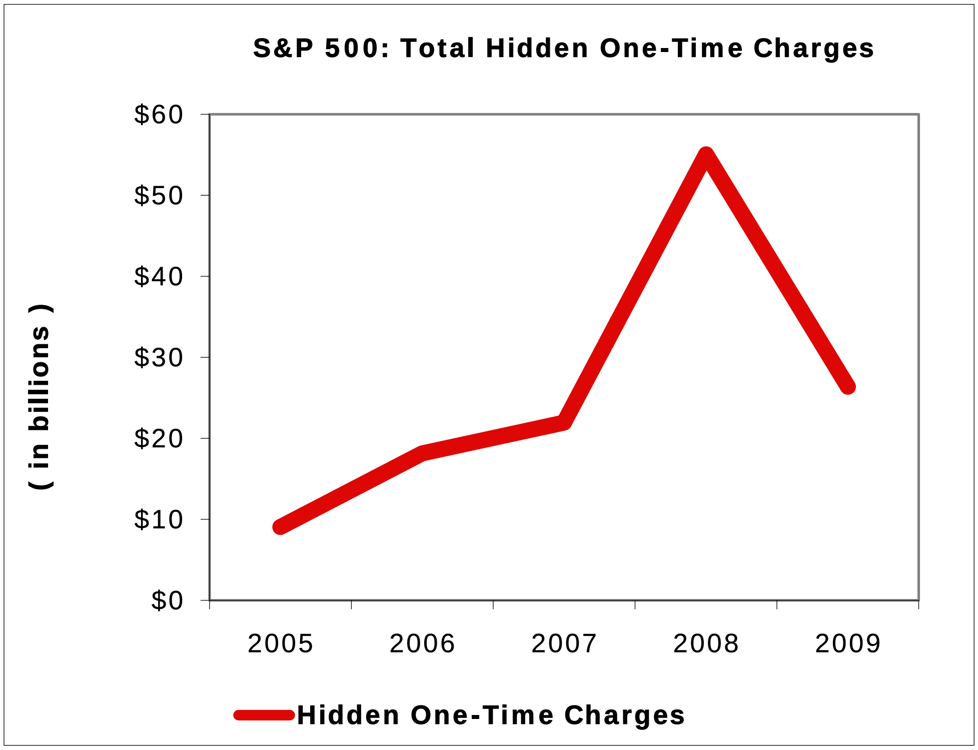
Figure 2: S&P 500 - Hidden One-Time Charges ($mm) in last fiscal year

Ticker	Company Name	Hidden One-Time Charge	Hidden One-Time Charge as % of Revenue
PHM	PulteGroup Inc.	$864	21.2%
STI	SunTrust Banks, Inc.	$798	9.8%
APC	Anadarko Petroleum Corp	$780	9.5%
-	**Premium Report Only**	$1,241	8.2%
-	-	$237	6.4%
-	-	$412	5.4%
-	-	$308	5.1%
-	-	$119	4.7%
-	-	$338	4.5%
-	-	$109	4.4%

Source: New Constructs, LLC. and company filings. Data as of 2/15/2011.

Figure 3 shows the annual value of hidden one-time charges for the S&P 500 for the last 5 fiscal years.

Figure 3: S&P 500 - Total Hidden One-Time Charges Over Time



Source: New Constructs, LLC. and company filings. Data as of 2/15/2011.

For additional information regarding asset write-downs see [Red Flag: Hidden Management Failures: Asset Write-Downs.]

Notice the large spike in 2008. This spike corresponds to the bursting of the recent global asset bubble. During asset bubbles, companies over-invest in low-return and value-destroying projects. Once the bubbles burst, companies write-down or impair these unproductive assets. As discussed above, SFAS 144 requires that companies disclose write-downs and impairments of assets that are held and used above "income from operations" and "income from continuing operations". The large spike in Figure 3 corresponds to companies hiding these write-downs, along with other one-time charges such as severance and restructuring, brought on by the bursting of the bubble.

This corporate reporting strategy is often used in recessionary times or poor-performing equity markets. It is commonly known as "throwing in the kitchen sink" and is very popular because it can position companies for excellent year-over-year comparisons when economic conditions improve. Companies often like to overstate their expenses in bad times when stock prices are already depressed so their earnings can look better in good times when stock prices are rising. Figure 3 shows that the 2008-2009 period is a perfect example of this corporate reporting strategy at work.

S&P 500: Hidden One-Time Income

Figure 4 lists the 10 S&P 500 companies that hide the most one-time income within operating line items. Hidden one-time income is dangerous to investors because it makes earnings seem higher than they really are. A company can appear to have permanently increased their revenue or decreased expenses when, in actuality, the inflated earnings are non-recurring and will not continue into the future. The accounting profitability of the 10 companies in Figure 4 is overstated by more than $2.5 billion or 3% of their combined revenues.

Buy our premium report for the remaining list of companies.

Figure 4: S&P 500 - Hidden One-Time Income ($mm) in last fiscal year

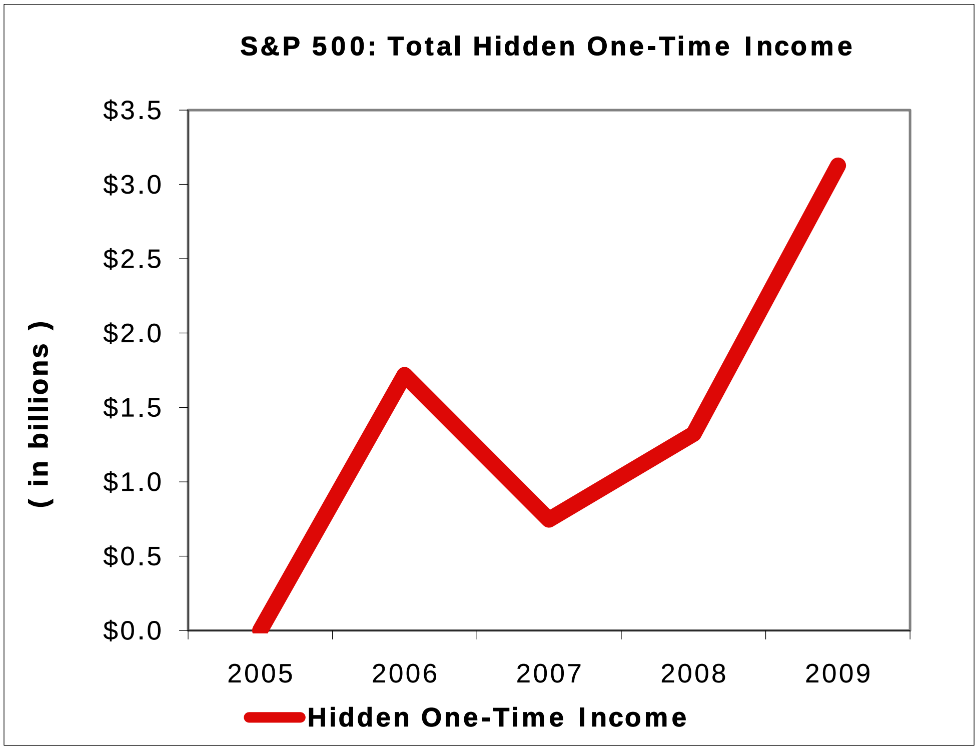
Ticker	Company Name	Hidden One-Time (Income)	Hidden One-Time Income as % of Revenue
IP	International Paper Company	$(2,013)	-8.6%
-	**Premium Report Only**	$(193)	-2.5%
-	-	$(101)	-1.8%
-	-	$(43)	-1.6%
-	-	$(63)	-0.9%
-	-	$(47)	-0.9%
-	-	$(66)	-0.8%
-	-	$(30)	-0.7%
-	-	$(22)	-0.6%
-	-	$(62)	-0.6%

Source: New Constructs, LLC. and company filings. Data as of 2/15/2011.

Figure 4 shows that investors considering an investment in Internal Paper Company (IP), without accounting for hidden one-time income, are making an investment decision based on reported earnings that are overstated by over $2 billion or 9% of revenue. We have extracted over 2,500 other hidden one-time income items from 3000+ companies.

Figure 5 shows the annual hidden value of one-time income for the S&P 500 for the last 5 fiscal years.

Figure 5: S&P 500 - Total Hidden One-Time Income Over Time



Source: New Constructs, LLC. and company filings. Data as of 2/15/2011.

For additional information regarding the AFMC see our [Red Flag: Alternative Fuel Mixture Credit Windfall Report](#).

Notice that hidden one-time income tripled between 2008 and 2009. This increase is due in large part to the [Alternative Fuel Mixture Credit](#), which significantly impacted the earnings of 15 companies in 2009.

Also note that Figure 5 is almost like a mirror image of Figure 3 and provides further evidence of companies using the “kitchen-sink” reporting strategy in 2008. Interestingly, in the following year, one-time income gives an unnatural boost to reported earnings and exaggerates the year-over-year earnings growth comparisons.

More Red Flag Reports

All our 3000+ models include vital data scoured from the Financial Footnotes.

Better Data gives you Smarter Analysis.

In addition to our recently released Red Flag Reports on hidden debt from off-balance sheet operating leases and management failures related to asset write-downs, be on the lookout for more Red Flag Reports from New Constructs. Future reports will focus on the following accounting distortions:

- **Over/Under – Funded Pensions**
- **Reserves**
- **Discontinued Operations**
- **Excess Cash**
- **Unconsolidated Subsidiaries**
- **Accumulated Other Comprehensive Income**

See our Corporate Disclosure Transgressions report that we submitted to the SEC and the Senate Banking Committee for more examples of Red Flags.

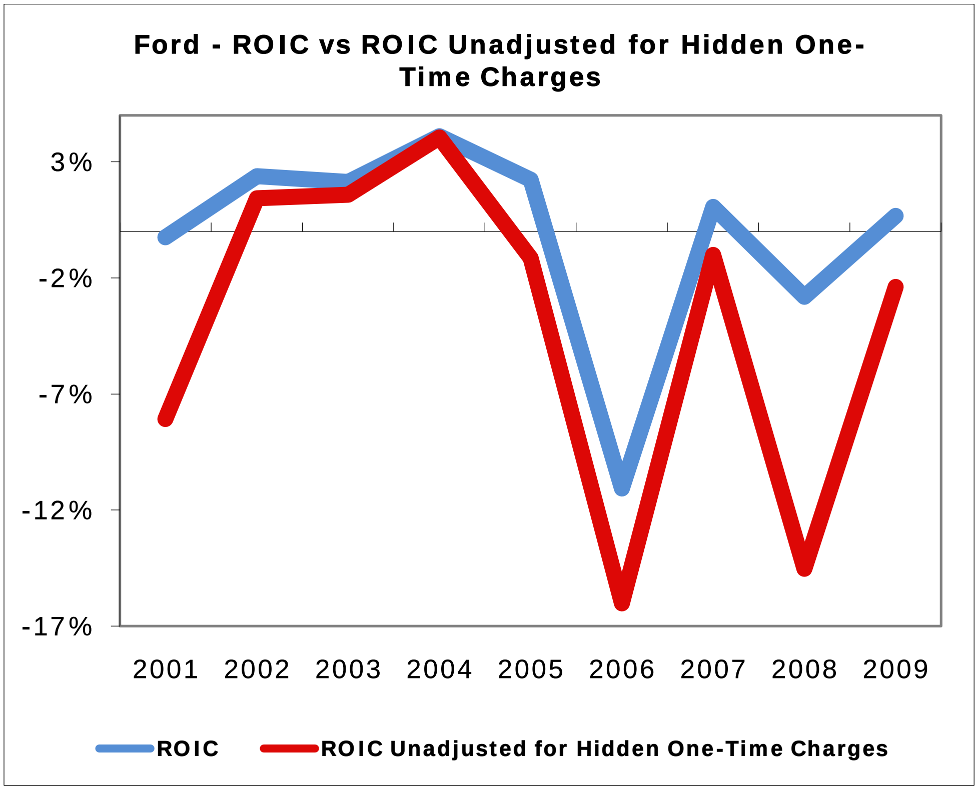
Case Study: Ford Motor Company (F)

Ford Motor Company (F) has hidden more than $28 billion of one-time charges since 2001. In 2008 alone, F hid over $8.5 billion of one-time charges, which are primarily attributable to 2 asset write-downs of over $7.2 billion. Ford's 2008 ROIC drops from -2.8% to -14.5% if hidden one-time charges are ignored. Without this information, investors may fall under a false impression that F is less profitable than it truly is and could lead investors to make misguided investment decisions. Click here for a free report on F and see how we rectify this and other accounting distortions to deliver truer earnings analysis for our clients.

Impact of Hidden One-Time Charges on F's Historical Performance

Figure 6 shows the impact of the hidden one-time charges on F's return on invested capital (ROIC).

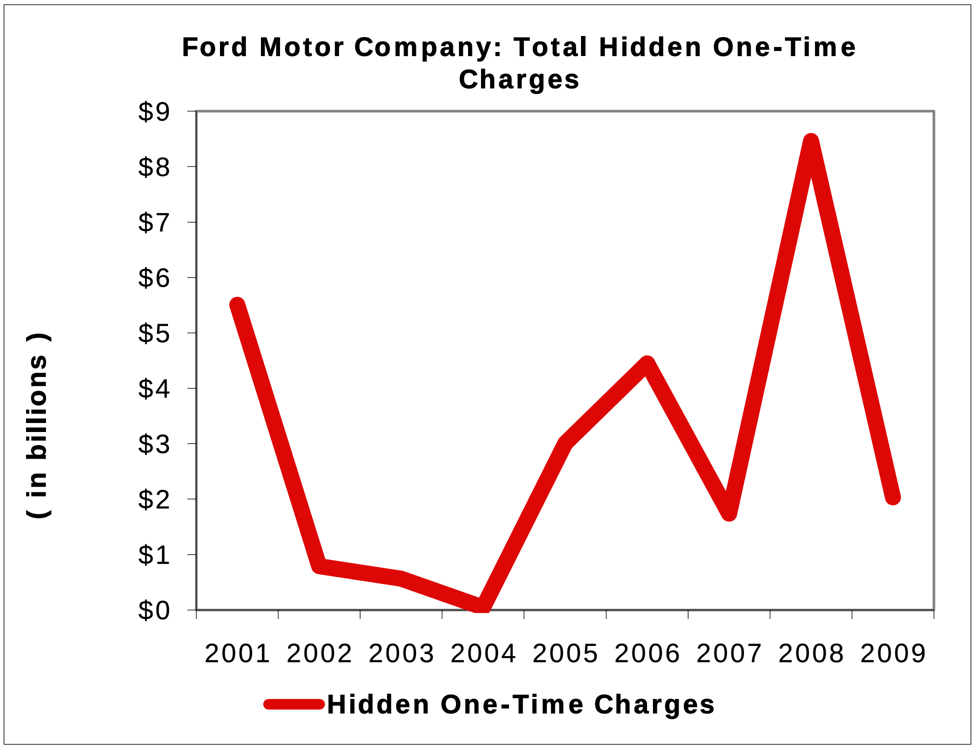
Figure 6: F - Impact of Hidden One-Time Charges on ROIC



Source: New Constructs, LLC. and company filings. Data as of 2/15/2011.

In 2009, F hid over $2 billion of one-time charges within operating line items on its income statement. After adjusting Net Operating Profit After Tax ("NOPAT") to exclude these one-time charges, we calculate a NOPAT for F of over $443 million. Investors not accounting for hidden one-time charges would calculate a loss of more than $1.59 billion.

Figure 7: F - Total Hidden One-Time Charges Over Time



Source: New Constructs, LLC. and company filings. Data as of 2/15/2011.

Since 2005, Ford has hidden at least $1.7 billion annually of one-time charges. These hidden one-time charges can only be found through scouring the MD&A and the Financial Footnotes. We have identified 11,000+[1] hidden one-time charges in over 3000 companies.

[1] This number includes one-time items as well as non-operating charges such as foreign currency transaction gains/losses and financing interest expense hidden in operating line items.

How to find Hidden Non-Operating Charges: Example - F

Figure 8: Hidden $5.3 Billion Long-Lived Asset Impairment

Automotive Sector

Based upon the financial impact of rapidly-changing U.S. market conditions during the second quarter of 2008, we projected a decline in net cash flows for the Ford North America segment. The decline primarily reflected: (1) a more pronounced and accelerated shift in consumer preferences away from full-size trucks and traditional sport utility vehicles ("SUVs") to smaller, more fuel-efficient vehicles as a result of higher fuel prices; (2) lower-than-anticipated U.S. industry demand; and (3) greater-than-anticipated escalation of commodity costs. As a result, in the second quarter of 2008 we tested the long-lived assets of this segment for impairment and recorded in Automotive cost of sales a pre-tax charge of $5.3 billion, representing the amount by which the carrying value of these assets exceeded the estimated fair value.

Source: F 2008 10-K, Note 13, Page FS - 34

Figure 8 shows the $5.3 billion one-time asset impairment as it is disclosed in F's 2008 Financial Footnotes. The $5.3 billion impairment is hidden within the "Cost of sales" line item shown in Figure 9. Investors who are not reviewing the MD&A and the Financial Footnotes are oblivious to the hidden $5.3 billion impairment since F makes no mention of the hidden impairment on its income statement.

Figure 9: Section of Ford's 2008 Income Statement

		2008
AUTOMOTIVE		
Sales	$	129,166
Costs and expenses		
Cost of sales		127,103
Selling, administrative and other expenses		11,356
Goodwill impairment		--
Total costs and expenses		138,459
Operating income/(loss)		(9,293)

Source: F 2008 10-K, Income Statement, Page FS - 2

Figure 10: Hidden $271 Million of Employee Separation Actions

Other Employee Separation Actions. The following table shows pre-tax charges for other hourly and salaried employee separation actions, which are recorded in Automotive cost of sales and Selling, administrative and other expenses (in millions):

	2009	2008	2007
Ford Europe	$ 109	$ 38	$ 45
Ford North America (U.S. salaried-related)	105	186	377
Volvo	20	108	11
Ford South America	20	--	--
Ford Asia Pacific Africa	17	90	5

Source: F 2009 10-K, Note 22, Page FS - 69

In 2009, Ford hid $271 million of a one-time separation costs within “Automotive cost of sales” and “Selling, administrative and other expenses” shown in figure 11. Note that the disclosure of the employee separation actions is separated from the income statement by 68 pages in the 10-K. This example provides further evidence that the true economic earnings of a business can only be determined through meticulous review of the MD&A and the Financial Footnotes.

Figure 11: Section of Ford’s 2009 Income Statement

	2009
Sales and revenues	
Automotive sales	$ 105,893
Financial Services revenues	12,415
Total sales and revenues	118,308
Costs and expenses	
Automotive cost of sales	100,016
Selling, administrative and other expenses	13,258
Goodwill impairment	--
Interest expense	6,828
Financial Services provision for credit and insurance losses	1,030
Total costs and expenses	121,132

Source: F 2009 10-K, Income Statement, Page FS - 1

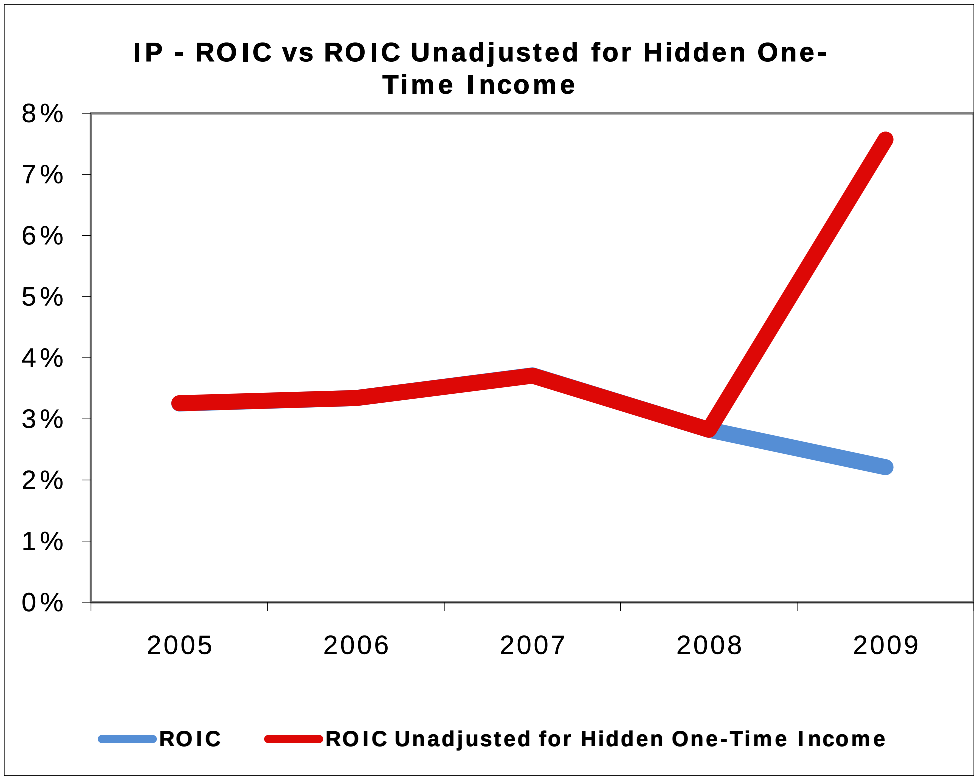
Case Study: International Paper Company (IP)

International Paper Company (IP) hid more than $2.1 billion of one-time income in an operating line item in 2009. IP's 2009 ROIC artificially increases from 2.2% to 7.6% if this hidden one-time income is not properly accounted for. Without this information, investors may fall under a false impression that IP is more profitable than it truly is and could lead investors to over-weight IP in their portfolio. Click here for a free report on IP and see how we rectify this and other accounting distortions to deliver truer earnings analysis for our clients.

Impact of Hidden One-Time Income on IP's Historical Performance

Figure 12 shows the impact of the hidden one-time income on IP's return on invested capital (ROIC).

Figure 12: IP - Impact of Hidden One-Time Income on ROIC



Source: New Constructs, LLC. and company filings. Data as of 2/15/2011.

In 2009 IP's reported earnings got an artificial boost of $2.1 billion of income generated through a non-recurring Alternative Fuel Mixture Credit (AFMC). This boos causes the 2009 unadjusted ROIC to rise versus the prior year when the actual ROIC is declining. For more details on IP and AFMC, see our Red Flag: Alternative Fuel Mixture Credit Windfall Report.

How to Find Hidden One-Time Income: Example - IP

Figure 13: Hidden $2.1 Billion AFMC Tax Credit

ALTERNATIVE FUEL MIXTURE CREDITS

The U.S. Internal Revenue Code provides a tax credit for companies that use alternative fuel mixtures to produce energy to operate their businesses. The credit, equal to $0.50 per gallon of alternative fuel contained in the mixture, is refundable to the taxpayer. In January 2009, the Company received notification that its application to be registered as an alternative fuel mixer had been approved. For the year ended December 31, 2009, the Company filed claims for alternative fuel mixture credits covering eligible periods subsequent to November 2008 through October 25, 2009 totaling approximately $1.7 billion, all of which had been received in cash at December 31, 2009 and included in the calculation of U.S. federal taxable income. Additionally, the Company has recorded $379 million of alternative fuel mixture credits as a reduction of income taxes payable at December 31, 2009. The Company records these credits using the accrual method of accounting based on the estimated eligible volumes reflected in its filed claims. Accordingly, the accompanying consolidated statement of operations includes credits of approximately $2.1 billion for the year ended December 31, 2009 in Cost of products sold ($1.4 billion after taxes), representing eligible alternative fuel mixture credits earned through December 31, 2009, when the credit expired.

Source: IP 2009 10-K, Note 5, Page 66

Figure 13 shows where the $2.1 billion one-time income is disclosed in the Financial Footnotes of IP's 2009 filing. Figure 14, also taken from the Financial Footnotes, states where the $2.1 billion one-time income is concealed on the income statement. Note that 8 pages separate Figures 13 and Figure 14 in the 10-K. This disclosure adds additional complexity and further obfuscates the true economic earnings of IP.

Figure 14: Location of the Hidden $2.1 Billion AFMC Tax Credit

ALTERNATIVE FUEL MIXTURE CREDITS - COST OF PRODUCTS SOLD

The U.S. Internal Revenue Code provides a tax credit for companies that use alternative fuel mixtures to produce energy to operate their businesses. As these credits represent a reduction of energy costs at the Company's U.S. manufacturing facilities, the credits are included as a reduction of Cost of products sold in the accompanying consolidated statement of operations. See Alternative Fuel Mixture Credits in Note 5 for a further discussion of these credits.

Source: IP 2009 10-K, Note 1, Page 58

Appendix A – Hidden One-Time Charges – 50 Top Offenders ($mm)

Contact us for a detailed rating of the individual companies below, or purchase a Company Valuation Report for any of the 3000+ companies we cover. Sample reports are available in the Free Archive on our website. Note that data in this report is updated through February 15, 2011.

	Ticker	Company Name	Hidden One-Time Charge	Hidden One-Time Charge as % of Revenue
1	Premium Report Only	Click here for Premium Report	$127.8	193%
2	-	-	$90.7	95%
3	-	-	$131.8	48%
4	-	-	$226.1	32%
5	-	-	$27.1	31%
6	-	-	$33.4	29%
7	-	-	$322.3	23%
8	-	-	$40.7	22%
9	-	-	$863.7	21%
10	-	-	$10.5	21%
11	-	-	$74.7	20%
12	-	-	$31.9	19%
13	-	-	$77.1	16%
14	-	-	$180.2	16%
15	-	-	$107.7	16%
16	-	-	$64.8	15%
17	-	-	$36.1	14%
18	-	-	$19.8	14%
19	-	-	$67.1	13%
20	-	-	$191.1	13%
21	-	-	$20.2	13%
22	-	-	$19.8	11%
23	-	-	$97.6	11%
24	-	-	$25.0	11%
25	-	-	$86.2	11%

* Ranked by Hidden One-Time Charges as % of Revenue

	Ticker	Company Name	Hidden One-Time Charge	Hidden One-Time Charge as % of Revenue
26	Premium Report Only	Premium Report Only	$148.5	10%
27	-	-	$798.0	10%
28	-	-	$780.0	10%
29	-	-	$68.6	9%
30	-	-	$128.3	9%
31	-	-	$7.3	9%
32	-	-	$13.6	9%
33	-	-	$73.2	9%
34	-	-	$30.3	8%
35	-	-	$55.0	8%
36	-	-	$9.0	8%
37	-	-	$9.2	8%
38	-	-	$1,241.0	8%
39	-	-	$33.5	8%
40	-	-	$125.1	8%
41	-	-	$7.2	8%
42	-	-	$10.4	8%
43	-	-	$88.9	8%
44	-	-	$16.7	7%
45	-	-	$12.0	7%
46	-	-	$25.8	7%
47	-	-	$7.9	7%
48	-	-	$31.2	7%
49	-	-	$8.8	6%
50	-	-	$13.5	6%

* Ranked by Hidden One-Time Charges as % of Revenue

Appendix B – Hidden One-Time Income – 50 Top Offenders ($mm)

Contact us for detailed rating of the individual companies below, or purchase a Company Valuation Report for any of the 3000+ companies we cover. Sample reports are available in the Free Archive on our website. Note that data in this report is updated through February 15, 2011.

	Ticker	Company Name	Hidden One-Time Income	Hidden One-Time Income as % of Revenue
1	Premium Report Only	Click here for Premium Report	$(164.0)	-26%
2	-	-	$(205.2)	-18%
3	-	-	$(110.2)	-9%
4	-	-	$(2,013.0)	-9%
5	-	-	$(5.0)	-6%
6	-	-	$(8.8)	-5%
7	-	-	$(10.7)	-5%
8	-	-	$(2.2)	-4%
9	-	-	$(36.0)	-4%
10	-	-	$(51.0)	-4%
11	-	-	$(11.7)	-3%
12	-	-	$(2.5)	-3%
13	-	-	$(193.0)	-3%
14	-	-	$(1.8)	-2%
15	-	-	$(13.7)	-2%
16	-	-	$(4.4)	-2%
17	-	-	$(35.1)	-2%
18	-	-	$(41.0)	-2%
19	-	-	$(101.0)	-2%
20	-	-	$(38.7)	-2%
21	-	-	$(11.6)	-2%
22	-	-	$(42.5)	-2%
23	-	-	$(8.4)	-2%
24	-	-	$(23.5)	-1%
25	-	-	$(0.8)	-1%

* Ranked by Hidden One-Time Income as % of Revenue

	Ticker	Company Name	Hidden One-Time Income	Hidden One-Time Income as % of Revenue
26	Premium Report Only	Premium Report Only	$(42.5)	-2%
27	-	-	$(8.4)	-2%
28	-	-	$(23.5)	-1%
29	-	-	$(0.8)	-1%
30	-	-	$(4.7)	-1%
31	-	-	$(3.0)	-1%
32	-	-	$(1.4)	-1%
33	-	-	$(2.0)	-1%
34	-	-	$(55.8)	-1%
35	-	-	$(0.8)	-1%
36	-	-	$(2.0)	-1%
37	-	-	$(1.0)	-1%
38	-	-	$(4.2)	-1%
39	-	-	$(1.2)	-1%
40	-	-	$(28.8)	-1%
41	-	-	$(0.6)	-1%
42	-	-	$(62.5)	-1%
43	-	-	$(4.1)	-1%
44	-	-	$(6.2)	-1%
45	-	-	$(47.2)	-1%
46	-	-	$(3.9)	-1%
47	-	-	$(4.1)	-1%
48	-	-	$(0.9)	-1%
49	-	-	$(7.3)	-1%
50	-	-	$(65.6)	-1%

* Ranked by Hidden One-Time Income as % of Revenue

New Constructs® – Profile

How New Constructs Creates Value for Clients

1. **Superior Recommendations** – Our stock picks consistently outperform. See our track record in our stock-picking accolades and Proof Is In Performance reports.
2. **More Accurate Research** – Our patented Research Platform for reversing accounting distortions and discounted cash flow analysis leverages better data to deliver smarter research.
3. **Time Savings** – We check the fine print in thousands of corporate filings so you don't have to. As reported by Barron's, our expertise in analyzing SEC filings delivers Hidden Gems and Red Flags that drive long-term stock-picking success.
4. **Transparency** – We are proud to share the results of our analysis of over 50,000 10-Ks. See the Corporate Disclosure Transgression report we provided the SEC. Our reports detail all data and assumptions. Company Models enable users to change them.
5. **Objectivity** – New Constructs is an independent research firm, not tied to Wall Street or investment banking services. Our models are driven by comprehensive high-quality data not stories. See our presentation to the Senate Banking Committee, the SEC and many others in DC.

Our Philosophy About Research

Accounting data is not designed for equity investors, but for debt investors. Accordingly, accounting data must be translated into economic earnings to understand the profitability and valuation relevant to equity investors. Respected investors (e.g. Adam Smith, Warren Buffett and Ben Graham) have repeatedly emphasized that accounting results should not be used to value stocks. Economic earnings are what matter because they are:

1. Based on the complete set of financial information available.
2. Standard for all companies.
3. A more accurate representation of the true underlying cash flows of the business.

Additional Information

Incorporated in July 2002, New Constructs is an independent publisher of investment research that provides clients with consulting, advisory and research services. The firm specializes in quality-of-earnings, forensic accounting and discounted cash flow valuation analyses for all U.S. public companies. New Constructs translates accounting data from 10Ks into economic financial statements, i.e. NOPAT, Invested Capital, and WACC, to create economic earnings models, which are necessary to understand the true profitability and valuation of companies. Visit the Free Archive to download samples of our research. Visit www.newconstructs.com for more information. New Constructs is a BBB accredited business.

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